

### 1 June 2016

# Economic Outlook and Forecasts: May 2016

**Moderate GROWTH**

**Ozan Bakış\*, Mine Durmaz\*\*, Melike Kökkızıl\*\*\***

**Executive Summary**

Leading indicators continue to move in opposite directions as mentioned in our previous research briefs. The first quarterly data of 2016 reveals that recovery in investment stands out and a moderate progress in consumption persists. Nonetheless, government spending exhibits a sharp decline. As for investment, significant increases are seen in import of investment goods and its production; however, production of commercial cars will remain limited compared to our previous calculations.

Updated data indicate that negative contribution of net export to the growth will become clearer. Our estimates for quarter-on-quarter and year-on-year growth rates are revised to 0.6 percent and 3.5 percent, respectively. In addition, we predict the current account deficit to GDP ratio to be 4.2 percent and the gold-excluded ratio to be 4.8 percent.

\* Assoc. Prof. Dr. Ozan Bakış, Senior Researcher,

[ozan.bakis@eas.bau.edu.tr](mailto:ozan.bakis@eas.bau.edu.tr)

\*\* Mine Durmaz, Betam, Research Assistant

[mine.durmaz@eas.bau.edu.tr](mailto:mine.durmaz@eas.bau.edu.tr)

\*\*\*Melike Kökkızıl, Betam, Research Assistant

[melike.kokkizil@eas.bau.edu.tr](mailto:melike.kokkizil@eas.bau.edu.tr)

**Table 1. Betam’s GDP quarterly growth rate forecast**

|  |  |
| --- | --- |
|  | **2016**  **1. Çeyrek**  **Tahmin**  **(%)** |
| **Real GDP growth, %**  (quarter on quarter, sa\*) | 0.6 |
| **Real GDP growth, %**  (year on year) | 3.5 |
| **Current account deficit**  (% of GDP, annual) | 4.2 |
| **Gold excluded current account** deficit (% of GDP, annual) | 4.8 |

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

**Increase in private consumption**

Consumption Confidence Index decreased by 4.7 percent from the last quarter of the last year to the first quarter of this year. In addition, import of consumer goods and non-durable consumer goods productions increased by 3 percent and 5.1 percent, respectively. In the same period, durable consumer goods production decreased by 0.9 percent. In addition to these developments, after a 10-percent sharp decline of special consumption tax in February and a 5.5 percent rise in March, we calculate that it increased by 3.9 percent on a quarter-on quarter base (Table 2).

In the light of the updated data, we state that after a fluctuating course of passenger car productions in the period of January to March, it recorded a decrease by 1.6 percent on a quarterly basis.

Since most of the variables used for forecast on private consumption signal a recovery, we expect a moderate up-turn in private consumption in the first quarter of 2016 compared to the fourth quarter of 2015.

**Negative contribution of net export to growth**

In the February, gold-excluded real export and import had increased by 5.7 percent and 8.3 percent, respectively. However, in March, we observe a 0.2 percent decrease in gold-excluded real export and a 4.5 percent increase in real imports (Table 2). Hence, we calculate that gold-excluded real export and import will respectively increase by 1.1 percent and 6.1 percent in the first quarter compared to the fourth quarter of 2015.

Due to the large increase in real import, we expect that net export will have negative contribution to the quarter-on-quarter growth.

**Opposite directions in private investment**

Investment goods import did not change in March, after a 15-percent large increase in February of 2016. Ultimately, the quarter-on-quarter growth rate for investment goods import is 14.4 percent in the first quarter of 2016. On the other hand, production of commercial cars has decreased by 2.7 percent in the same period (Table 2). In addition, real sector confidence index, exhibiting a declining trend as of December, reached a 2.3 percent decrease in terms of quarter-on-quarter change. Another determinant of private investment, production of investment goods, followed a fluctuating course; however, it almost remained unchanged quarterly (Table 2).

Even if it is very hard to reach a final judgement about the future course of private investment because of these opposite progresses, we predict that contribution of private investment to the growth will remain rather limited.

**Negative contribution from government to growth**

We expect that the contribution of government spending to GDP growth will be negative due to the fiscal policy maintaining a tight stance during the first three months of this year; however, remind that its effect on growth will be slight because of its low share in GDP (Table 2).

**Moderate growth**

Considering the data on the first quarter and leading indicators of April, we forecast that quarter on quarter growth in seasonally adjusted GDP will be 0.6 percent. Hence, we expect that annual growth comparing with the first quarter of 2015 will be around 3.5 percent.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Economic Indicators** | **January** | **February** | **March** | **April** | **2015 4. Quarter** | **2016 1. Quarter** |
| **Export\*** | -3.3 | 12.9 | -4.6 | \*\* | -0.1 | 1.9 |
| **Import \*** | -2.8 | 7.5 | 2.1 | \*\* | 1.8 | 5.3 |
| Intermediate goods import\* | -3.9 | 5.3 | 2.1 | \*\* | 5.8 | 3.8 |
| Consumer goods import \* | -1.6 | 9.9 | -0.6 | \*\* | -3.7 | 3.0 |
| Investment goods import \* | 7.3 | 15.0 | 0.0 | \*\* | -7.1 | 14.4 |
| **Exports excluding gold \*\*\*** | -1.2 | 5.7 | -0.2 | \*\* | 0.1 | 1.1 |
| **Imports excluding gold \*\*\*** | -1.6 | 8.3 | 4.5 | \*\* | 2.7 | 6.1 |
| **Industrial Production Index (IPI) \*** | 1.0 | 0.5 | -0.5 | \*\* | 0.9 | 1.5 |
| Nondurable consumer goods\* | 4.7 | 1.2 | -2.0 | \*\* | -0.4 | 5.1 |
| Durable consumer goods \* | -3.3 | 2.0 | 0.0 | \*\* | 0.6 | -0.9 |
| Intermediate goods \* | 1.1 | 0.6 | -0.5 | \*\* | 1.5 | 0.9 |
| Investment goods \* | -1.3 | 0.3 | 2.8 | \*\* | 1.2 | -0.3 |
| **Capacity Utilization Rate (CUR)\*, ‡** | -0.2 | -1.1 | 1.1 | 0.2 | 0.0 | -0.2 |
| Nondurable consumer goods §,**‡** | 0.7 | -0.5 | 1.2 | -0.7 | -0.5 | 0.9 |
| Durable consumer goods §,**‡** | -1.3 | -1.5 | 0.2 | -1.0 | 1.1 | -1.9 |
| Intermediate goods §,**‡** | -0.1 | -0.3 | 0.4 | -0.1 | 0.5 | 0.3 |
| Investment goods §,**‡** | 0.2 | -0.1 | -0.1 | 0.2 | 0.8 | 0.5 |
| **Soft Data** |  |  |  |  |  |  |
| Consumer confidence index (TurkStat)§ | -3.3 | -6.4 | 0.1 | 1.0 | 16.3 | -4.7 |
| Real sector confidence index† | -2.7 | -0.7 | -1.0 | 1.5 | 5.5 | -2.3 |
| **Financial Data** |  |  |  |  |  |  |
| BIST 100 (Stock Exchange) § | -6.2 | 9.2 | 5.4 | 1.2 | -1.9 | -4.9 |
| **Other** |  |  |  |  |  |  |
| Government spending §,⁰ | -19.8 | 2.6 | -2.1 | 2.1 | 3.4 | -16.1 |
| Special consumption tax (SCT) § | 5.7 | -10.0 | 5.5 | -3.1 | -2.5 | 3.9 |
| Passenger Cars § | -11.4 | 12.0 | -1.0 | -1.0 | 10.0 | -1.6 |
| Commercial Vehicles § | -5.3 | 10.8 | -3.9 | -3.7 | 0.6 | -2.7 |

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