

MODERATE GROWTH IN THE 4TH QUARTER

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Executive Summary

Even though 2015 December statistics pointed out opposite changes in GDP components, we preserved our forecast of 0.6 percent due to the compensative character of these changes. In December, regarding the components of GDP, the rise of private consumption keeps its relatively strong level and a recovery occurred in investments. However, we observe a decline in government expenditures (tightening in fiscal discipline) and the negative contribution of net export becomes more evident. Considering the actual GDP in the first three quarters and the forecast for the growth rate for the fourth quarter, we estimate the annual GDP growth as 4 percent. Also, we predict the current account deficit to GDP ratio to be 4.5 percent and the gold-excluded ratio to be 5 percent.

Table 1. Betam's quarterly growth rate forecast

	2015 4. Quarter (%)
Real GDP growth (quarter on quarter, sa*)	0.6
Current account deficit (% of GDP, annual)	4.5
Gold excluded current account deficit (% of GDP, annual)	5.0

Source: Betam.*sa: seasonally and calendar day adjusted.

Increase in Industrial Production

Subsequent to the decline by 0.8 percent in November, Industrial Production Index (IPI) increased by 0.8 percent in December (Table 2). Within the same period, the production of nondurable consumer goods stayed stable while the production of intermediate goods declined by 0.3. On the other hand, the production of investment goods and durable consumer goods increased by 0.7 and 4.8 percent respectively.

Recovery persists in private consumption

In December, the import of consumer goods and the production of durable consumer goods grew respectively by 2.2 and 4.8 percent while the production of nondurable consumer goods remained stable (Table 2). Despite the increase of

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consumer confidence index by 23 percent in November, we calculated a decline by 5.2 percent in December. Moreover, special consumption tax preserved its increasing trend since November and grew by respectively 1.1 and 6 percent in December and January. Besides, the production of passenger cars continued to decrease also in December (Table 2). Taking into account mostly increasing indicators, we expect a moderate increase in private consumptions from third quarter to fourth quarter, which is the major contributor of our 0.6 percent growth rate forecast.

Negative contribution of net export

Foreign Trade recorded a volatile evolution during the fourth quarter. October data had indicated a negative contribution of net export due to the declining export and the increasing import. However, as of November, with the help of significant decline in import statistics, the negative contribution of net export had remained limited. In addition, we see that this negative contribution is reinforced by the strong rise of import in December. Hence, we expect that gold-excluded real export will decrease by 0.2 percent and gold-excluded real import will increase by 4.0 (Table 2)

Stagnation in private investments

Private investments also showed fluctuations during the fourth quarter. Our first estimation based upon October data had indicated stagnation in last quarter whereas our forecast based upon November data had pointed out a limited decline. In December, we observe a partial recovery in this component. Comparing to the previous month, the

production of domestic investment goods increased by 0.7 percent in December (Table 2). Previously, the production of commercial vehicles recorded a significant increase in October (17.1 percent) which was followed by a sharp decline in November (9.9 percent). This decline continued but considerably slowed down in December (1.8 percent). On the other hand, real sector confidence index which increased by 6.4 percent in November, declined by 1.3 percent in December. Finally, the import of investment goods (last indicator of our private investment estimation) remained stable in December whilst it had declined by 10.2 percent in November. In the light of these various indicators, we do not expect to obtain a significant contribution from private investments to the fourth quarter GDP growth rate.

Contribution of government expenditures continues

After the 6.8 percent increase in November, we observe a sharp decline of public expenditures in December. Government expenditures shrank by 2.6 percent in the last month of last quarter (Table 2). Still, they record a minor but positive contribution to quarterly GDP growth rate

Improvement in growth performance

Although our 0.6 percent growth rate estimation for last quarter (calculated by seasonally adjusted data) remains low compared to our forecasts in first three quarters (respectively 1.5, 1.4 and 1.3), we expect that the annual GDP growth rate to reach 4 percent. Also we would like to

mention that private consumptions have a significant share in the recovering growth performance of 2015 which remained limited in 2014 by 2.9 percent.

Table 2. Monthly and quarterly changes of Betam's selected indicators (SA)

Economic Indicators	October	November	December	January	2015 3. Quarter	2015 4. Quarter
Export*	-5.9	-3.7	-0.2	**	3.2	-0.1
Import*	4.6	-6.7	7.2	**	-1.1	1.3
Intermediate goods import*	5.1	-3.0	6.7	**	-0.4	5.2
Consumer goods import *	10.2	-8.9	2.2	**	-2.4	-4.2
Investment goods import *	-5.8	-10.2	0.0	**	-7.2	-8.3
Exports excluding gold ***	0.0	-0.6	0.6	**	2.0	-0.2
Imports excluding gold ****	5.8	-4.9	7.2	**	-3.6	4.0
Industrial Production Index (IPI) *	0.2	-0.8	0.8	**	1.0	0.9
Nondurable consumer goods*	-2.7	0.0	0.0	**	-0.6	-0.7
Durable consumer goods *	4.5	-6.5	4.8	**	-0.8	0.8
Intermediate goods *	2.3	-0.7	-0.3	**	0.0	1.8
Investment goods *	-0.1	-0.6	0.7	**	5.0	0.9
Capacity Utilization Rate (CUR)*, ‡	-0.8	0.4	0.3	-0,2	0.3	0.0
Nondurable consumer goods §, ‡	-1.1	-0.1	0.1	0,7	0.4	-0.6
Durable consumer goods §, ‡	0.7	1.2	-0.1	-1,1	2.2	1.4
Intermediate goods §, ‡	-0.3	0.8	0.5	-0,1	0.2	0.4
Investment goods §, ‡	-1.9	1.4	1.8	-0,2	0.4	1.1
Soft Data						
Consumer confidence index (TurkStat)§	7.7	23.0	-5.2	-1,8	-5.4	15.1
Real sector confidence index †	3.9	6.4	-1.3	-2,7	-0.7	5.5
Financial Data						
BIST 100 (Stock Exchange) §	5.4	1.5	-8.7	-4,8	-8.1	-2.0
Other						
Government spending §, °	-5.1	6.8	-2.6	0,6	0.0	2.1
Special consumption tax (SCT) §	-3.7	6.7	1.1	6,0	2.6	-1.7
Passenger Cars §	9.1	-0.6	-0.9	-3,5	5.7	7.7
Commercial Vehicles §	17.1	-9.9	-1.8	-1,8	13.4	-0.3

Source: TurkStat, Central Bank of the Republic of Turkey (TCMB), Treasury, Borsa Istanbul(BIST), Betam.

† This is seasonally adjusted by TCMB

‡ CUR and its components are given as percentage point change, unlike the other indicators.

§ This is seasonally adjusted by Betam.

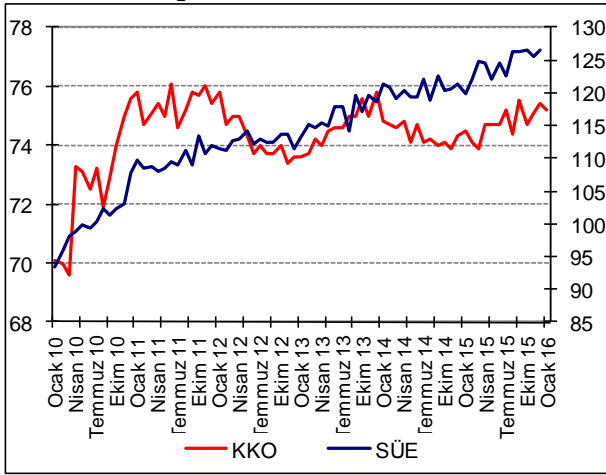
* This is seasonally adjusted by TURKSTAT.

** Data not yet released

*** Betam's calculations: Nominal exports (imports) minus non-monetary gold, deflated using the export (import) unit value index. It is seasonally adjusted by Betam.

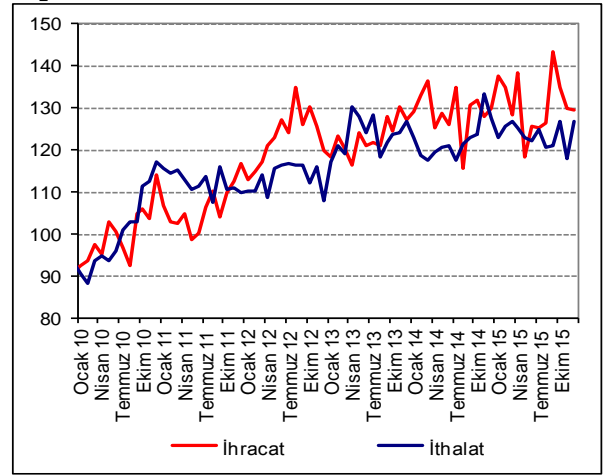
° Total government spending excluding transfers, deflated.

Figure 1: Capacity utilization rate and industrial production index (sa)



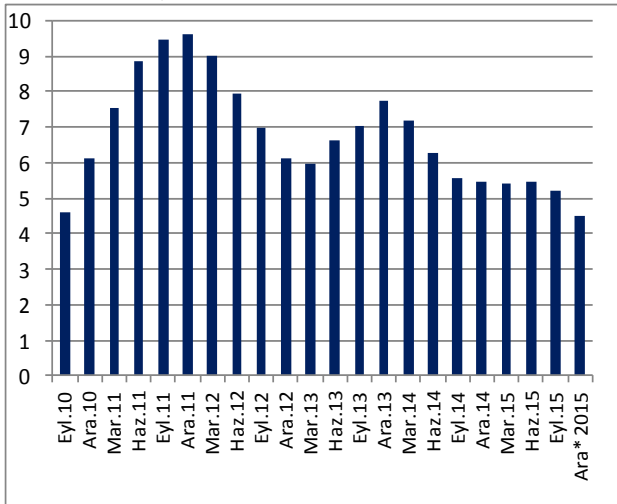
Kaynak: TÜİK (sol taraf KKO eksen, sağ taraf SÜE eksen).

Figure 2: Volume indices of exports and imports (sa)



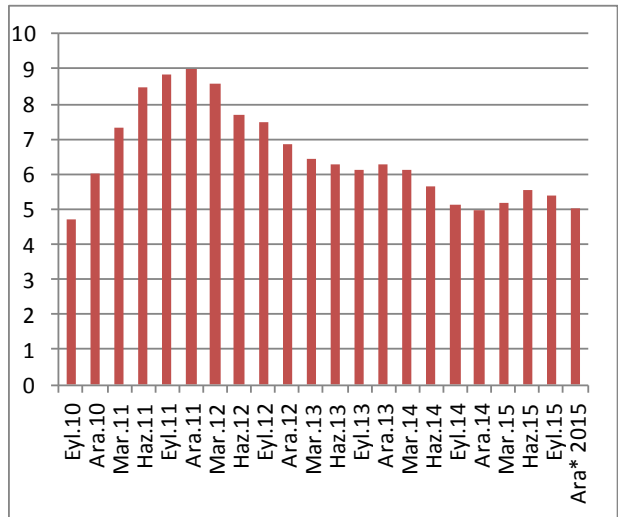
Kaynak: TÜİK.

Figure 3: Gold included current account deficit to GDP ratio, 12 months



Kaynak: TCMB, TÜİK, Betam.

Figure 4: Gold excluded current account deficit to GDP ratio, 12 months



Kaynak: TCMB, TÜİK, Betam.