Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: June 2017

BAHÇEŞEHİR ÜNİVERSİTESİ

21 June 2017

High growth continues

Ozan Bakış[1] *Mine Durmaz*[2]

[1] Betam, ozan.bakis@eas.bau.edu.tr
[2] Betam, mine.durmaz@eas.bau.edu.tr

Executive Summary

As predicted by Betam, the growth rate in the first quarter of 2017 also confirmed that there has been an recovery in Turkish economy. The second quarter growth forecast run by the finalized data indicates that this recovery continues. We predict an improvement in consumption, investment and net foreign trade. Using fully released April, and partially released May series, we forecast quarter-on-quarter growth rate to be 1.6 percent, year-on-year growth rate to be 5.9 percent in the second quarter of 2017.

GDP growth forecasts	2017Q1
Quarter-on-quarter GDP	1.6
Annual GDP	5.9

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.

Recovery in Consumption

In the second quarter of 2017, we expect an increase in almost all of the seasonally and calendar-day adjusted consumption leading indicators. In the first quarter of 2017, import of consumption goods and special consumption tax had decreased. However, in the second quarter of 2017, we predict an increase in these two indicators by 6.5 and 17.1 percent, respectively. On the other hand, production of nondurable consumption goods is also expected to rise to the level of 12.3 percent in the second quarter of 2017. We estimate that the increase in public consumption, which was recorded as 2.0 percent in the first quarter of 2017, will be limited to 0.7 percent in the second quarter of 2017 (Table 2).

	2017Q1	2017Q2
Imports-cons. goods	-7.7	6.5
Mortgage loans	7.9	7.0
Consumer loans + CC	4.6	7.8
IPI-nondurable goods	0.3	12.3
IPI-durable goods	10.1	4.6
Special cons. tax	-1.7	17.1
Public cons.	2.0	0.7

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 expect that consumption goods import, which declined by 8.5 percent in the first quarter of 2017, will increase by 0.2 percent in the second quarter of 2017. In the second quarter of 2017, we forecast the growth by 13.4 percent in special consumption tax, by 17.1 percent in mortgage loans, by 9.8 percent in consumer loans and credit cards. Compared to the same quarter of the previous year, production of durable consumption goods, which grew by 6.6 percent in the first quarter of 2017, is expected to continue on its uptrend and reach to the level of 13.4 percent during 2017 (Table 3).

	2017Q1	2017Q2
Imports-cons. goods	-8.5	0.2
Mortgage loans	20.1	17.1
Consumer loans + CC	12.8	9.8
IPI-nondurable goods	-0.9	-1.1
IPI-durable goods	6.6	13.9
Special cons. tax	12.1	13.4
Public cons.	12.3	4.5

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

In the light of these data, we anticipate that the growth rate in both public and private consumption to be relatively high.

Increase in Investments

In the second quarter of 2017, compared to the previous quarter, among the seasonally and calendar day-adjusted investment leading indicators, the import of the investment goods, the current inventory stock of retail trade sector and the expectation of the production in last 3 months are predicted to decline. In the production of intermediary goods and investment goods, we expect increases of 4.6 percent and 5.6 percent, respectively. In addition to that, the estimated increase in installment commercial loans and corporate credit cards in the second quarter of 2017 is striking (30.9 percent). Likewise, we expect that public investment, which recorded a limited increase in the first quarter of 2017, will increase by 20.3 percent in the second quarter of 2017 (Table 4).

	2017Q1	2017Q2
IPI-inter. goods	0.4	4.6
CUR-invest. goods	1.8	5.6
Imports-invest. goods	-9.4	-1.6
Commercial loans + CC	12.6	30.9
Prod.-last 3 months	5.8	-3.1
RT vol. of stock	2.9	-3.6
Public invest.	0.9	20.3

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.

Compared to the same quarter of the previous year, some of the leading indicators are following an upward trend (installment commercial loans and corporate credit cards, expectation of production in the last 3 months and intermediary and investment goods manufacturing) while the remaining indicators are moving down. In particular, the increase in installment commercial loans, corporate credit cards and production expectation in the last 3 months are remarkable. In the second quarter of 2017, we estimate that installment commercial loans and corporate credit cards will grow by 37.1 percent and the expectation of production in the last 3 months by 15.5 percent. Compared to the same quarter of the previous year, public investments, which increased by 21.1 percent in the first quarter of 2017, are expected to decrease by 0.6 percent in the second quarter of 2017 (Table 5).

	2017Q1	2017Q2
IPI-inter. goods	-1.5	3.5
CUR-invest. goods	2.4	3.6
Imports-invest. goods	-16.1	-23.6
Commercial loans + CC	20.1	37.1
Prod.-last 3 months	6.5	15.5
RT vol. of stock	1.5	-0.6
Public invest.	21.1	-0.6

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

Investment leading indicators show that the recovery that we have seen in the last quarter will continue in the second quarter of 2017.

Boom in Exports

Seasonally and calendar-day adjusted real export and real import gold-excluded had increased in the first quarter of 2017. In the second quarter of 2017, we expect these increases to be stronger, and to reach the level of 19.6 and 18.1 percent, respectively. On the other hand, in the second quarter of 2017, we forecast that the real import index will decline by 5.22 percent. The gold-excluded import index, which declined in the first quarter of 2017, is expected to increase by 19.6 percent in the second quarter of 2017 (Table 6).

	2017Q1	2017Q2
Exports	6.0	19.6
Imports	-0.0	-5.2
Exports excluding gold	8.0	18.1
Imports excluding gold	-0.4	19.6

Tablo 6: Foreign trade compared to the previous quarter.

When we look at foreign trade statistics compared to the same quarter of the previous year, in the second quarter of 2017, we estimate that gold-excluded real exports will increase by 10.2 percent and total real exports will increase by 6.8 percent. On the other side, we expect that the

	2017Q1	2017Q2
Exports	10.8	6.8
Imports	0.2	1.9
Exports excluding gold	8.4	10.2
Imports excluding gold	-2.8	-2.5

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

real import index will increase by 1.9 percent while the gold-excluded import index will decrease by 2.5 percent (Table 7).

General Evaluation

Compared to the previous quarter, we find that the manufacturing industry production index (9.7 percent), the index for services demand turnover (9.7 percent) and the total vehicle production (13.1 percent) are the major factors behind this recovery (Table 8). When we make the comparison with the same of the quarter of the previous year we see also the same factors: manufacturing industry production (5.8 percent), demand for services (15.4 percent) and total vehicle production (23.6 percent) (Table 9).

The other variables used for GDP forecasts also point out a recovery in the economy. Using available information on leading indicators we estimate that the quarter-on-quarter growth rate will be 1.6 percent and year-on-year growth rate will be 5.9 in the second quarter of 2017.

	2017Q1	2017Q2
IPI-manufacturing	1.6	9.7
RT price exp.	3.1	-2.3
CUR	0.0	1.2
Ser. demand turnover	0.3	9.7
Expected invest.-12m	14.4	-5.3
Total veh. prod.	0.7	13.1

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 (past 3 months)

	2017Q1	2017Q2
IPI-manufacturing	1.6	5.8
RT price exp.	5.4	1.4
CUR	0.3	1.7
Ser. demand turnover	2.6	15.4
Expected invest.-12m	1.6	0.5
Total veh. prod.	21.2	23.6

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

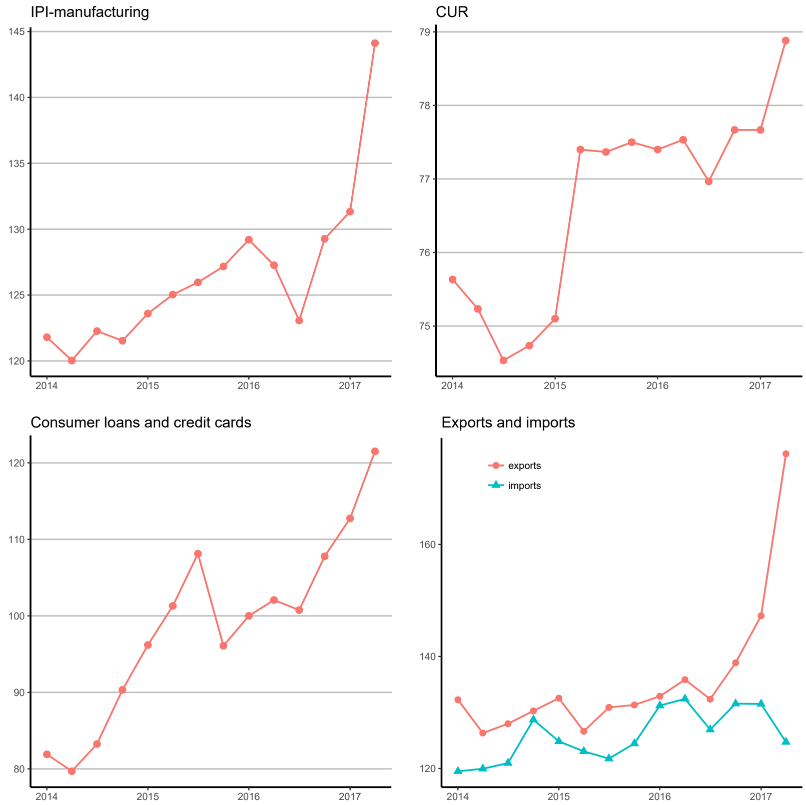
BOX: EXPLANATIONS

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.