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 in the First Quarter

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Executive Summary

In the light of fully-released January and partly released February leading indicators, our estimate for the year-on-year GDP growth is 7.5 percent in the first quarter of 2018. We find that this high growth is particularly driven by consumption and investment. Increase in public investment is remarkable. When we look at the seasonally and calendar day adjusted data, in the first quarter we forecast 1.4 % growth for quarter-on-quarter GDP growth.

GDP growth forecasts	2018Q1
Quarter-on-quarter GDP	1.4
Annual GDP	7.5

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.

Boom in imports of consumption goods and production of nondurable consumption goods

Compared to previous quarter, we expect an increase in all seasonally and calendar day adjusted consumption leading indicators except special consumption tax, in the first quarter of 2018. Especially, the increase in special consumption tax is remarkable (10.6 percent). We estimate that import of consumption goods and consumer loans and credit card will increase by 2.5 and 0.9 percent respectively. We estimate that mortgage loans and durable goods production, which declined in previous quarter, will increase by 0.1 percent and 0.7 percent, respectively. Nondurable goods production and public consumption expenditures are expected to increase by 1.9 percent and 1.3 percent, respectively (Table 2).

Compared to same quarter of the previous year, we observe that all consumption leading indicators except durable goods production will increase. Durable goods production which increased in the last quarter of 2017, will decreased by 6.3 percent in the first quarter of 2018. On the other hand, we estimate that special consumption tax which increased by 1.4 percent in the fourth quarter of 2017, will increase by 12.6 percent in the first quarter of 2018. Lastly, we expect that public consumption expenditures which declined in the previous quarter, will increase by 9.0 percent in the first quarter of 2018 (Table 3).

	2017Q4	2018Q1
Imports-cons. goods	6.2	2.5
Mortgage loans	-0.2	0.1
Consumer loans + CC	0.4	0.9
IPI-nondurable goods	3.4	1.9
IPI-durable goods	-4.7	0.7
Special cons. tax	-0.6	-10.6
Public cons.	0.0	1.3

Tablo 2: Private consumption compared to the previous quarter. **IPI:** Industrial production index; **Cons.:** Consumption; **CC:** Credit Cards.

	2017Q4	2018Q1
Imports-cons. goods	7.7	2.8
Mortgage loans	6.2	4.8
Consumer loans + CC	4.1	5.3
IPI-nondurable goods	9.0	11.6
IPI-durable goods	5.5	-6.3
Special cons. tax	1.4	12.6
Public cons.	-0.3	9.0

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

Imports and commercial credits are supporting investments

Compared to the last quarter of 2017, we expect increases in all seasonally and calendar day adjusted investment leading indicators except investment good capacity utilization rate and production expectation in the last 3 months in the first quarter of 2018. We estimate that investment good capacity utilization rate and production expectation in the last 3 months which increased in the last quarter of 2017, will decrease by, respectively, 0.2 percent and 2.3 percent. On the other hand, we estimate that the increase in the public consumption which grew by 9.8 percent in the last quarter 2017, will be remarkable with the 35.7 percent in the first quarter of 2018 (Table 4).

Compared to same quarter of the previous year, we observe that all consumption leading indicators except current inventory stock of retail trade sector will increase in the first quarter of 2018. Commercial loans and corporate credit card had enormously increased (46.6 percent) in the last quarter of 2017. We expect that the increase in this item will continue with a slight decline in the first quarter of 2018 (38,6 percent). On the other hand, we estimate that current inventory stock of retail trade which increased in the last quarter of 2017, will decline by 0.8 percent in the first quarter of 2018. We expect that the most striking change in private investments will be in the public investments. We anticipate the enormous increase (176.3 percent) in public investment in the first quarter of 2018 (Table 5).

In the light of summarized observations above, we expect that the increase in investment will continue to be high in the first quarter of 2018.

	2017Q4	2018Q1
IPI-inter. goods	2.4	1.7
CUR-invest. goods	0.6	-0.2
Imports-invest. goods	2.7	7.2
Commercial loans + CC	3.9	2.2
Prod.-last 3 months	10.0	-2.3
RT vol. of stock	2.1	0.7
Public invest.	9.8	35.7

Tablo 4: Private investments compared to the previous quarter. **CUR:** Capacity Utilization Rate. CUR is reported as percentage points changes unlike other indices; **RT vol. of stock:** Current volume of stock of retail trade sector; **Invest.:** Investment.

	2017Q4	2018Q1
IPI-inter. goods	12.5	7.6
CUR-invest. goods	2.2	0.9
Imports-invest. goods	9.1	14.3
Commercial loans + CC	46.0	38.6
Prod.-last 3 months	10.7	7.5
RT vol. of stock	1.4	-0.8
Public invest.	-4.0	176.3

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

Deficit in foreign trade is expanding

In the first quarter of 2018, seasonally and calendar day adjusted real export, which declined by 2.2 percent in the previous quarter, will decrease by 1.2 percent on a quarterly basis. On the other hand, we forecast that gold-excluded real import index which declined by 0.5 percent in the last quarter of 2017, will increase by 1.8 percent in the first quarter of 2018. In the same period, we estimate an increase of 6.0 percent in real imports and an increase in gold-excluded real export index by 1.1 percent (Table 6).

When we look at exports indicators compared to the same quarter of the previous year, we anticipate that all real import and gold-excluded real import index will go up while real export and gold-excluded real export will decrease in the first quarter of 2018. We estimate that the real export and gold-excluded real export index which increased in the last quarter of 2017 will increase by 8.1 and 1.0 percent, respectively, in the

	2017Q4	2018Q1
Exports	2.2	-1.2
Imports	0.9	6.0
Exports excluding gold	-0.5	1.8
Imports excluding gold	2.3	1.1

Tablo 6: Foreign trade compared to the previous quarter.

	2017Q4	2018Q1
Exports	4.9	-8.1
Imports	12.7	16.4
Exports excluding gold	9.6	-1.0
Imports excluding gold	13.3	9.9

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

first period of 2018. We expect that real imports and gold-excluded real imports index by 16.4 and percent and 9.9 percent, respectively (Table 7).

General Evaluation

Other variables that we use to estimate GDP except capacity utilization rate point out that the high economic growth continuous. Especially, we estimate that the demand for services and electricity consumption which declined in the last quarter of 2017 will increase by 5.4 percent and 0.2 percent, respectively in the first quarter of 2018. On the other hand, we anticipate that capacity utilization rate which increased by 0.9 percent in the last quarter of 2017 will decrease by 0.6 percent in the first quarter of 2018. (Table 8) Compared to the same quarter of the previous year, we observed that the increases of expected retail sector price over next 3 months (12.4 percent) and investment expectation over the next 12 months (12.1 percent) come to the forefront (Table 9).

In the light of fully-released January and partly released February leading indicators, quarter-on-quarter growth rate is expected to be 1.4 percent and year-on-year growth rate is expected to be 7.5 percent in the first quarter of 2018.

	2017Q4	2018Q1
IPI-manufacturing	2.6	0.7
RT price exp.	7.9	3.4
CUR	0.9	-0.6
Ser. demand turnover	-6.2	5.4
Expected invest.-12m	0.2	4.5
Electricity cons.	-2.1	0.2

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)

	2017Q4	2018Q1
IPI-manufacturing	11.0	6.5
RT price exp.	8.3	12.4
CUR	1.5	1.4
Ser. demand turnover	10.2	10.9
Expected invest.-12m	10.4	12.1
Electricity cons.	4.2	9.3

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

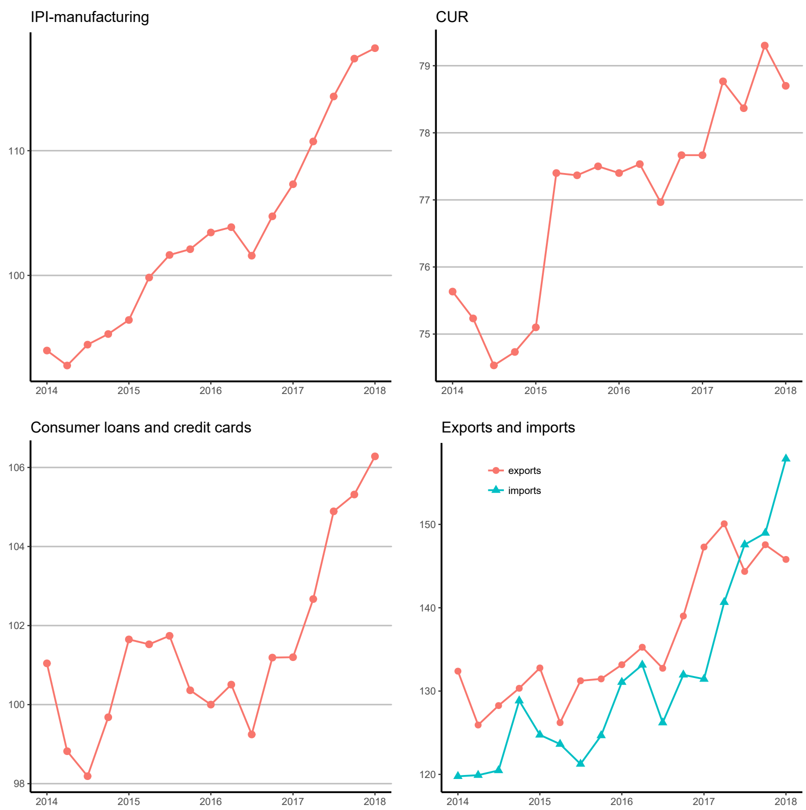
BOX: EXPLANATIONS

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.