Bahçeşehir Üniversitesi
Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts:
November 2017

BAHÇEŞEHİR ÜNİVERSİTESİ

24 November 2017

Remarkable Growth in the Third Quarter

Ozan Bakış[1] *Mine Durmaz Aslan*[2]

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

Executive Summary

As we see in print and visual media, the expectations for the third quarter GDP growth are high. As we mentioned in our previous brief, several institutions, especially IMF and World Bank, revised their growth forecasts upwards. We, Betam, already published high forecasts for the GDP growth in first two quarters of 2017. Using the most recent data we predict that this high GDP growth is likely to continue in the third quarter as well. Using fully-released July, August and September series, we keep the quarter-on-quarter growth rate forecast at the level of 1.8 percent and revise the year-on-year growth rate forecast upward to 7.6 percent. The reason behind the upward revision in the quarter-on-quarter growth rate forecast is the production of durable consumption goods and commercial credits are higher in the month of September than we expected.

GDP growth forecasts	2017Q1
Quarter-on-quarter GDP	1.8
Annual GDP	7.6

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 consumption goods production and loans continue to be high

All seasonally and calendar day adjusted consumption leading indicators had positive growth rates, in the third quarter of 2017, except consumption goods import. Especially, the increase in durable consumption goods production is remarkable. Although the increase in durable consumption goods production is limited to 1.8 percent in the second quarter of 2017, in the third quarter this increase reached to 7.1 percent. In the third quarter of 2017, the import of consumption goods declined by 3.8 percent. On the other hand, compared to the previous quarter in the third quarter seasonally and calendar day adjusted mortgage loans by 2 percent, consumer loans and credit cards by 2.2 percent, nondurable consumption goods production by 2.6 percent and public consumption expenditures by 1.4 percent increased (Table 2).

Compared to the same quarter of the previous year, we observe that all consumption leading indicators increased in the third quarter of 2017. Especially the increase in durable consumption goods production (26.7 percent) is remarkable. In the second quarter of 2017, nondurable consumption goods production and public consumption expenditures decreased. However, in the third quarter these indicators increased by 10.7 percent and 3.8 percent respectively. Besides, montage loans and special consumption tax increased by 10.4 percent and 10.2 percent, respectively (Table 3).

In the light of these observations in leading indicators, we expect the growth in private consumption to be high.

	2017Q2	2017Q3
Imports-cons. goods	12.3	-3.8
Mortgage loans	2.6	2.0
Consumer loans + CC	1.4	2.2
IPI-nondurable goods	-0.2	2.6
IPI-durable goods	1.8	7.1
Special cons. tax	5.5	6.0
Public cons.	0.4	1.4

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

	2017Q2	2017Q3
Imports-cons. goods	4.6	7.7
Mortgage loans	8.4	10.4
Consumer loans + CC	2.1	5.7
IPI-nondurable goods	-3.3	10.7
IPI-durable goods	5.6	26.7
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.

Imports and corporate loans support investments

In the third quarter of 2017, compared to the second quarter, investment goods production, the expectation on the production over the last three months and public investment expenditures decreased whereas the import of investment goods increased significantly (16.4 percent) among seasonally and calendar day adjusted investment leading indicators. In the third quarter of 2017, intermediate goods production and the current inventory stock of retail trade sector index increased by 1.9 percent and 0.3 percent, respectively. Commercial loans and corporate credit cards declined by 21.3 percent in the second quarter of 2017. However, the increase in commercial loans and corporate credit cards deteriorated to 10.6 percent in the third quarter (Table 4).

Compared to the same quarter of the previous year, all the leading investment indicators, except the current inventory stock of retail trade sector index, increased in the third quarter of 2017. Commercial loans and corporate credit cards enormously increased (48.9 percent). Moreover, public consumption expenditures and intermediate goods production increased by 12.8 percent and 12.4 percent, respectively. On the other hand, the current inventory stock of retail trade sector index declined by 1.7 percent (Table 5).

In the light of summarized observations above, we expect that in the third quarter of 2017, we expect that the increase in investment will be high.

	2017Q2	2017Q3
IPI-inter. goods	2.8	1.9
CUR-invest. goods	0.3	-0.3
Imports-invest. goods	-0.0	16.4
Commercial loans + CC	21.3	10.6
Prod.-last 3 months	-4.4	-3.2
RT vol. of stock	-3.8	0.3
Public invest.	6.3	-0.3

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.

	2017Q2	2017Q3
IPI-inter. goods	0.7	12.4
CUR-invest. goods	2.7	2.5
Imports-invest. goods	-22.9	4.3
Commercial loans + CC	33.7	48.9
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.

Exports slowed down

Compared to the previous quarter in the third quarter of 2017, seasonally- and calendar-day adjusted real export declined by 3.7 percent while real import increased by 5.2 percent. In the same period, gold-excluded exports index and gold-excluded imports index increased by 0.1 percent and 4.2 percent, respectively (Table 6).

When we look at exports indicators compared to the same quarter of the previous year, increases in all foreign trade leading indicators in the third quarter of 2017 are remarkable. In the third quarter of 2017, gold-excluded exports index increased by 17.3 percent and real exports increased by 14 percent. Similarly, real imports and gold-excluded imports indices increased by 21.1 percent and 13.6 percent, respectively 7).

	2017Q2	2017Q3
Exports	1.9	-3.7
Imports	5.8	5.2
Exports excluding gold	0.9	0.1
Imports excluding gold	3.9	4.2

Tablo 6: Foreign trade compared to the previous quarter.

	2017Q2	2017Q3
Exports	8.0	14.0
Imports	3.6	21.1
Exports excluding gold	10.1	17.3
Imports excluding gold	-3.0	13.6

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

General Evaluation

Compared to the previous quarter, we observe that especially manufacturing production index (1.6 percent), we observe that expected retail sector price over next 3 months (6.2 percent) and expected investment in next 12 months (1.1 percent)support the revival in the economy (Table 8). Compared to the same quarter of the previous year (Table 9), we observe that demand-turnover expectation over the next 3 months (16.0 percent), manufacturing production index (14.9 percent) and total automobile production (15.4 percent) are remarkable.

In the light of fully-released July, August and September leading indicators, quarter-on-quarter growth rate is expected to be 1.8 percent and year-on-year growth rate is expected to be 7.6 percent in the first third of 2017. Since the growth in the third quarter of previous year was negative, year-on-year growth rate can be high partially due to base effect. However, note that our forecast on quarter-on-quarter growth rate exempted from base effect is not low.

	2017Q2	2017Q3
IPI-manufacturing	1.9	1.6
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.	2.5	-8.3

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	14.9
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.

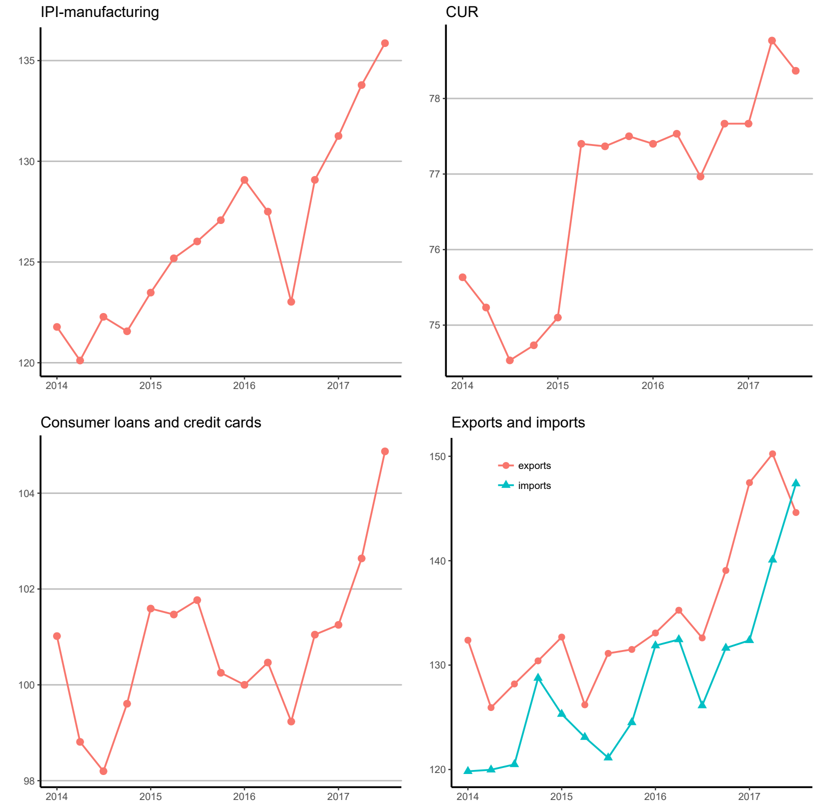
BOX: EXPLANATIONS

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.