

## GROWTH IS SLOWING DOWN

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### Executive Summary

February statistics and partially March statistics point out opposite changes as in January. We observe that the increase in industrial production slows down while the revival in consumption is becoming apparent. Both productions of investment goods and passenger cars, as well as real sector confidence index all have declined whereas imports of investment goods significantly increased. We expect that the contribution of net exports to the growth will be limited and negative. Our estimates for quarter-on-quarter and year-on-year growth rates are, respectively, 0.4 percent and 3 percent. In addition, we predict the current account deficit to GDP ratio to be 4.3 percent and the gold-excluded ratio to be 3.9 percent.

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

	2016 1. Quarter (%)
<b>Real GDP growth, %</b> (quarter on quarter, sa*)	0.7
<b>Real GDP growth, %</b> (year on year)	3.0
<b>Current account deficit</b> (% of GDP, annual)	5.5
<b>Gold excluded current account deficit</b> (% of GDP, annual)	5.6

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

### Slowdown in industrial production increase

In the pursuit of 1-percent increase in January, the increase Industrial Production Index (IPI) decelerated and regressed to 0.5 percent in February 2016. In the same period, production of intermediate goods, non-durable and durable consumption goods increased by 0.8 percent, 1.4 percent and 2.1 percent, respectively. However, investment goods production declined by 0.4 percent (Table 2).

### Increase in private consumption continues

Remember that import of consumer goods and the production of durable goods had decreased in the month of January. However, they increased significantly by 9.8 percent and 2.1 percent

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respectively in February compared to the previous period. In February, the increase in non-durable consumer goods production is recorded as 1.4 percent (Table 2). Consumer Confidence Index declined by 7.7 percent in February 2016 and increased by 0.7 percent in March 2016. On the other hand, in the pursuit of sharp 11.8-percent decline in February, special consumer tax revenues increased by 9.8 percent in March. In this component, we measure the quarter-on-quarter change as 3.6 percent (Table 2).

In February and March, passenger car production declined by 4.0 percent and 0.9 percent respectively. In the light of these indicators, we expect a limited increase in private consumption from the 4th quarter of 2015 to 1st quarter of 2016.

#### **Limited negative contribution of net export**

In January, gold-excluded real export remained constant whereas gold-excluded real import decreased by 0.4 percent. However, we observe that both items increased in February 2016. Gold-excluded real export and import increased by 4.2 percent and 3.4 percent respectively (Table 2).

We calculate quarterly change of gold-excluded real export to be 1.4 percent and that of gold-excluded real imports to be 1.3 percent. We expect that net exports will make a limitedly negative contribution to the quarter on quarter growth.

#### **Stagnation in private investments**

Investment goods production decreased in January 2016 by 1.3 percent and in February 2016 by 0.4 percent (Table 2). Commercial vehicle production regressed by 5.4 percent in March and by 8.3 percent compared to previous quarter (Table 2). Real sector confidence index, been decreasing since December, declined by 1 percent in March 2016. Also, quarter-to-quarter decrease is recorded as 2.3 percent. Investment goods imports, the last component used in the forecast model of private investments, increased by 14.9 percent in February 2016. In the light of these opposite changes, we predict that stagnation in private investments will continue.

#### **Contribution of public expenditures continues**

After the 4.3-percent increase in February, public expenditures decreased by 0.4 percent in March (Table 2). However, we expect that public expenditures will make a positive but limited contribution to the growth on quarterly basis.

#### **Limited slowdown in growth performance**

Based on leading indicators of January and February, and in part those of March, we predict seasonally adjusted quarter-on-quarter growth rate to be 0.4 percent and annual (year-on-year) growth rate compared to 1st quarter of 2015 to be about 3 percent.

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

Economic Indicators	December	January	February	March	2015 4. Quarter	2016 1. Quarter
<b>Export*</b>	-0.3	-3.3	12.8	**	-0.1	1.5
<b>Import *</b>	7.3	-3.0	7.5	**	1.6	3.1
Intermediate goods import*	7.1	-3.9	5.2	**	5.7	2.1
Consumer goods import *	2.3	-1.7	9.8	**	-3.8	1.6
Investment goods import *	0.6	7.0	14.9	**	-7.3	11.4
<b>Exports excluding gold ***</b>	-0.7	0.0	4.2	**	2.2	1.4
<b>Imports excluding gold ****</b>	0.5	-0.4	3.4	**	3.4	1.3
<b>Industrial Production Index (IPI) *</b>	0.9	1.0	0.5	**	0.9	1.6
Nondurable consumer goods*	0.3	4.5	1.4	**	-0.3	5.5
Durable consumer goods *	5.1	-3.4	2.1	**	0.6	-1.3
Intermediate goods *	-0.2	1.0	0.8	**	1.7	1.1
Investment goods *	0.1	-1.3	-0.4	**	0.9	-1.7
<b>Capacity Utilization Rate (CUR)*, ‡</b>	0.3	-0.2	-1.1	1.1	0.0	-0.2
Nondurable consumer goods §, ‡	0.1	0.1	0.0	0.2	0.0	0.2
Durable consumer goods §, ‡	0.1	-1.7	-0.7	0.2	1.3	-1.7
Intermediate goods §, ‡	-0.1	-0.8	-0.8	0.5	-0.4	-1.0
Investment goods §, ‡	0.1	-1.1	-2.3	1.8	1.1	-1.6
<b>Soft Data</b>						
Consumer confidence index (TurkStat)§	-5.6	-2.7	-7.7	0.7	16.0	-5.1
Real sector confidence index †	-1.3	-2.7	-0.7	-1.0	5.5	-2.3
<b>Financial Data</b>						
BIST 100 (Stock Exchange) §	-8.7	-4.8	2.8	9.2	-2.0	-5.5
<b>Other</b>						
Government spending §, °	-2.5	0.4	4.3	-0.4	2.1	3.5
Special consumption tax (SCT) §	1.1	6.1	-11.8	9.8	-2.1	3.6
Passenger Cars §	-1.0	-2.6	4.0	0.9	8.0	-0.6
Commercial Vehicles §	-2.0	-2.0	0.3	-5.4	-0.8	-8.3

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.

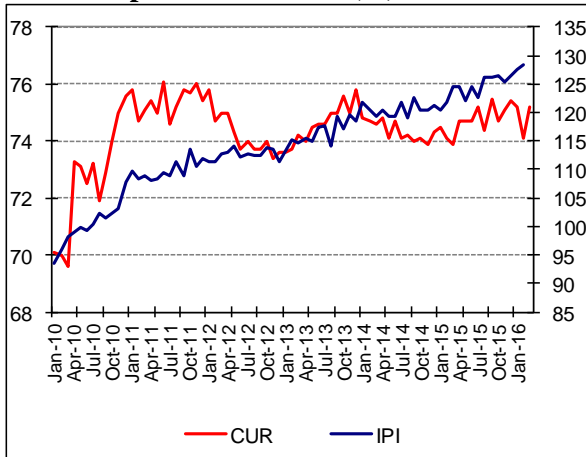
\* This is seasonally adjusted by TURKSTAT.

\*\* 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.

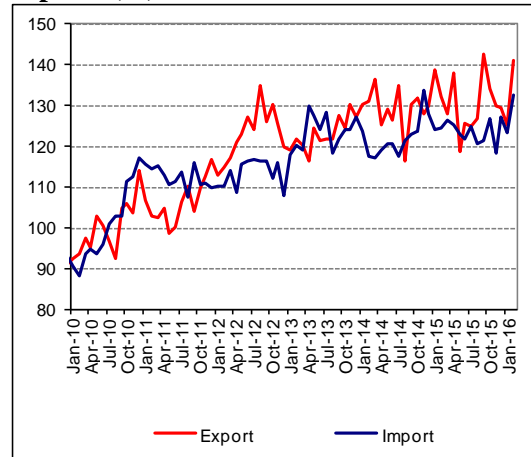
° Total government spending excluding transfers, deflated.

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



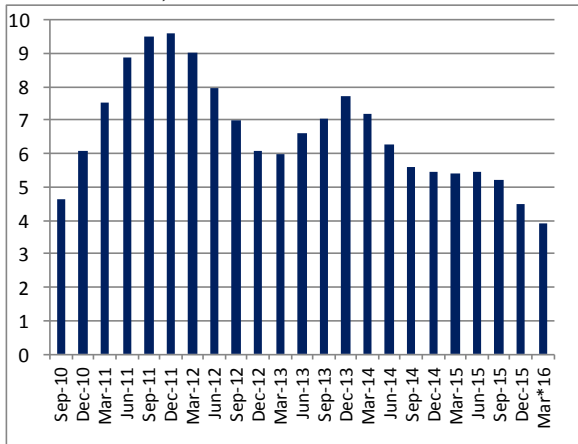
Source: Turkstat (Left axis is CUR, right axis is IPI )

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



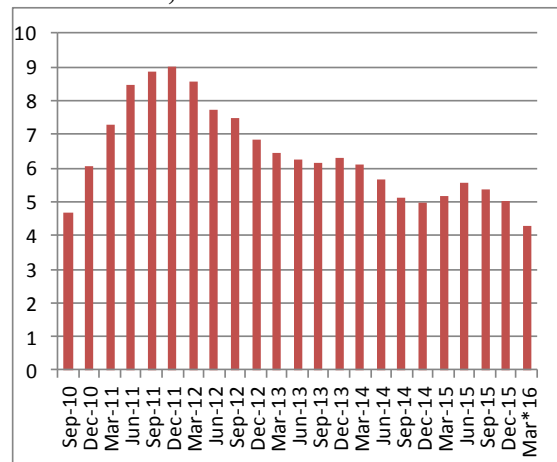
Source: Turkstat, Betam

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



Source: Turkstat, TCMB, Betam

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



Source: Turkstat, TCMB, Betam