Bahçeşehir Üniversitesi
Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts:
December 2017

BAHÇEŞEHİR ÜNİVERSİTESİ

20 December 2017

High Growth Countinues in the Last 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

The biggest contributors to GDP growth in the first two quarters of 2017 have come from investment and foreign trade. In the third quarter, the net foreign trade contribution was almost zero, private consumption has emerged instead. The third quarter growth of 2017 has set a record and exceeded 11 percent, turning attention to the last quarter growth. Using fully-released October, and partly released November leading indicators, we estimate the quarter-on-quarter growth rate to be 1.5 percent and year-on-year growth rate to be 6.7 percent.

GDP growth forecasts	2017Q4
Quarter-on-quarter GDP	1.5
Annual GDP	6.7

Table 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.

Import explosion in consumption

In the fourth quarter of 2017 compared to previous quarter, we expect an increase all seasonally and calendar day adjusted consumption leading indicators except mortgage loans and durable consumption goods. Especially the increase in import of consumption goods is remarkable. We estimate that import of consumption goods, which declined by 3.4 percent in the third quarter of 2017, will increase by 4.3 percent in the fourth quarter of 2017 while non-durable consumption goods production, special consumption tax and public consumption expenditures are expected to increase by 0.9 percent, 0.1 percent and 1.8 percent, respectively. On the other hand, we estimate that mortgage loans and durable consumer goods production will decrease by 0,3 and 9 percent, respectively (Table 2).

	2017Q3	2017Q4
Imports-cons. goods	-3.4	4.3
Mortgage loans	1.9	-0.3
Consumer loans + CC	2.0	0.0
IPI-nondurable goods	2.7	0.9
IPI-durable goods	6.5	-9.0
Special cons. tax	6.0	0.1
Public cons.	1.4	1.8

Table 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 that all seasonally and calendar day adjusted consumption leading indicators will increase as in the third quarter of 2017, however, we anticipate that the increases in the fourth quarter of 2017 will be less than the increases in the third quarter of 2017. In particular, we estimate that the increase in the production of durable goods, which grew by 26.7 percent in the third quarter of 2017, will be limited to 4.7 percent in the fourth quarter of 2017 (Table 3).

	2017Q3	2017Q4
Imports-cons. goods	7.7	5.1
Mortgage loans	10.4	6.1
Consumer loans + CC	5.7	3.8
IPI-nondurable goods	10.7	3.6
IPI-durable goods	26.7	4.7
Special cons. tax	10.2	1.7
Public cons.	3.8	3.2

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

In the light of these observations in regards of leading indicators, we expect the increase in private consumption will be weak and largely based on import.

Investment boom continues

Compared to the third quarter, we expect in the fourth quarter of 2017 all seasonally and calendar day adjusted investment leading indicators will increase except import of investment goods. Import of investment goods had increased by 16.4 percent in the third quarter of 2017. However, we estimate that import of investment goods in the fourth quarter will decline by 2 percent. As for commercial loans, which increased by 9.5 percent in the third quarter, are expected to increase by 2.1 percent in the last quarter. On the other hand, we expect the production of investment goods which declined in the third quarter of 2017 and the production expectation in the last 3 months will increase by 0.4 percent and 11 percent, respectively. We expect the current inventory stock of retail trade sector and public investments to increase by 1.6 and 0.8 percent respectively (Table 4).

Compared to the same quarter of the previous year, all the leading investment indicators will increase in the fourth quarter of 2017. Commercial loans and corporate credit cards had enormously increased (48.9 percent) in the third quarter of 2017. We estimate that the increase in these items will be limited to 3.4 percent in the last quarter of 2017. On the other hand, we estimate that intermediate goods production, public investment expenditures and current inventory stock of retail trade sector will increase by 5.9, 2.9 and 0.9 percent, respectively (Table 5).

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

	2017Q3	2017Q4
IPI-inter. goods	2.1	1.2
CUR-invest. goods	-0.3	0.4
Imports-invest. goods	16.4	-2.0
Commercial loans + CC	9.5	2.1
Prod.-last 3 months	-3.1	11.0
RT vol. of stock	0.3	1.6
Public invest.	1.6	0.8

Table 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.

	2017Q3	2017Q4
IPI-inter. goods	12.4	5.9
CUR-invest. goods	2.5	2.3
Imports-invest. goods	4.3	5.0
Commercial loans + CC	48.9	3.4
Prod.-last 3 months	3.5	11.7
RT vol. of stock	-1.7	0.9
Public invest.	12.8	2.9

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

Deficit in net foreign trade

In the fourth quarter of 2017 compared to the previous quarter, we estimate that seasonally and calendar-day adjusted real export will increase by 0.7 percent while gold-excluded exports index will decline by 0.4 percent. In the same period, real import and gold-excluded import index will increase by 1.6 percent and 3.3 percent, respectively (Table 6).

When we look at exports indicators compared to the same quarter of the previous year, we anticipate that all foreign trade leading indicators will go up in the last quarter of 2017. In the last quarter of 2017, we forecast that gold-excluded real exports will increase by 9.7 percent and total real exports increase by 3.7 percent. Similarly, we guess real import index and gold-excluded real import will increase by 21.1 percent (Table 7).

	2017Q3	2017Q4
Exports	-3.7	0.7
Imports	5.2	1.6
Exports excluding gold	0.1	-0.4
Imports excluding gold	5.7	3.3

Table 6: Foreign trade compared to the previous quarter.

	2017Q3	2017Q4
Exports	14.0	3.7
Imports	21.1	13.8
Exports excluding gold	17.3	9.7
Imports excluding gold	13.6	13.8

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

General Evaluation

Compared to the previous quarter, we predict that *expected retail sector price over next 3 months* (7.4 percent) and *total automobile production* (9.0 percent) will support the revival in the economy (Table 8).When we compare with the same period of the last year, we find that demand expectation for services in the last 3 months (11.6 percent) and investment expectation (11.2 percent) for next 12 months are prone to sustain the high growth. (Table 9)

In the light of fully-released October and partly released November leading indicators, quarter-on-quarter growth rate is expected to be 1.5 percent and year-on-year growth rate is expected to be 6.7 percent.

	2017Q3	2017Q4
IPI-manufacturing	1.7	1.7
RT price exp.	-0.5	7.4
CUR	-0.4	1.1
Ser. demand turnover	6.2	-4.1
Expected invest.-12m	1.1	0.9
Total veh. prod.	-8.0	9.0

Table 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)

	2017Q3	2017Q4
IPI-manufacturing	14.9	5.5
RT price exp.	7.2	9.3
CUR	1.4	1.8
Ser. demand turnover	16.0	11.6
Expected invest.-12m	8.0	11.2
Total veh. prod.	15.4	5.0

Table 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.

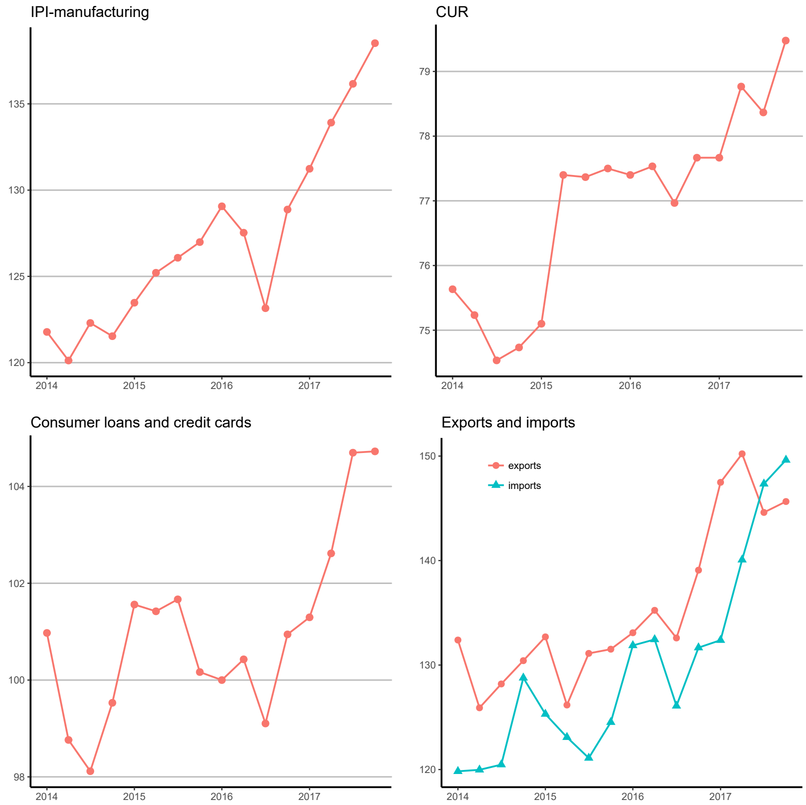

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.