

# Economic Outlook and Forecast: March 2016

**SLOWDOWN IN FIRST QUARTER’S GROWTH**

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**Executive Summary**

Following to the completion of December 2015 data, we present our 2016 1. quarter growth rate forecast along with our final 2015 4. quarter growth rate estimation in this month’s report. For the last quarter of 2015, we revise up our growth rate forecast from 0.6 to 0.8 due to the increase in industrial production. Taking into consideration of the actual GDP announced in first three quarters and our GDPgrowth estimation for the fourth quarter, we expect that year-on-year GDP growth will be slightly over 4 percent. Moreover, we predict the current account deficit to GDP ratio to be 4.5 percent.

We estimate quarterly growth to be 0.5 for the 1. quarter of 2016. Also, we expect 2.3 percent of decline in annual growth due to base effect. Leading indicators of January and February point out that the rise in private consumption has weakened. Also, it is indicated that the relative stagnation of investments persists. Net exports contribute negatively whereas public expenditures contribute positively to GDP growth. Finally, we expect a decline in the current account deficit to GDP ratio for the first quarter of 2016.

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**Table 1. Betam's quarterly growth rate forecast**

|  |  |  |
| --- | --- | --- |
|  | **2015**  **4. Quarter**  **(%)** | **2016**  **1.Quarter**  **(%)** |
| **Real GDP growth**  (quarter on quarter, sa\*) | 0.8 | 0.5 |
| **Current account deficit**  (% of GDP, annual) | 4.5 | 4.0 |
| **Gold excluded current**  **account deficit** (% of GDP, annual) | 5.2 | 4.3 |

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

**Increase in Industrial Production**

In the pursuit of 0.8 percent increase in December, Industrial Production Index continued to increase by 1.0 percent in January 2016. In the same period, the production of intermediate goods and nondurable consumer goods increased respectively by 0.9 and 4.3 percent. The production of investment goods and durable consumer goods declined, respectively, by 0.4 and 3.4 percent.

**Weakening in Private Consumption**

In January, import of consumer goods and the production of durable goods decreased by respectively 1.9 and 3.4 percent whereas the production of nondurable consumer goods increased by 4.3 percent (Table 2). Consumer confidence index continued to decline both in January and February by 3.0 and 7.7 percent respectively, following an increase right after the election results. Special consumer tax which grew by 4.3 percent in January, decreased by 11.7 percent in February. In addition to that, we calculate the quarter on quarter increase as 1.4 percent in this component. On the other hand, production of passenger cars that recorded a sharp decline in January by 8.8 percent, increased by 3.7 percent in February. In this component we measure the quarter-on-quarter change as minus 4 percent (Table 2). In the light of above-mentioned indicators, we expect a limited increase in private consumptions from the 4th quarter of 2015 to 1st quarter of 2016.

**Negative contribution of net export**

Foreign trade progress in January points out a limited negative contribution of net export to the growth rate. We calculate quarterly change of gold-excluded export as minus 2.5 and gold-excluded import as minus 1 (Table 2).

**Stagnation persists in private investments**

Following fluctuations of investment indicators during the fourth quarter of 2015, reverse progress of private investments also persists in the first quarter of 2016. Even though production of investment goods increased by 6.7 percent in January, it recorded 0.4 percent decline in February. Besides, real sector confidence index decreased by 0.7 percent in February although it had increased by 2.7 percent in January. In terms of production of commercial vehicles, we observe a sharp decline in January and a recovery in February. Considering this component, we calculate a remarkable decline by 12 percent compared to the previous quarter. As a result of mostly shrinking indicators, we predict that private investments will negatively contribute to first quarter GDP growth forecast.

**Contribution of public expenditures continues**

After the limited increase by 0.2 percent in January, we observe a revival in public expenditures by 4.3 percent increase in February. Government expenditures preserve its positive course also in the first quarter of 2016; we calculate its increase as 2.9 percent.

**Slowdown in growth performance**

After obtaining relatively high economic growth results in 2015, leading indicators of 2016 point out a weak commencement. Using seasonally adjusted GDP series, we revise down our first quarter growth rate forecast to 0.5 percent which was 1.5 percent in 2015. Under these circumstances, we expect that annual growth performance will slow down and regress to 2.3 percent.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Economic Indicators** | **November** | **December** | **January** | **February** | **2015 4. Quarter** | **2016 1. Quarter** |
| **Export\*** | -3.7 | -0.4 | -3.5 | \*\* | -0.2 | -5.0 |
| **Import \*** | -6.8 | 7.2 | -3.0 | \*\* | 1.1 | -0.8 |
| Intermediate goods import\* | -3.1 | 7.0 | -3.8 | \*\* | 5.4 | -0.5 |
| Consumer goods import \* | -8.9 | 2.2 | -1.9 | \*\* | -4.3 | -3.6 |
| Investment goods import \* | -10.0 | 0.3 | 6.7 | \*\* | -8.0 | 3.0 |
| **Exports excluding gold \*\*\*** | -0.5 | -1.7 | -1.2 | \*\* | 0.1 | -2.5 |
| **Imports excluding gold \*\*\*** | -4.9 | 3.6 | -1.6 | \*\* | 2.7 | -1.0 |
| **Industrial Production Index (IPI) \*** | -0.8 | 0.8 | 1.0 | \*\* | 0.8 | 1.3 |
| Nondurable consumer goods\* | 0.1 | 0.3 | 4.3 | \*\* | -0.6 | 4.6 |
| Durable consumer goods \* | -6.2 | 5.1 | -3.4 | \*\* | 0.7 | -2.3 |
| Intermediate goods \* | -0.7 | -0.3 | 0.9 | \*\* | 1.4 | 0.4 |
| Investment goods \* | -0.8 | 0.2 | -0.4 | \*\* | 1.1 | -0.5 |
| **Capacity Utilization Rate (CUR)\*, ‡** | 0.4 | 0.3 | -0.2 | -1.1 | 0.0 | -0.2 |
| Nondurable consumer goods §,**‡** | -0.1 | 0.0 | 0.8 | 0.0 | -0.6 | 0.8 |
| Durable consumer goods §,**‡** | 1.3 | 0.0 | -1.9 | -0.7 | 1.4 | -1.9 |
| Intermediate goods §,**‡** | 0.7 | 0.2 | -1.1 | -0.8 | 0.6 | -1.1 |
| Investment goods §,**‡** | 0.9 | 0.3 | -0.5 | -2.3 | 0.8 | -0.9 |
| **Soft Data** |  |  |  |  |  |  |
| Consumer confidence index (TurkStat)§ | 22.1 | -5.2 | -3.0 | -7.7 | 16.2 | -5.2 |
| Real sector confidence index† | 6.4 | -1.3 | 2.7 | -0.7 | 5.5 | 2.3 |
| **Financial Data** |  |  |  |  |  |  |
| BIST 100 (Stock Exchange) § | 0.9 | -8.7 | -4.5 | 2.8 | -2.4 | -8.7 |
| **Other** |  |  |  |  |  |  |
| Government spending §,⁰ | 6.7 | -2.3 | 0.2 | 4.3 | 2.2 | 2.9 |
| Special consumption tax (SCT) § | 7.6 | 1.4 | 4.3 | -11.7 | -2.3 | 1.4 |
| Passenger Cars § | -3.4 | 7.1 | -8.8 | 3.7 | 9.6 | -4.0 |
| Commercial Vehicles § | -2.2 | -6.4 | -10.6 | 7.6 | 0.5 | -12.0 |

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.

⁰ Total government spending excluding transfers, deflated.

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



Source: Turkstat (Left axis is CUR, right axis is IPI )

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



Source: Turkstat, TCMB, Betam

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



Source: Turkstat, Betam

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

Source: Turkstat, TCMB, Betam