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Economic Outlook and Forecasts:
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BAHÇEŞEHİR ÜNİVERSİTESİ

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Growth Continutes to Slow Down

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Executive Summary

In second quarter of 2016, quarter-on-quarter growth rate of 0.3 percent and year-on-year growth rate of 3.1 percent remained below expectations. Leading indicators do not constitute a positive outlook also for growth in third quarter. Almost all indicators point out that the economy will be downsizing. Especially the decreasing trend in private consumption continues. We predict that even public expenditures and private investments components, which drove the growth in second quarter, will shrink in third quarter. Both import and export are predicted to decline from quarter to quarter. Since the decreasing trend in imports is relatively higher, the contribution of net exports is expected to be positive, albeit too small. In the light of fully released July, partially released August, and September leading indicators, we predict quarter-on-quarter growth rate to be minus 0.2 percent and year-on-year growth rate to be 2.6 percent.

	2016Q3
GDP growth (quarterly)	-0,2
GDP growth (annual)	2,6

Tablo 1: Source: Betam. Note: "quarterly" refers to seasonally- and calendar-day adjusted forecasted real GDP growth; "annual" refers to forecasted real GDP growth compared to the same quarter of the previous year.

Consumption

Deterioration in private consumption continues

In the light of fully released July, partially released August, and September leading indicators, we predict a recession in third quarter of 2016 compared to previous quarter. Only special consumption tax increased among components of private consumption leading indicators (2.42 percent). Although consumption goods import increased by 0.2 percent and passenger cars production increased by 4 percent in second quarter of 2016, we predict that they will decrease by 8.2 percent and 15.7 percent respectively in third quarter. Nondurable and durable consumption goods production declined in second quarter. However, in third quarter we think that the decline in those components will increase and reach 7.9 percent and 11.6 percent respectively (Table 2).

Compared to the same quarter of the previous year, decreases in all indicators except special consumption tax are remarkable. Especially, in the third quarter compared to the same quarter in the previous year, we expect a significant 15.2 percent decrease in passenger cars production, which grew by 20.6 percent in the second quarter of 2016 . (Table 3).

In the light of these statistics, we predict that the deterioration in private consumption will continue.

	2016Q2	2016Q3
Imports-cons. goods	0.2	-8.2
IPI-nondurable goods	-0.8	-7.9
IPI-durable goods	-0.6	-11.6
Passenger cars prod.	4.0	-15.7
Special cons. tax	1.2	2.4

Tablo 2: Private consumption compared to the previous period. IPI: Industrial production index, SCT: Special consumption tax.

	2016Q2	2016Q3
Imports-cons. goods	-1.7	-8.5
IPI-nondurable goods	4.7	-2.7
IPI-durable goods	-2.2	-10.7
Passenger cars prod.	20.6	-15.2
Special cons. tax	4.5	5.2

Tablo 3: Private consumption compared to the same quarter of the previous year.

Public consumption decelerated

Public consumption, which consists of goods and services expenditures, compensation of employees and social security contributions, increased significantly in second quarter compared to both previous quarter (Table 4) and the same quarter of the previous year (Table 5). However, we predict that public expenditures will decline by 1.2 percent in third quarter of 2016 compared to the second quarter. On the other hand, annual growth in public expenditures is recorded as 15.5 percent in second quarter of 2016 but we expect that the annual growth in this component will be limited to 6.3 percent in third quarter of 2016.

	2016Q2	2016Q3
Public cons.	3.6	-1.2

Tablo 4: Public consumption expenditures compared to previous quarter.

	2016Q2	2016Q3
Public cons.	15.5	6.3

Tablo 5: Public consumption expenditures compared to the same quarter of the previous year.

Investment

Recession signals from private investments

In the second quarter of 2016, some of private investment components decreased while the others increased and thus, final contribution of private investments was positive. All leading indicators for the third quarter, except one of them, point out that there will be deterioration in private investments. Although intermediate goods import and investment goods production increased in the second quarter, in the third quarter they are expected to decline by 9.2 percent and 10.7 percent, respectively. The decrease in commercial vehicles production is more severe with 23.1 percent. Only investment goods import among private investment components is predicted to increase (5.2 percent) in the third quarter (Table 6).

Compared to the same quarter of previous year, especially the decrease in production of commercial vehicles becomes quite significant and it is expected to decrease by 48.2 percent in the third quarter of 2016. On the other hand, we think that from the same quarter of the previous year intermediate goods import and investment goods import will increase by 0.7 percent and 14.9 percent, respectively (Table 7).

Leading indicators point out that private investments will contribute negatively to the growth in third quarter.

	2016Q2	2016Q3
Imports-inter. goods	2.2	-9.2
Imports-invest. goods	3.0	5.2
IPI-inter. goods	-1.5	-3.1
IPI-invest. goods	0.2	-10.7
Commercial veh. prod.	-6.9	-23.1

Tablo 6: Private investments compared to the previous quarter. IPI: Industrial production index.

	2016Q2	2016Q3
Imports-inter. goods	12.6	0.7
Imports-invest. goods	4.9	14.9
IPI-inter. goods	1.0	-6.4
IPI-invest. goods	4.3	-8.2
Commercial veh. prod.	-3.3	-48.2

Tablo 7: Private investments compared to the same quarter of the previous year.

Public investment is decreasing

The contribution of public investment expenditures to the growth is similar to that of public consumption expenditures: positive contribution observed in second quarter of 2016 turns into negative in third quarter. Seasonally and calendar day adjusted public investment is expected to decrease by 4.5 percent in third quarter of 2016 (Table 8).

Compared to the same quarter of previous year, we predict that public investments will decrease by 9 percent in third quarter following

	2016Q2	2016Q3
Public invest.	14.2	-4.5

Tablo 8: Public investments compared to the previous quarter.

	2016Q2	2016Q3
Public invest.	18.6	-9.0

Tablo 9: Public investments compared to the same quarter of the previous year.

18.6-percent increase in second quarter of 2016 (Table 9).

Foreign Trade

We predict that in third quarter seasonally and calendar day adjusted real export and real import indices will decline by 5.1 percent and 7.7 percent, respectively. Note that the share of gold export in total export in third quarter remained low compared to those in previous periods (Table 10).

Compared to the same quarter of previous year, we expect that gold-included export will decrease by 0.2 percent and gold-excluded exports will decrease by 9.6 percent in the third quarter of 2016. However, we predict that import will rise by around 3 percent (Table 11).

Based on these developments, the contribution of net exports to growth is expected to be limited.

General evaluation

All other variables used in GDP forecasting point out that economic activities will slow down, even will deteriorate in the third quarter of 2016. Only electricity production remained constant and all other variables decreased in the third quarter. Concerning negative indicators, industrial production index with a 7-percent decrease and index of investment expectations for next twelve month with a 5.7-percent decrease are leading among them. Capacity utilization rate and real sector confidence index are negative but also they point that the decrease in growth will be more limited. (Table 12). When we compare to the same quarter of previous year, we observe similar results (Tablo 13).

To remind, a significant part of series used in third quarter forecast is July's monthly statistics. Since the economic effects of the failed coup attempt are intensely felt in July, we expect that indicators in August and September will be less traumatic. Quarterly growth rate depends on to what extent these two months will compensate the impact of July.

In the light of fully released July, partially released August, and September leading indicators, we predict quarter-on-quarter growth rate to be minus 0.2 percent and year-on-year growth rate to be 2.6 percent.

	2016Q2	2016Q3
Exports	1.8	-5.1
Imports	1.8	-7.7
Exports excluding gold	-3.1	-5.1
Imports excluding gold	1.0	-3.6

Tablo 10: Exports and imports compared to previous.

	2016Q2	2016Q3
Exports	7.6	-0.2
Imports	8.9	2.4
Exports excluding gold	-1.1	-9.6
Imports excluding gold	7.1	3.1

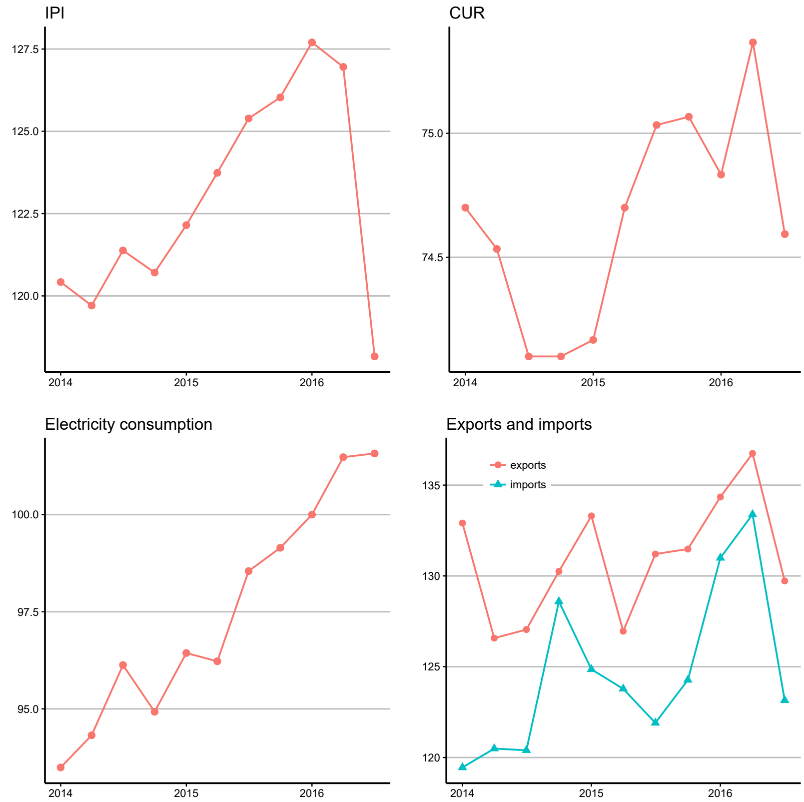
Tablo 11: Exports and imports compared to the same of quarter of previous year.

	2016Q2	2016Q3
IPI	-0.6	-6.9
Electricity cons.	1.5	0.1
CUR	53.3	-77.3
Real sector conf. index	0.2	-1.2
Expected invest.-12m	1.4	-5.6

Tablo 12: Some leading indicators compared to the previous quarter. IPI: Industrial Production Index, CUR: Capacity Utilization Rate. CUR is given in terms of percentage point change unlikely other indices.

	2016Q2	2016Q3
IPI	3.0	-4.4
Electricity cons.	5.9	2.0
CUR	100.0	-22.5
Real sector conf. index	1.5	1.6
Expected invest.-12m	2.9	-3.0

Tablo 13: Some leading indicators compared to the same quarter of previous year.



Şekil 1: Seasonally and calendar day adjusted leading indicators. Electricity consumption is indexed where the first quarter of 2016 is 100

Explanation on seasonal and calendar adjustment: While forecasting quarter-on-quarter GDP growth rate, we adjust all series for seasonal and calendar day effects. If there is an adjusted series released by institutions, we use this released adjusted series and if not, BETAM performs seasonal and calendar day adjustments. Status of variables used in this brief can be summarized as follows:

- Central Bank of the Republic of Turkey (TCMB): Capacity utilization rate of manufacturing industry (CUR), Real sector confidence index.
- Turkstat (TUIK): Industrial production index (IPI) and its sub-components; export, import and import sub-components with respect to goods categories (intermediate goods, investment goods and consumption goods).
- BETAM: Passenger cars, commercial vehicles and total cars productions; electricity production; gold-excluded exports and gold-excluded imports; public consumption and investment expenditures; Special consumption tax (SCT).

Explanation on leading indicators: For some indicators of the quarter, of which growth rate is forecasted, last two months' observations and for others last month's observation are missing when we run forecasting model. While estimating growth rates of leading indicators, for missing months we use forecasts based on previous observations of each series.