Bahçeşehir Üniversitesi
Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: June 2018

BAHÇEŞEHİR ÜNİVERSİTESİ

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The second quarter growth is 6 percent

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Executive Summary

In the light of fully-released April and partly released May leading indicators, our estimate for the year-on-year GDP growth is 6 percent in the second quarter of 2018. Accordingly, seasonally- and calendar-day adjusted quarter-on-quarter growth rate is expected to be 1.2 percent in the second quarter of 2018 compared to previous quarter. We need to keep in mind that leading indicators we used in this note only partially reflect the negative effects of increase in interest rates and exchange rates in May and June. Thus, we would like to remind that our estimate for growth rate in second quarter of 2018 will be revised down by using updated data.

GDP growth forecasts	2018Q2
Quarter-on-quarter GDP	1.2
Annual GDP	6.0

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.

Consumption goods import is decreasing

Compared to first quarter of 2018, we expect an increase in nondurable and durable consumption goods production, special consumption tax and public consumption expenditures while we expect a decrease in other seasonally and calendar-day adjusted consumption leading indicators in the second quarter of 2018. Especially, the 5 percent decrease in imports of consumption goods is remarkable. We expect that highest quarterly increase will be in special consumption tax with 5.9 percent (Table 2).

Compared to same quarter of the previous year, we observe that all consumption leading indicators except imports of consumption goods and mortgage loans will increase in the first quarter of 2018. We estimate that imports of consumption goods and consumer loans which increased (12 percent and 4.3 percent respectively) in previous quarter will decreased by 10.8 percent and 1.1 percent, respectively in the second quarter of 2018. (Table 3).

In the light of the above observations, we expect that the increase in consumption will be low in the second quarter of 2018 compared to first quarter of 2018.

	2018Q1	2018Q2
Imports-cons. goods	-3.5	-5.0
Mortgage loans	-0.6	-1.8
Consumer loans + CC	0.6	-0.5
IPI-nondurable goods	1.8	0.9
IPI-durable goods	-2.5	1.4
Special cons. tax	-3.1	5.9
Public cons.	3.4	1.0

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

	2018Q1	2018Q2
Imports-cons. goods	12.0	-10.8
Mortgage loans	4.3	-1.1
Consumer loans + CC	5.0	2.3
IPI-nondurable goods	11.7	8.0
IPI-durable goods	1.7	2.5
Special cons. tax	2.7	3.7
Public cons.	5.2	6.8

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

Slowing down in investments

Compared to the first quarter of 2018, we expect decreases in all seasonally and calendar day adjusted investment leading indicators except the intermediate goods production index, the current volume of stock of retail trade sector and public investment expenditures in the second quarter of 2018. Especially the decreases in investment goods import (8.6 percent) and the expectation of production in the last 3 months (5.9 percent) are remarkable. In addition, we estimate that high increase in public investment expenditures in the first quarter of 2018 will normalize with 7.7 percent in the second quarter of 2018 (Table 4).

Compared to same quarter of the previous year, we observe very similar developments. We expect important decreases in the capacity utilization rate of investment goods (3.2 percent) and the expectation of production in the last 3 months (11.2 percent). In addition, we anticipate that the enormous increase in public investment expenditures in previous period will be followed by an increase of 36.7 percent in the second quarter of 2018 (Table 5).

In the light of summarized observations above, we expect that the increase in investment will be low in the second quarter of 2018.

	2018Q1	2018Q2
IPI-inter. goods	1.5	0.1
CUR-invest. goods	0.5	-2.4
Imports-invest. goods	-0.7	-8.6
Commercial loans + CC	0.2	-0.6
Prod.-last 3 months	-4.2	-5.9
RT vol. of stock	2.6	2.6
Public invest.	37.2	7.7

Tablo 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.

	2018Q1	2018Q2
IPI-inter. goods	11.6	6.4
CUR-invest. goods	1.3	-3.2
Imports-invest. goods	14.1	2.8
Commercial loans + CC	38.6	9.3
Prod.-last 3 months	-1.1	-11.2
RT vol. of stock	1.0	7.8
Public invest.	152.0	36.7

Tablo 5: Investment expenditures compared to the same quarter of the previous year.

Deficit in foreign trade is expanding

Seasonally and calendar day adjusted real exports and real imports, which increased in the previous quarter, will decrease by 1.1 percent and 2.8 percent, respectively, in the second quarter of 2018. We expect that the increases in gold-excluded real export index in the first quarter of 2018 will continue with a decrease (0.9 percent) in the second quarter of 2018 (Table 6).

We anticipate that all foreign trade indicators will go up expect gold-excluded import in the second quarter of 2018 compared to same quarter of previous year. We expect that decrease in exports to be higher than the decrease in imports. When we look at the gold-excluded indicators, we estimate a small decrease in export and 1.9 percent increase in imports (Table 7).

In these information light, we predict that trade deficit will increase in the second quarter of 2018.

	2018Q1	2018Q2
Exports	0.1	-0.1
Imports	0.9	-2.8
Exports excluding gold	2.0	0.9
Imports excluding gold	-1.2	-1.5

Tablo 6: Foreign trade compared to the previous quarter.

	2018Q1	2018Q2
Exports	1.3	-1.4
Imports	13.0	-0.8
Exports excluding gold	5.6	-0.1
Imports excluding gold	10.2	1.9

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

General Evaluation

Among other variables that we use to estimate GDP manufacturing IPI, expected price for the retail sector and electricity consumption point out that the high economic growth will continue while demand for services (last 3 months), investment expectation over the next 12 months and CUR imply that economy will shrink (Table 8). Compared to same quarter of the previous year, we expect that sign of the all indicators except the investment expectation over the next 12 months will not change. The investment expectation suggests also a positive growth rate. We would like to remind that increases in manufacturing production index (5.8 percent) and expected price for the retail sector (15.1 percent) are relatively high (Table 9).

In the light of fully-released April and partly released May leading indicators, quarter-on-quarter growth rate is expected to be 1.2 percent and year-on-year growth rate is expected to be 6 percent in the second quarter of 2018.

	2018Q1	2018Q2
IPI-manufacturing	0.7	1.0
RT price exp.	1.2	2.7
CUR	-0.4	-1.2
Ser. demand turnover	2.3	-3.3
Expected invest.-12m	4.9	-3.2
Electricity cons.	-0.9	1.5

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), **Expected invest.-12m:** Investment expectations (next 12 months)

	2018Q1	2018Q2
IPI-manufacturing	10.2	5.8
RT price exp.	7.6	15.1
CUR	1.1	-1.4
Ser. demand turnover	10.2	-7.4
Expected invest.-12m	12.5	2.9
Electricity cons.	2.5	1.9

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

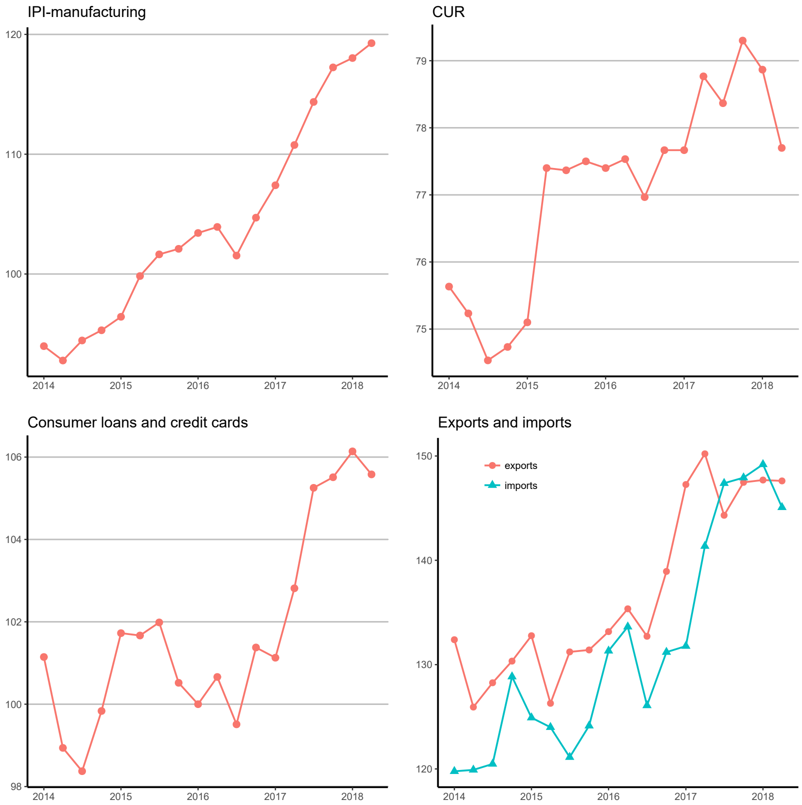
BOX: EXPLANATIONS

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.