Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: August 2018

BAHÇEŞEHİR ÜNİVERSİTESİ

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The high growth despite the negative outlook

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Executive Summary

In the light of fully-released April, May and June leading indicators, our estimate for the year-on-year GDP growth is 6.2 percent in the second quarter of 2018. Accordingly, seasonally and calendar day adjusted quarter-on-quarter growth rate is expected to be 0.9 percent in the second quarter of 2018 compared to the previous quarter. We revised our estimate for year-on-year and quarter-on-quarter growth rate down. The main reason behind this revision is lower-than-expected leading indicators in June or even diminishing some. Almost all seasonally and calendar day adjusted consumption and investment leading indicators point out that quarter-on-quarter growth rate will be low. This case implies a pessimistic scenario for our third quarter growth forecasts that we will publish at the end of the September.

GDP growth forecasts	2018Q2
Quarter-on-quarter GDP	1.0
Annual GDP	6.2

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.

Consumption goods import is decreasing

Compared to the first quarter of 2018, we expect that all seasonally and calendar day adjusted consumption leading indicator except durable consumption goods production and public consumption expenditures will decrease in the second quarter of 2018. Especially, the 7.8 percent decrease in imports of consumption goods is remarkable. We expect that highest quarterly increase will be in public consumption expenditures with 5.0 percent. Lastly, we expect that durable consumption goods production which decreased by 2.7 percent in the previous quarter, will increase by 0.3 percent in the second quarter of 2018 (Table 2).

Compared to the same quarter of the previous year, we observe that all consumption leading indicators except imports of consumption goods, mortgage loans and special consumption tax will increase in the second quarter of 2018. We estimate that imports of consumption goods, mortgage loans and special consumption tax which increased (12 percent, 4.3 percent and 2.7 percent respectively) in previous quarter will decrease by 10.1 percent, 2.2 percent and 3.2 percent respectively in the second quarter of 2018. (Table 3).

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

	2018Q1	2018Q2
Imports-cons. goods	-3.8	-7.8
Mortgage loans	-0.5	-2.8
Consumer loans + CC	0.6	-1.6
IPI-nondurable goods	1.7	-0.9
IPI-durable goods	-2.7	0.3
Special cons. tax	-3.2	-5.2
Public cons.	3.1	5.0

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

	2018Q1	2018Q2
Imports-cons. goods	12.0	-10.1
Mortgage loans	4.3	-2.2
Consumer loans + CC	5.0	1.3
IPI-nondurable goods	11.7	8.9
IPI-durable goods	1.7	0.2
Special cons. tax	2.7	-3.2
Public cons.	5.2	8.9

Table 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 in the second quarter of 2018. Especially the decreases in investment goods import (12.9 percent) and the expectation of production in the last 3 months (8.8 percent) are remarkable. In addition, we estimate that high increase in public investment expenditures (22.4 percent) in the first quarter of 2018 will decrease by 2.5 percent in the second quarter of 2018 (Table 4).

Compared to the same quarter of the previous year, we expect increases in investment leading indicators except capacity utilization rate of investment goods and expectation of production in the last 3 months. The 8 percent decrease in expectation of production in the last 3 months is remarkable. We anticipate that the enormous increase in public investment expenditures in previous period will be followed by a relatively high increase of 21.1 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	1.3	-1.3
CUR-invest. goods	0.3	-3.4
Imports-invest. goods	-1.2	-12.9
Commercial loans + CC	0.4	-1.2
Prod.-last 3 months	-4.3	-8.8
RT vol. of stock	2.6	-0.4
Public invest.	22.4	-2.5

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.

	2018Q1	2018Q2
IPI-inter. goods	11.6	5.1
CUR-invest. goods	1.3	-3.6
Imports-invest. goods	14.1	1.1
Commercial loans + CC	38.6	9.6
Prod.-last 3 months	-1.1	-8.0
RT vol. of stock	1.0	4.6
Public invest.	152.0	21.1

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

Exchange rate started to show its effect on foreign deficit

We expect that seasonally and calendar day adjusted real imports and gold-excluded real imports index will decrease and real exports and gold-excluded real exports will increase in the second quarter of 2018. Especially, the 6.2 percent decrease in real imports remarkable, given the 0.3 percent increase in previous quarter (Table 6). We anticipate that real imports and real exports will decrease, and gold excluded real imports index and gold-excluded real exports index will go up compared to the same quarter of 2018. Especially, the decreases in the real imports and real exports that increased in previous periods are remarkable (1.4 percent and 1.8 percent respectively) (Table 7).

The US dollar / Turkish lira exchange rate, which is below the 4 TL at the end of March, increased to 6.70 TL by the end of August. As a result, decreases in imports and increases in exports are observed in both quarterly and annually data in second quarter of 2018.

	2018Q1	2018Q2
Exports	0.1	0.3
Imports	0.3	-6.2
Exports excluding gold	2.0	0.9
Imports excluding gold	-1.8	-2.9

Table 6: Foreign trade compared to the previous quarter.

	2018Q1	2018Q2
Exports	1.3	-1.4
Imports	13.0	-1.8
Exports excluding gold	5.6	3.5
Imports excluding gold	10.2	1.7

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

General Evaluation

Among other variables that we use to forecast GDP, seasonally and calendar day adjusted all variables except expected price for the retail sector and electricity consumption suggests that economy will shrink (Table 8). Compared to the same quarter of the previous year, only the demand for services and CUR point out the economic shrinkage while other all indicators suggest the positive economic growth. Let us remind that increases in electricity consumption (10 percent) and expected price for the retail sector (17.3 percent) are relatively high (Table 9).

In the light of fully-released April, May and June leading indicators, quarter-on-quarter growth rate is expected to be 0.9 percent and year-on-year growth rate is expected to be 6.2 percent in the second quarter of 2018.

	2018Q1	2018Q2
IPI-manufacturing	0.5	-0.9
RT price exp.	1.2	6.0
CUR	-0.4	-0.9
Ser. demand turnover	2.3	-8.4
Expected invest.-12m	4.9	-4.2
Electricity cons.	-1.0	7.5

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

	2018Q1	2018Q2
IPI-manufacturing	10.2	5.0
RT price exp.	7.6	17.3
CUR	1.1	-0.9
Ser. demand turnover	10.2	-8.0
Expected invest.-12m	12.5	1.8
Electricity cons.	2.5	10.0

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.

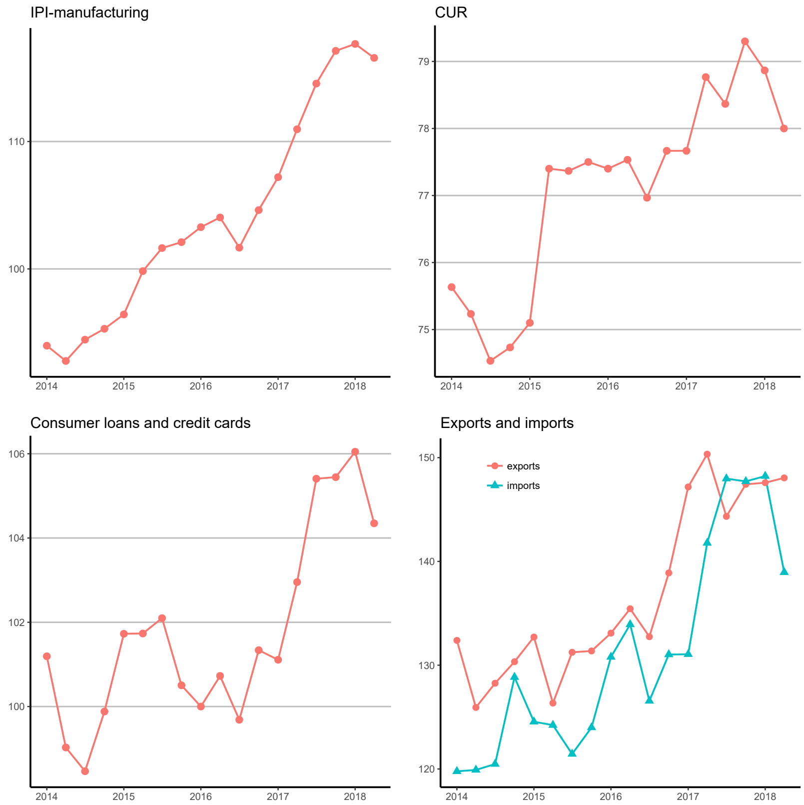

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.