Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: January 2018

BAHÇEŞEHİR ÜNİVERSİTESİ

26 January 2018

High Growth Continuous

Ozan Bakış[1] *Uğurcan Acar*[2]

[1] Betam, ozan.bakis@eas.bau.edu.tr
[2] Betam,ugurcan.acar@eas.bau.edu.tr

Executive Summary

The growth rates in the first two quarters of 2017 (yearly growth rates) were 5.3 percent and 5.4 percent respectively and the third quarter's growth rate has set a record with 11.1 percent. There has been a consensus that the growth of 2017 would be high but the actual question is how much high growth will it be? For example, will it exceed 7 percent?

In the light of fully-released October and November, and partly released December leading indicators, comparing to the same quarter of the previous year we estimate the fourth quarter growth of 2017 at 7.4 percent. We find that this high growth is particularly driven by consumption and investment. When we look at the seasonally and calendar day adjusted data, quarter-on-quarter growth rate is expected to be 1.6. We expect the annual growth rate of GDP to exceed 7 percent.

GDP growth forecasts	2017Q4
Quarter-on-quarter GDP	1.6
Annual GDP	7.4

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 in all seasonally and calendar day adjusted consumption leading indicators except mortgage loans, durable consumption good production, and special consumption tax. Especially the increase in import of consumption goods is remarkable. We estimate that import of consumption goods, which declined by 3.2 percent in the third quarter of 2017, will increase by 5.4 percent in the fourth quarter of 2017 while non-durable consumption goods production and public consumption expenditures are expected to increase by 1.8 percent and 1.4 percent, respectively. On the other hand, we estimate that mortgage loans and special consumption tax will decrease by 0.1 percent and durable consumption good production will decrease by 13.4 percent (Table 2).

	2017Q3	2017Q4
Imports-cons. goods	-3.2	5.4
Mortgage loans	2.0	-0.1
Consumer loans + CC	2.2	0.3
IPI-nondurable goods	2.7	1.8
IPI-durable goods	5.9	-13.4
Special cons. tax	6.0	-0.1
Public cons.	1.6	1.4

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 except public consumptions will increase, 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 3 percent in the fourth quarter of 2017. Also, we expect that the increase in the public consumptions, which grew by 3.8 percent in the third quarter of 2017, will decrease by 2 percent in the fourth quarter of 2017 (Table 3).

	2017Q3	2017Q4
Imports-cons. goods	7.7	6.7
Mortgage loans	10.4	6.3
Consumer loans + CC	5.7	4.0
IPI-nondurable goods	10.7	6.9
IPI-durable goods	26.7	3.0
Special cons. tax	10.2	1.3
Public cons.	3.8	-2.0

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

In the light of these observations in regards of leading indicators, as we mentioned in previous brief, we anticipate that the growth in private consumption will be derived from imports.

Strong increase in investments continuous

Compared to the third quarter, we expect in the fourth quarter of 2017 increases in all seasonally and calendar day adjusted investment leading indicators except import of investment goods. Import of invesment goods had increased by 16 percent in the third quarter of 2017. However, we estimate that import of investment goods in the fourth quarter will decline by 3.4 percent. As for commercial loans, which increased by 9.5 percent in the third quarter, are expected to increase by 3.4 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 0.7 percent and 12.3 percent, respectively. We expect the current inventory stock of retail trade sector and public investments to increase by 1.8 and 15.7 percent respectively (Table 4).

Compared to the same quarter of the previous year, all the leading investment indicators except public investment consumptions 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 expect that the increse in this item will be again very high in the last quarter of 2017, too (45.9 percent). On the other hand, we estimate that intermediate goods production and current inventory stock of retail trade sector will increase by 10.4 and 1.1 percent, respectively. We anticipate that the public invesments, which increased by 12.8 percent in the third quarter of 2017, will decrease by 35.3 percent in the last quarter of 2017 (Table 5).

In the light of summarized observations above, as we said in the previous brief we expect that the increase in investment will continue to be high in the last quarter of 2017.

	2017Q3	2017Q4
IPI-inter. goods	2.2	2.1
CUR-invest. goods	-0.4	0.7
Imports-invest. goods	16.0	-3.4
Commercial loans + CC	9.5	3.4
Prod.-last 3 months	-3.5	12.3
RT vol. of stock	0.3	1.8
Public invest.	-13.0	15.7

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	10.4
CUR-invest. goods	2.5	2.2
Imports-invest. goods	4.3	0.2
Commercial loans + CC	48.9	45.9
Prod.-last 3 months	3.5	10.0
RT vol. of stock	-1.7	1.1
Public invest.	12.8	-35.3

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

Recovery in export

Compared to the previous quarter in the fourth quarter of 2017, seasonally- and calendar-day adjusted real export will increase by 1.2 percent while gold-excluded exports index will decline by 0.1 percent. In the same period, we forecast a decrease of 1 percent in real imports and an increase in gold-excluded real import index by 1.3 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 fourth quarter

	2017Q3	2017Q4
Exports	-3.7	1.2
Imports	5.0	-1.0
Exports excluding gold	0.4	-0.1
Imports excluding gold	6.9	1.3

Table 6: Foreign trade compared to the previous quarter.

	2017Q3	2017Q4
Exports	14.0	6.1
Imports	21.1	9.6
Exports excluding gold	17.0	13.3
Imports excluding gold	13.6	11.8

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

of 2017, we forecast that the gold-excluded real exports and total real export will increase by 13.3 percent and 6.1 percent, respectively. Similarly, we guess real import index and gold-excluded real import wil increase by 9.6 percent and 11.8 percent, respectively (Table 7).

Announced November data indicates that while export figures will be higher, import ones will be lower than our first forecast. In this new information light, we predict that even if there is net foreign trade deficit in the last quarter of 2017, this deficit will be relatively low.

General Evaluation

Other variables that we use to estimate GDP except *services demand index of last three months* point out that the high economic growth continuous. Compared to the previous quarter, we would like to mention that *expected retail sector price over next 3 months* (7.3 percent) and *manufacturing production index* (1.6 percent) differ from other indicators (Table 8). Compared to the same quarter of the previous year, we observe that demand-turnover expectation over the next 3 months (15.5 percent) and investment expectation over the next 12 months (10.9 percent) come to the forefront (Table 9).

In the light of fully-released November and December leading indicators, quarter-on-quarter growth rate is expected to be 1.6 percent and year-on-year growth rate is expected to be 7.4.

	2017Q3	2017Q4
IPI-manufacturing	1.6	1.6
RT price exp.	-0.5	7.3
CUR	-0.4	1.1
Ser. demand turnover	6.2	-4.3
Expected invest.-12m	1.1	0.7
Electricity cons.	6.0	0.9

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	7.8
RT price exp.	7.2	7.7
CUR	1.4	1.8
Ser. demand turnover	16.0	15.5
Expected invest.-12m	8.0	10.9
Electricity cons.	10.1	4.9

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.

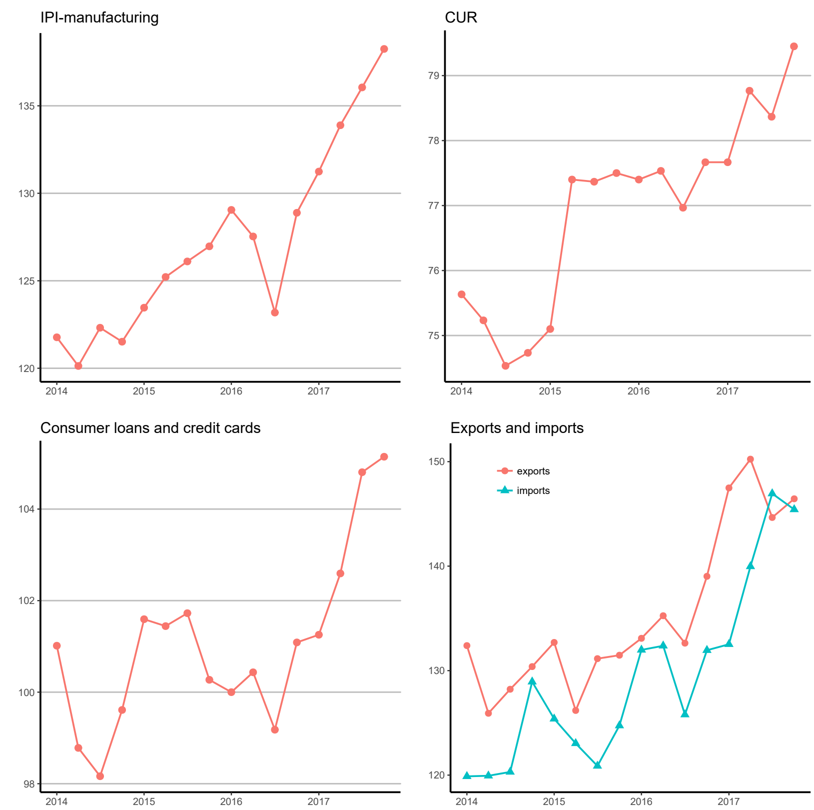

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.