Bahçeşehir Üniversitesi
Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: May 2017

BAHÇEŞEHİR ÜNİVERSİTESİ

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Exports Boom in the First Quarter

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Executive Summary

In the previous economic growth and forecasts research brief, we claimed that a revival was expected in the first quarter of 2017. Using fully released first quarter series the result of our second forecast is quite similar to the first one. Compared to our first research brief; we observe a slight decrease in the contribution of consumption and foreign trade leading indicators to the growth and a slight increase in the contribution of investment leading indicators to the growth. The depreciation of Turkish Lira (TL) against US dollars causes a significant decrease in the consumer and investment goods imports. Using fully-released February, March and April series, we forecast quarter-on-quarter growth rate to be 1.6 percent, year-on-year growth rate to be 5.0 percent in the first quarter of 2017.

GDP growth forecasts	2017Q1
Quarter-on-quarter GDP	1.6
Annual GDP	5.0

Tablo 1: Periodical and annual real GDP growth forecasts. Source: Betam. NOTE:"Quarter-on-quarter" growth rate refers to seasonally- and calendar-day adjusted real GDP growth forecast; "year-on-year" growth rate refers forecasted real GDP growth compared to the same quarter of the previous year. "Annual" growth rate refers to overall real GDP growth rate forecast of the current year compared to the previous year.

The increase in consumption remained weak

Dollar/TL currency exchange rate, which was below 3 TL until October 2016, increased almost steadily to about 3.8 TL in January 2017 and then, slightly decreased to about 3.6 TL in March 2017. In the first quarter of 2017, seasonally- and calendar-day adjusted consumption goods production, due to the parity effect, declined by 8.8 percent. Durable consumption goods production with a 9.8 percent increase distinguishes from other components feeding the increase in consumption. Mortgage loans increased by around 1.6 percent while consumer credits are stagnant. We find public consumption, which consists of goods and services expenditures and personnel expenses, to be stagnant (Table 2).

	2016Q4	2017Q1
Imports-cons. goods	3.2	-8.8
Mortgage loans	3.4	1.6
Consumer loans + CC	1.6	0.0
IPI-nondurable goods	4.0	0.6
IPI-durable goods	3.5	9.8
Special cons. tax	7.4	-8.6
Public cons.	0.4	-0.0

Tablo 2: Private consumption compared to the previous quarter. IPI: Industrial production index; SCT: Special consumption tax; CC: Credit Cards.

Compared to the same quarter of the previous year, we observe significant declines in consumption goods import (by -9.0 percent), special consumption tax (by -0.9 percent) and nondurable consumption goods production (by -0.6 percent). On the other hand, mortgage loans and durable consumption goods production increased by 6.5 percent. Moreover, year-on-year change in public consumption expenditures and nondurable consumption goods production are weak (Table 3).

	2016Q4	2017Q1
Imports-cons. goods	5.0	-9.0
Mortgage loans	5.6	6.5
Consumer loans + CC	0.8	1.2
IPI-nondurable goods	3.9	-0.6
IPI-durable goods	-5.1	6.5
Special cons. tax	12.5	-0.9
Public cons.	9.1	0.4

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

In the light of these observations in leading indicators, we expect the growth in both private and public consumption to be positive but below its long-run trend.

Investments are rising

In the first quarter of 2017 compared to the last quarter of 2016, there are increases in the seasonally- and calendar-day adjusted investment leading indicators, except the import of investment goods. We expect the import of investment goods to decrease by 9.5 percent due to the increase in the exchange rate. The highest increase is recorded in the expectation on the production over the last three quarters with 5.4 percent in the first quarter of 2017. In the first quarter of 2017, the second highest increase is recoded in both installment credits and commercial credit cards with 5 percent. Besides, we note that the current inventory stock of retail trade sector increased by 2.9 percent while there is a limited increase (1.6 percent) in public investments (Table 4).

Compared to the same quarter of the previous year, some of the leading indicators are moving up (commercial loans and corporate credit cards, the expectation on the production over the last three months and current inventory stock of retail trade sector index) while the rest of them are moving down. Decreases in the intermediate goods production (1.6 percent) and the import of investment goods (16.1 percent) are remarkable. Also, 9.7 percent year-on-year growth in public investments is significant (Table 5).

Investment leading indicators point out that the recovery observed in the last quarter of 2016 still continues.

	2016Q4	2017Q1
IPI-inter. goods	2.6	0.4
CUR-invest. goods	1.3	1.7
Imports-invest. goods	-9.7	-9.5
Commercial loans + CC	2.3	5.0
Prod.-last 3 months	9.2	5.4
RT vol. of stock	-1.0	2.9
Public invest.	2.3	1.6

Tablo 4: Private investments compared to the previous quarter. IPI: Industrial Production Index; CUR: Capacity Utilization Rate. CUR is reported as percentage points changes unlike other indices.

	2016Q4	2017Q1
IPI-inter. goods	-1.4	-1.6
CUR-invest. goods	1.5	2.4
Imports-invest. goods	5.4	-16.1
Commercial loans + CC	-0.3	6.7
Prod.-last 3 months	-0.9	6.5
RT vol. of stock	-0.1	1.5
Public invest.	4.9	9.7

Tablo 5: Private investments compared to the same quarter of the previous year.

Large increase of exports in the first quarter

Seasonally- and calendar-day adjusted real export and real import indices decreased in the fourth quarter of 2016. We find that the depreciation of TL helps to consolidate this trend. In the first quarter, we observe that the increase in the real export index strengthened while the increase in the real import index weakened. Gold-included exports index increased by 6.0 percent and gold-excluded exports index increased by 7.8 percent. On the other hand, gold-excluded exports index declined by 0.6 percent (Table 6).

When we look at exports indicators compared to the same quarter of the previous year, it is observed that gold-excluded exports increased by 7.8 percent and total exports increased by 10.8 percent. Total imports slightly increased (0.2 percent) while gold-excluded imports declined by 3.1 percent (Table 7).

	2016Q4	2017Q1
Exports	4.8	6.0
Imports	3.7	-0.0
Exports excluding gold	4.0	7.8
Imports excluding gold	-2.1	-0.6

Tablo 6: Foreign trade compared to the previous quarter.

	2016Q4	2017Q1
Exports	5.7	10.8
Imports	5.7	0.2
Exports excluding gold	-0.4	7.8
Imports excluding gold	2.1	-3.1

Tablo 7: Foreign trade compared to the same quarter of the previous year.

General Evaluation

Concerning, quarter-on-quarter growth, we see that especially manufacturing production index (1.6 percent), expected retail sector price over next 3 months (3.1 percent) and expected investment in next 12 months (3.0 percent) are the main variables behind this recovery (Table 8). Compared to the same quarter of the previous year, (Table 9), total automobile production increased significantly (21.2 percent).

The other variables used in GDP forecast point out a recovery in the economy. However, fully released April series has led to revise our previous forecast down. In the light of fully released leading indicators, quarter-on-quarter growth rate is expected to be 1.6 percent and year-on-year growth rate is expected to be 5.0 percent in the first quarter of 2017.

	2016Q4	2017Q1
IPI-manufacturing	5.0	1.6
RT price exp.	7.0	3.1
CUR	0.7	0.0
Ser. demand turnover	-0.4	0.3
Expected invest.-12m	-1.9	3.0
Total veh. prod.	17.2	0.8

Tablo 8: Some of leading indicators compared to the previous quarter. RT price exp.: Expected price for the retail sector (next 3 months); Ser. demand turnover: Demand for services (last 3 months)

	2016Q4	2017Q1
IPI-manufacturing	1.6	1.7
RT price exp.	2.4	5.4
CUR	0.2	0.3
Ser. demand turnover	-5.7	2.6
Expected invest.-12m	-0.8	0.8
Total veh. prod.	15.0	21.2

Tablo 9: Some of leading indicators compared to the same quarter of the previous year.

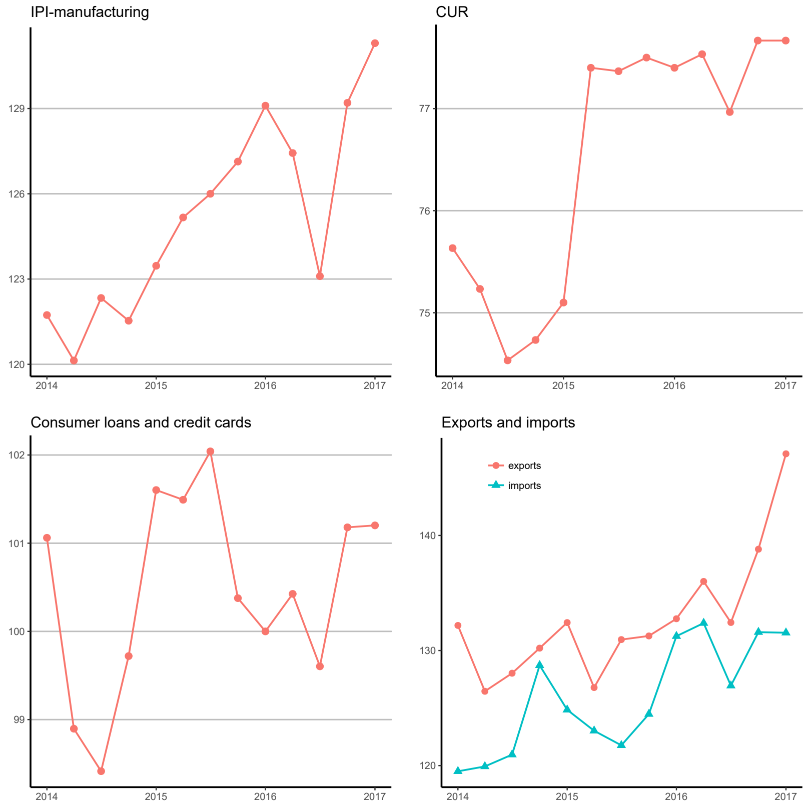
BOX: EXPLANATIONS

Explanation on seasonal and calendar day 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); sectoral confidence indices and its components (retail trade, services and construction sectors)
- Betam: The rest of leading indicators.

Explanation on leading indicators: Betam share three forecasts for each quarter. 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. Since there are no missing montly observations in series while running the third forecast, there is no need for this forecast.

Explanation on forecasting model:
For the direct forecast of GDP we use 16 leading indicators. While forcasting the components of GDP (consumption, investment, export and import) we use 26 leading indicators. We prefer to represent variables,which are remarkable within the current period and successful in the forecast, instead of representing all of them in the research brief and tables.



Şekil 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and inidividual credit cards in the first quarter of 2016 are indexed at 100.