Bahçeşehir Üniversitesi
Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: September 2018

BAHÇEŞEHİR ÜNİVERSİTESİ

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Low growth in the third quarter

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Executive Summary

In the light of fully-released July and partly-released August leading indicators, our estimate for the year-on-year GDP growth is 2.2 percent in the third quarter of 2018. Accordingly, seasonally and calendar day adjusted quarter-on-quarter growth rate is expected to be 0.3 percent in the third quarter of 2018 compared to the previous quarter.

Since for the majority of the leading indicators we use for the third quarter forecast are available only for July and the minority of them are available for July and August, we estimate the missing months figures needed for the third quarter growth forecast. If realizations are worse than our estimates, third quarter growth will be lower. We will know this better when we update our forecast for third quarter GDP growth next month.

GDP growth forecasts	2018Q2
Quarter-on-quarter GDP	0.3
Annual GDP	2.2

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 and special consumption tax are decreasing

Compared to the first quarter of 2018, we expect that all seasonally and calendar day adjusted consumption leading indicators except durable and nondurable consumption goods production to decrease in the third quarter of 2018. We see that the sharpest decline in special consumption tax revenue with 8.6 percent. We also observe that decline in consumption good imports will continue and public consumption will start to decrease as of this quarter (Table 2).

Compared to the same quarter of the previous year, we observe a decline in the third quarter of 2018 in all consumption leading indicators except nondurable consumption good production and public consumption. The decline in special consumption tax revenue and consumption goods import, respectively, by 15.2 and 8.9 percent, is striking. Despite a negative growth on quarter-on-quarter basis, we expect an increase of 12.8 percent on year-on-year basis in public consumption expenditures (Table 3).

In the light of the above considerations, we expect that the increase in consumption will be low in the third quarter of 2018.

	2018Q2	2018Q3
Imports-cons. goods	-8.2	-7.2
Mortgage loans	-3.1	-0.1
Consumer loans + CC	-1.9	-1.0
IPI-nondurable goods	-1.0	2.9
IPI-durable goods	0.7	1.8
Special cons. tax	-4.0	-8.6
Public cons.	5.0	-1.6

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

	2018Q2	2018Q3
Imports-cons. goods	-10.1	-8.9
Mortgage loans	-2.2	-4.8
Consumer loans + CC	1.3	-2.9
IPI-nondurable goods	8.3	9.8
IPI-durable goods	0.2	-7.0
Special cons. tax	-3.2	-15.2
Public cons.	8.9	12.8

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

Brake on public investments

Compared to the second quarter of 2018, we expect all seasonally and calendar day adjusted investment leading indicators except public investment to remain approximately at the same level in the third quarter of 2018. We predict that public investment will decrease by 22.2 percent in third quarter of 2018. On the other hand, investment goods import, which decreased by 12.8 percent in the second quarter of 2018, will remain unchanged (Table 4).

Compared to the same quarter of the previous year, we expect decreases in all investment leading indicators except intermediate goods investment and current volume of stock of retail trade sector. The public investment is the most remarkable investment component in yearly figures as in quarterly figures. We forecast that public investment, which increased by 21.2 percent year-on-year, will decrease by 20.6 percent year-on-year in this quarter. (Table 5).

In the light of summarized observations above, investments will be remain unchanged at best.

	2018Q2	2018Q3
IPI-inter. goods	-1.3	0.6
CUR-invest. goods	-3.1	-1.9
Imports-invest. goods	-12.8	0.0
Commercial loans + CC	-1.5	-1.3
Prod.-last 3 months	-8.8	-2.5
RT vol. of stock	-0.4	0.3
Public invest.	-2.3	-22.2

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.

	2018Q2	2018Q3
IPI-inter. goods	5.1	7.9
CUR-invest. goods	-3.6	-4.6
Imports-invest. goods	1.1	-1.9
Commercial loans + CC	9.6	-1.1
Prod.-last 3 months	-8.0	-3.2
RT vol. of stock	4.6	4.6
Public invest.	21.1	-20.6

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

Exchange rate started to show its effect on foreign deficit

When we look at seasonally and calendar day adjusted figures, we expect that decline in real imports and gold-excluded real imports index will continue. Similarly, increase in real exports and gold-excluded real exports will continue in the third quarter of 2018. Especially, the 4.6 percent increase in real exports and the 5.5 percent increase in gold-excluded real exports are remarkable (Table 6).

We expect high increases in exports in the third period of 2018 compared to same quarter of 2018. While real exports will increase by 10.9 percent, real imports will decrease by 5.1 percent (Table 7).

We anticipate that the high exchange rate effect in foreign trade will be more evident in the third quarter of 2018.

	2018Q2	2018Q3
Exports	0.3	4.6
Imports	-6.5	-5.6
Exports excluding gold	0.7	5.5
Imports excluding gold	-3.1	-1.5

Tablo 6: Foreign trade compared to the previous quarter.

	2018Q2	2018Q3
Exports	-1.4	10.9
Imports	-1.8	-5.1
Exports excluding gold	3.3	11.1
Imports excluding gold	1.7	0.0

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

General Evaluation

Among other variables that we use to forecast GDP, we calculate that seasonally and calendar day adjusted expected price for the retail sector and electricity consumption index will increase by 3.9 and 1.7, respectively. On the other hand, demand for services will decrease by 8 percent (Table 8). Compared to the same quarter of the previous year, high increases in expected price for the retail sector is expected to continue. Demand for services, on the other hand, is expected to decrease (Table 9).

In the light of fully-released July and partly-released August leading indicators, quarter-on-quarter growth rate is expected to be 0.3 percent and year-on-year growth rate is expected to be 2.2 percent in the second quarter of 2018. It is likely that our second and third forecasts for the third quarter GDP growth using new data to be released will be lower. The growth rates projected in Medium Term Programme (or New Economic Plan as Minister Albayrak called) imply that negative figures will not be surprised, at least regarding quarterly growth.

	2018Q2	2018Q3
IPI-manufacturing	-0.9	1.7
RT price exp.	6.0	3.9
CUR	-0.9	-1.1
Ser. demand turnover	-3.2	-8.0
Expected invest.-12m	-4.2	-2.3
Electricity cons.	0.0	3.9

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)

	2018Q2	2018Q3
IPI-manufacturing	4.8	8.1
RT price exp.	17.3	20.9
CUR	-0.9	-1.7
Ser. demand turnover	-8.0	-12.8
Expected invest.-12m	1.8	-1.5
Electricity cons.	2.2	7.2

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

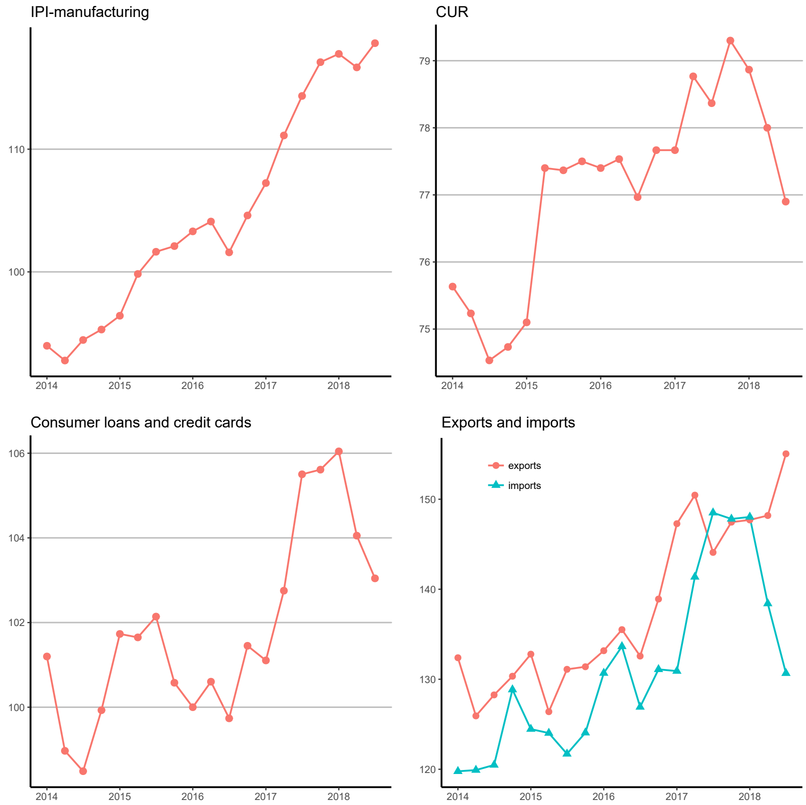
BOX: EXPLANATIONS

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.