Bahçeşehir Üniversitesi
Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts:
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BAHÇEŞEHİR ÜNİVERSİTESİ

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High growth continues

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Executive Summary

The growth rates in the first two quarters of 2017 were high as predicted by Betam. As a result, the IMF, the World Bank and many organizations have revised up their growth forecasts for 2017. According to our forecasts based on the recent data, high growth in the first two periods will continue. We predict an improvement in consumption and investment expenditures. Using fully released July, August and partially released September series, we forecast quarter on quarter growth rate to be 1.8 percent, year-on-year growth rate to be 6.8 percent in the third quarter of 2017.

GDP growth forecasts	2017Q1
Quarter-on-quarter GDP	1.8
Annual GDP	5.4

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.

High consumption goods production and loans

In the third quarter of 2017, we expect an increase in almost all of the seasonally and calendar-day adjusted leading indicators of consumption, except imports of consumption goods. The increase in the special consumption tax (6.1 percent) is, especially, remarkable. In the second quarter of 2017, production of nondurable consumption goods decreased by 0.3 percent, while we predict an increase in this indicator by 2 percent in the third quarter of 2017. On the other hand, in the second quarter of 2017 imports of consumption goods increased by 12.1 percent, but in the third quarter of 2017, we expect a 5 percent decrease for this indicator. Using seasonally and calendar-day adjusted data, we except that consumer loans and credit cards, mortgage loans, production of durable consumption goods and public consumption will increase, on a quarter-on-quarter basis, by 2.3, 2.2, 1.8 and 1.5 percent respectively (Table 2).

	2017Q2	2017Q3
Imports-cons. goods	12.1	-5.0
Mortgage loans	2.6	2.2
Consumer loans + CC	1.4	2.3
IPI-nondurable goods	-0.3	2.0
IPI-durable goods	1.5	1.8
Special cons. tax	4.8	6.1
Public cons.	0.4	1.5

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

Compared to same quarter of the previous year, we expect an increase in all indicators. In the third quarter of 2017, especially the increase in the production of durable and nondurable consumption goods and the special consumption tax is remarkable. In the second quarter of 2017, while the rise in the production of durable consumption goods was limited by 5.6 percent, in the third quarter we predict a boost of 21.1 percent. On the other hand, in the second quarter of 2017, the production of nondurable goods and public consumption had decreased by 3.3 and 3.5 percent respectively. We expect that these two indicators will increase by 1.4 and 3.8 percent respectively (Table 3).

	2017Q2	2017Q3
Imports-cons. goods	4.6	7.4
Mortgage loans	8.4	10.4
Consumer loans + CC	2.1	5.7
IPI-nondurable goods	-3.3	10.4
IPI-durable goods	5.6	21.1
Special cons. tax	0.7	10.2
Public cons.	-3.5	3.8

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

In the light of these developments, we expect a high growth for private consumption in the third quarter.

Investments supported by imports and commercial loans

Compared to the previous quarter, among the seasonally and calendar-day adjusted leading indicators of investment, only the production of investment goods and the expectation of the production in last 3 months are predicted decline, in the third quarter. On the other hand, for imports of investment goods, we expect an increase of 16.7 percent. Also, intermediary goods and public investment are predicted to increase by 1.4 and 2.0 percent respectively. Another leading indicator supporting high growth is commercial loans and credit cards with a predicted increase of 9.9 percent (Table 4).

	2017Q2	2017Q3
IPI-inter. goods	2.7	1.4
CUR-invest. goods	0.3	-0.3
Imports-invest. goods	0.0	16.7
Commercial loans + CC	22.1	9.9
Prod.-last 3 months	-4.7	-3.2
RT vol. of stock	-3.8	0.3
Public invest.	3.0	2.0

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 same quarter of the previous year, we predict an upward trend for all leading indicators but retail trade sector stock. In the third quarter of 2017, especially, the increase in production of intermediary goods (12.1 percent), public investments (12.8 percent) as well as commercial loans and corporate credit cards (26.6 percent) is striking. On the other hand, retail trade sector stock is expected to decrease by 1.7 percent in the third quarter of 2017 (Table 5).

Thus, leading indicators show that investment growth is expected to be high in the third quarter of 2017.

	2017Q2	2017Q3
IPI-inter. goods	0.7	12.1
CUR-invest. goods	2.7	2.5
Imports-invest. goods	-22.9	4.7
Commercial loans + CC	33.7	26.6
Prod.-last 3 months	9.0	3.5
RT vol. of stock	-0.9	-1.7
Public invest.	15.3	12.8

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

Negative contribution of net foreign trade

Seasonally and calendar-day adjusted real exports excluding gold and real imports excluding gold are expected to have moderate growth rates in the second quarter of 2017, respectively 5.7 percent and 4.2 percent. In the third quarter of 2017, we expect that these increases to be weaker, and to reach the level of 3.3 and 3.2 percent, respectively. The real exports which increased by 2.2 percent in the second quarter of 2017, is expected to decrease by 1.6 percent in the third quarter of 2017 (Table 6).

When we compare foreign trade statistics to same quarter of previous year, increases in all foreign trade leading indicators are remarkable, in the third quarter of 2017. We estimate that gold-excluded real exports will increase by 17.8 percent and total real exports will increase by 17.3 percent in the third quarter of 2017. Similarly, we expect that the real import index will increase by 11.9 percent (Table 7).

	2017Q2	2017Q3
Exports	2.2	-1.6
Imports	5.7	3.3
Exports excluding gold	1.2	0.8
Imports excluding gold	4.2	3.2

Tablo 6: Foreign trade compared to the previous quarter.

	2017Q2	2017Q3
Exports	8.0	17.3
Imports	3.6	19.4
Exports excluding gold	10.1	17.8
Imports excluding gold	-3.0	11.9

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

General Evaluation

Compared to the previous quarter, we find that especially manufacturing industry production index (14.4 percent), the index for services demand in last 3 months (6.2 percent) and expected investment in next 12 months are the major factors behind this recovery (Table 8). When we make the comparison with the same quarter of the previous year we see almost the same factors: manufacturing industry production index (14.4 percent), total vehicle production (15.4 percent) and the index for services demand in last 3 months (16.0 percent) (Table 9).

The other variables used for GDP forecast also point out a recovery in the economy. Using fully released July, August and partially released September series, we forecast quarter on quarter growth rate to be 1.8 percent, year-on-year growth rate to be 6.8 percent in the third quarter of 2017.

	2017Q2	2017Q3
IPI-manufacturing	1.8	1.4
RT price exp.	-2.3	-0.5
CUR	1.1	-0.4
Ser. demand turnover	8.3	6.2
Expected invest.-12m	5.8	1.1
Total veh. prod.	2.0	-10.1

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 (last 3 months)

	2017Q2	2017Q3
IPI-manufacturing	2.1	14.4
RT price exp.	1.8	7.2
CUR	1.2	1.4
Ser. demand turnover	8.7	16.0
Expected invest.-12m	1.8	8.0
Total veh. prod.	17.3	15.4

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

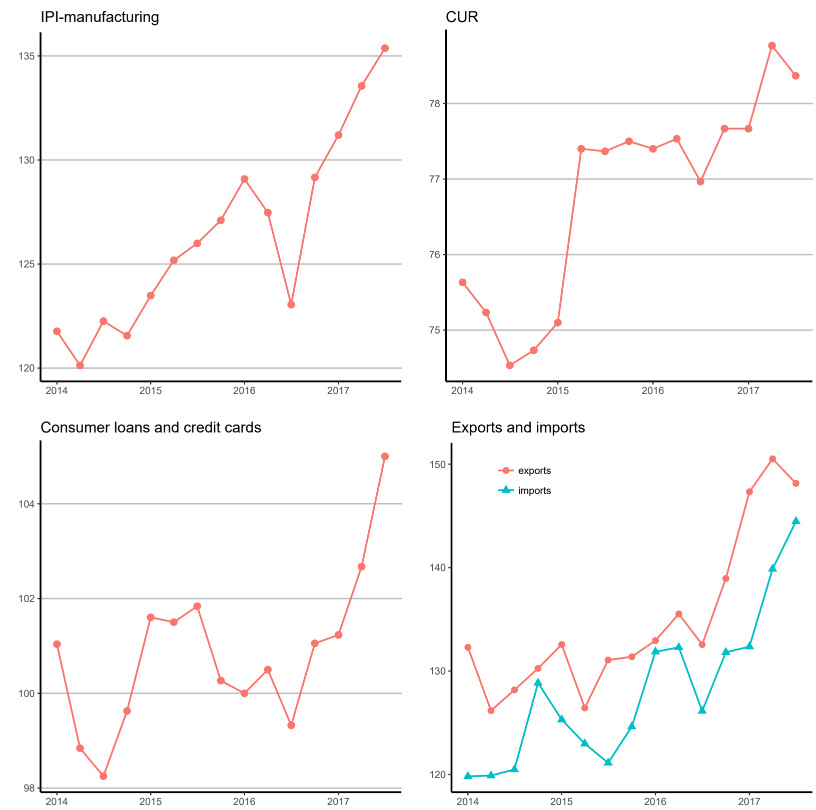
BOX: EXPLANATIONS

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 individual credit cards in the first quarter of 2016 are indexed at 100.