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Economic Growth Stagnates in Third Quarter

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Executive Summary

All leading indicators used for our first growth forecast for the third quarter show that there will be stagnation in the economy. Updated and recently released August and September statistics point out that the economic effects of the failed coup attempt, which are intensely felt in July, are gradually eluded. Although recession is out of question, we can say that slow growth in the second quarter of 2016 continues in the third quarter. In the light of fully released July, August, and partially released September leading indicators, we predict quarter-on-quarter growth rate to be 0.2 percent and year-on-year growth rate to be 2.8 percent.

	2016Q3
GDP growth (quarterly)	0,4
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

Recession in private consumption

Passenger car production is the only component increased among seasonally- and calendar-day adjusted private consumption leading indicators (3.9 percent). Although consumption goods import increased by 0.2 percent, we predict that it will decline by 4.5 percent in the third quarter of 2016. Nondurable and durable consumption goods production declined in second quarter. We expect that these decreases will be larger in the third quarter and reach 4.5 percent and 2.7 percent, respectively. Special consumption tax increased by 0.8 percent in the second quarter; however, it declined by 1 percent in the third quarter (Table 2).

Compared to the same quarter of the previous year, decreases in all indicators except passenger car production are remarkable. Especially, nondurable consumption goods production and special consumption tax, which grew by above 4 percent in the second quarter of 2016, are predicted to decrease by 0.1 percent and 0.5 percent in the third quarter, respectively (Table 3).

In the light of these statistics, we predict that the growth rate in private consumption will be almost zero.

	2016Q2	2016Q3
Imports-cons. goods	0.2	-4.5
IPI-nondurable goods	-1.0	-2.7
IPI-durable goods	-1.0	-4.5
Passenger cars prod.	4.5	3.9
Special cons. tax	0.8	-1.0

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

	2016Q2	2016Q3
Imports-cons. goods	-1.7	-5.5
IPI-nondurable goods	4.6	-0.1
IPI-durable goods	-2.2	-4.0
Passenger cars prod.	20.6	14.6
Special cons. tax	4.5	-0.5

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). In the third quarter, public consumption decelerated. According to fully released statistics, public consumption decreased by 1.2 percent in the

	2016Q2	2016Q3
Public cons.	3.6	-1.2

Tablo 4: Public consumption expenditures compared to previous quarter.

	2016Q2	2016Q3
Public cons.	15.5	5.5

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

third quarter compared to the previous period. On the other hand, compared to the same quarter of the previous year, we observe that public expenditures increased by 5.5 percent in the third quarter of 2016.

Investment

Recession signals from private investments

Updated investment leading indicators reiterate the possibility of recession in investments as we noted in our previous research brief. All seasonally-and calendar-day adjusted leading indicators point out that there will be deterioration in private investments in the third quarter of 2016 compared to the previous period. Although intermediate goods import and investment goods imports increased in the second quarter, in the third quarter they are expected to decline by 5.3 percent and 3.0 percent, respectively. Intermediate goods and investment goods imports and commercial vehicle production decreased in previous quarter. We predict that they will continue to decline and decreases will be 2.4 percent, 4.1 percent and 3.2 percent in the third quarter, respectively (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 26.6 percent in the third quarter of 2016. We think that intermediate goods and investment goods production will decline by 2.9 percent and 4.7 percent respectively. On the other hand, in the third quarter of 2016, we expect that annual increase in intermediate goods imports will be 3.0 percent and that in investment goods production will be 4.8 percent (Table 7).

In the light of these statistics, the contribution of private investments to the growth in the third quarter is expected to be negative.

	2016Q2	2016Q3
Imports-inter. goods	2.0	-5.3
Imports-invest. goods	2.4	-3.0
IPI-inter. goods	-0.8	-2.4
IPI-invest. goods	-0.1	-4.1
Commercial veh. prod.	-4.7	-3.2

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

	2016Q2	2016Q3
Imports-inter. goods	12.6	3.0
Imports-invest. goods	4.9	4.8
IPI-inter. goods	1.0	-2.9
IPI-invest. goods	4.2	-4.7
Commercial veh. prod.	-3.3	-26.6

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 grew by 8.8 percent in the second quarter. However, public investment expenditures is expected to decrease by 18.8 percent (Table 8).

Compared to the same quarter of previous year, we predict that real public investments will decrease by 5.3 percent in third quarter following 18.6-percent increase in second quarter of 2016 (Table 9).

	2016Q2	2016Q3
Public invest.	8.8	-18.8

Tablo 8: Public investments compared to the previous quarter.

	2016Q2	2016Q3
Public invest.	18.6	-5.3

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

Foreign Trade

We predict that in the third quarter seasonally- and calendar-day adjusted real export and real import indices will decline by 4.3 percent and 4.4 percent, respectively. Note that in the third quarter gold-excluded export and import are close to gold-included export and import (Table 10).

Compared to the same quarter of previous year, we expect that gold-excluded exports will decrease by 9.6 percent in the third quarter of 2016. On the other hand, gold-excluded import is expected to increase by 3.2 percent (Table 11).

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

	2016Q2	2016Q3
Exports	1.8	-4.3
Imports	1.5	-4.4
Exports excluding gold	-3.1	-3.8
Imports excluding gold	1.0	-1.2

Tablo 10: Exports and imports compared to previous.

	2016Q2	2016Q3
Exports	7.6	0.4
Imports	8.9	1.8
Exports excluding gold	-1.2	-9.6
Imports excluding gold	7.1	3.2

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

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. Note that compared to previous quarter, especially decreases in industrial production index and index of investment expectations for next 12 months differ significantly from other indicators. Emphasize that changes in electricity consumption, reel sector confidence index and total car production are positive but quite small in the third quarter (Table 12). When we compare the same quarter of previous period, we observe similar results (Tablo 13). The most important difference is quarter-on-quarter increase and year-on-year decrease in total car production.

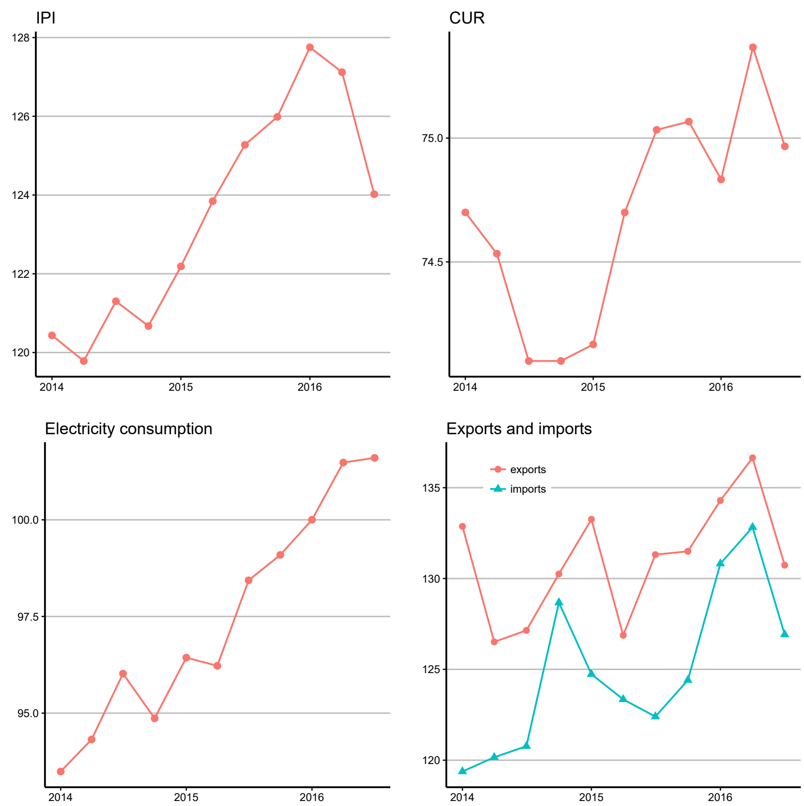
As we mentioned in our previous brief, fully released August and partially released September statistics point more optimistic economic growth than July statistics do. In the light of updated leading indicators, we predict that quarter-on-quarter GDP growth will be 0.2 percent and annual GDP growth will be 2.8 percent.

	2016Q2	2016Q3
IPI	-0.5	-2.4
Electricity cons.	1.5	0.1
CUR	0.5	-0.4
Real sector conf. index	0.2	0.2
Expected invest.-12m	1.4	-4.8
Total veh. prod.	2.5	0.8

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	-1.8
Electricity cons.	5.9	2.2
CUR	100.0	30.0
Real sector conf. index	1.5	3.2
Expected invest.-12m	2.9	-2.1
Total veh. prod.	10.1	-4.2

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.