Economic Growth and Forecasts: April 2018

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The first quarter growth is above 7 percent

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Executive Summary

In the light of fully-released January, February and partly released March leading indicators, our estimate for the year-on-year GDP growth is 7.2 percent in the first quarter of 2018. Our former estimate was 7.5 percent. The reason for this revision is that the rise in updated private consumption and investment indicators remained below our estimation. Nevertheless, we expect that private consumption and investment will give a boost to economic growth. Striking increase in public investment continues. We do not change our previous quarter on quarter forecast using seasonally and calendar day adjusted data. Accordingly, quarter-on-quarter growth rate is expected to be 1.4 percent in the first quarter of 2018 compared to previous quarter.

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

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.

Boom in imports of consumption goods and production of non-durable consumption goods

Compared to previous quarter, we expect a decrease in consumption goods import, mortgage loans, durable goods production and special consumption tax while we expect an increase in others seasonally and calendar day adjusted consumption leading indicators in the first quarter of 2018. Especially, the 6.8 percent decrease in special consumption tax is remarkable. We estimate that mortgage loans which declined in the last quarter of 2017 (0.4 percent), will remain constant. We estimate that consumption goods import which increased by 6.0 percent in previous quarter, will decrease by 1.9 percent in the first quarter of 2018. We expect that public consumption expenditures which declined in the last quarter of 2017, will increase by 2.6 percent in the first quarter of 2018 (Table 2).

Compared to same quarter of the previous year, we observe that all consumption leading indicators except durable goods production will increase in the first quarter of 2018. We estimate that durable goods production which increased in the last quarter of 2017, will decreased by 5.8 percent in the first quarter of 2018. We expect that the increases in consumption goods import, mortgage loans and non-durable goods production in previous quarter will continue with a decline in the first quarter of 2018. Lastly, in the first quarter of 2018 we estimate a 9.0 percent striking increase in public consumption expenditures which declined in previous quarter (Table 3).

	2017Q4	2018Q1
Imports-cons. goods	6.0	-1.9
Mortgage loans	-0.4	-0.0
Consumer loans + CC	0.4	0.9
IPI-nondurable goods	3.4	1.6
IPI-durable goods	-5.2	-3.0
Special cons. tax	-0.0	-6.8
Public cons.	-0.3	2.6

Table 2: Consumption expenditures compared to the previous quarter. **IPI:** Industrial production index; **Cons.:** Consumption; **CC:** Credit Cards.

	2017Q4	2018Q1
Imports-cons. goods	7.7	4.6
Mortgage loans	6.2	4.6
Consumer loans + CC	4.1	5.2
IPI-nondurable goods	9.0	8.2
IPI-durable goods	5.5	-5.8
Special cons. tax	1.4	4.5
Public cons.	-0.3	5.7

Table 3: Consumption expenditures compared to the same quarter of the previous year.

Imports, commercial credits and public sector are supporting investments

Compared to the last quarter of 2017, we expect increases in all seasonally and calendar day adjusted investment leading indicators except production expectation in the last 3 months in the first quarter of 2018. We estimate that production expectation in the last 3 months which increased by 10.8 percent in the last quarter of 2017, will decrease by 3.6 percent in the first quarter of 2018. We estimate that the increases in all others investment leading indicators in the last quarter of 2017 will continue in the first quarter of 2018. Especially, expected increase in public investment (25.1 percent) is remarkable (Table 4).

Compared to same quarter of the previous year, we observe that all consumption leading indicators will increase in the first quarter of 2018. We expect that the enormous increase (46.0 percent) in commercial loans and corporate credit card in the last quarter of 2017 will continue with a slight decline in the first quarter of 2018 (38,4 percent). We expect that the most striking change in investments will be public investments which had declined by 4.0 percent in the last quarter of 2017. We anticipate an enormous increase (150.9 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	0.7	0.4
Imports-invest. goods	2.3	2.9
Commercial loans + CC	3.0	1.6
Prod.-last 3 months	10.8	-3.6
RT vol. of stock	2.1	2.4
Public invest.	9.9	25.1

Table 4: Investment expenditures 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	6.5
CUR-invest. goods	2.2	0.7
Imports-invest. goods	9.1	11.5
Commercial loans + CC	46.0	38.4
Prod.-last 3 months	10.7	2.0
RT vol. of stock	1.4	0.8
Public invest.	-4.0	150.9

Table 5: Investment expenditures 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 increased by 2.2 percent in the previous quarter, will decrease by 1.1 percent on a quarterly basis. We expect that the increases in real import and gold-excluded real export index in the last quarter of 2017 will continue with an increase (respectively, 2.1 percent and 1.9 percent). In the same period, we estimate an increase by 0.4 percent in gold-excluded real import index (Table 6).

When we look at foreign trade indicators compared to the same quarter of the previous year, we anticipate that all foreign trade indicators will go up expect export in the first quarter of 2018. We estimate that real export which increased in the last quarter of 2017 will decrease by 5.6 percent in the first quarter of 2018. The increases in the real import and gold-excluded real export index in the last quarter of 2017 will continue with the 10.6 percent and 7.4 percent, respectively. We estimate that the high increase in gold-excluded real export index in the last quarter of 2017 will yield to small increase by 0.5 percent in the first quarter of 2018 (Table 7).

	2017Q4	2018Q1
Exports	2.2	-1.1
Imports	0.6	2.1
Exports excluding gold	0.3	1.9
Imports excluding gold	2.2	0.4

Table 6: Foreign trade compared to the previous quarter.

	2017Q4	2018Q1
Exports	4.9	-5.6
Imports	12.7	10.6
Exports excluding gold	10.4	0.5
Imports excluding gold	13.3	7.4

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

General Evaluation

Other variables that we use to estimate GDP except capacity utilization rate and electricity consumption point out that the high economic growth continuous. Especially, we estimate that the demand for services which declined in the last quarter of 2017 will increase by 3.0 percent 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 expect increases in all items. Especially, we think that the increase of 11.9 percent in investment expectation over the next 12 months should be underlined. (Table 9).

In the light of fully-released January, February and partly released March leading indicators, quarter-on-quarter growth rate is expected to be 1.4 percent and year-on-year growth rate is expected to be 7.2 percent in the first quarter of 2018.

	2017Q4	2018Q1
IPI-manufacturing	2.6	0.5
RT price exp.	7.9	2.4
CUR	0.9	-0.6
Ser. demand turnover	-6.2	3.0
Expected invest.-12m	0.2	4.3
Electricity cons.	-2.0	-0.2

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)

	2017Q4	2018Q1
IPI-manufacturing	11.0	5.2
RT price exp.	8.3	9.8
CUR	1.5	1.2
Ser. demand turnover	10.2	9.3
Expected invest.-12m	10.4	11.9
Electricity cons.	4.2	2.8

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.

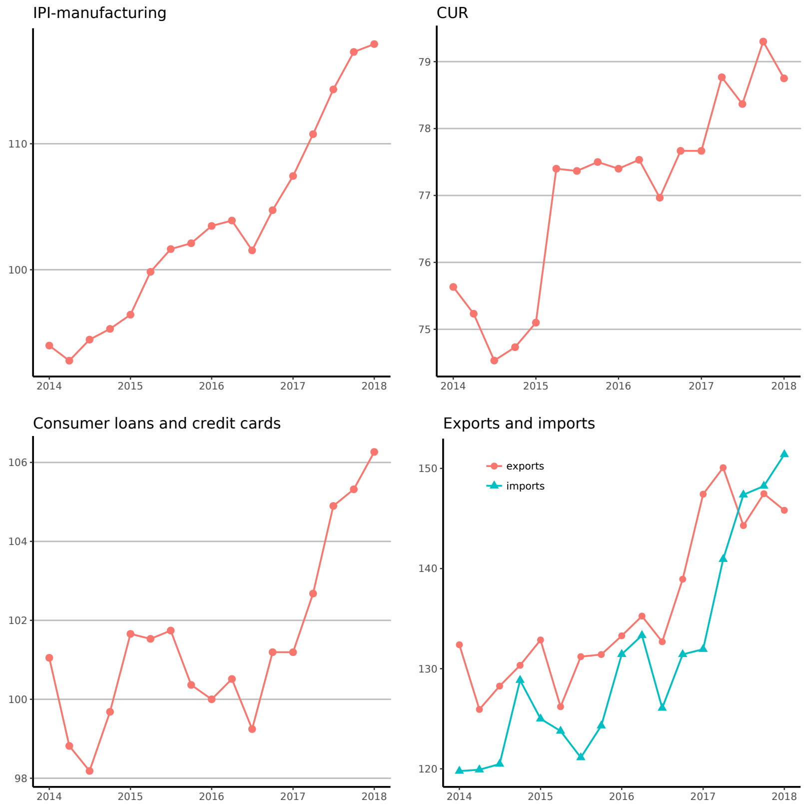

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.