Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: October 2018

BAHÇEŞEHİR ÜNİVERSİTESİ

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Signs of stagnation in the third quarter

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Executive Summary

In the light of fully-released July, August and partly-released September leading indicators, our estimate for the year-on-year GDP growth is 1.7 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 previous quarter.

In our previous note, our forecasts for year-on-year and quarter-on-quarter GDP growth were, respectively, 2.2 percent and 0.3 percent. In that note, we stated that if August and September realizations are worse than our estimates, this will decrease our forecast for the third quarter growth. This is the case for many leading indicators as you can see in the note.

GDP growth forecasts	2018Q3
Quarter-on-quarter GDP	0.3
Annual GDP	1.7

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.

The sharp decrease in consumption goods import and special consumption tax

Compared to the second quarter of 2018, we expect that all seasonally and calendar day adjusted consumption leading indicators except durable and nondurable consumption goods production will decrease in the third quarter of 2018. We see the sharpest decline in consumption good imports with 13.4 percent. We also expect an increase in nondurable consumption goods production which declined in the previous quarter (Table **??**).

	2018Q2	2018Q3
Imports-cons. goods	-8.8	-13.4
Mortgage loans	-3.3	-1.8
Consumer loans + CC	-1.9	-2.0
IPI-nondurable goods	-1.3	1.5
IPI-durable goods	0.6	0.9
Special cons. tax	-5.2	-7.7
Public cons.	2.4	-0.0

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

Compared to the same quarter of the previous year, we observe that all consumption leading indicators except nondurable consumption good production and public consumption will decrease in the third quarter of 2018. The decrease in special consumption tax revenue and consumption goods import is remarkable (respectively, 17.2 and 23.8 percent). Even though, we expect a positive quarter-on-quarter growth for durable consumption production, we expect a negative growth when it comes to year-on-year change (Table **??**).

	2018Q2	2018Q3
Imports-cons. goods	-10.1	-23.8
Mortgage loans	-2.2	-6.1
Consumer loans + CC	1.3	-3.6
IPI-nondurable goods	8.3	1.0
IPI-durable goods	0.2	-11.8
Special cons. tax	-3.2	-17.2
Public cons.	8.9	5.1

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

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

Brake to 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 unchanged in the third quarter of 2018. We predict that all indicators except current volume of stock of retail trade sector to decrease. We observe highest declines in public investment and investment goods import (Table **??**).

Compared to the same quarter of the previous year, we expect similar developments: we anticipate decreases in all investment leading indicators except current volume of stock of retail trade sector and the highest decreases will be in investment goods import and public investment. (Table **??**).

In the light of these observations, investments will remain unchanged at best.

	2018Q2	2018Q3
IPI-inter. goods	-1.4	-0.3
CUR-invest. goods	-3.4	-1.6
Imports-invest. goods	-13.0	-4.3
Commercial loans + CC	-0.7	-0.3
Prod.-last 3 months	-9.0	-2.4
RT vol. of stock	-0.4	0.6
Public invest.	-3.2	-17.9

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.

	2018Q2	2018Q3
IPI-inter. goods	5.2	-1.7
CUR-invest. goods	-3.6	-4.4
Imports-invest. goods	1.1	-17.9
Commercial loans + CC	9.6	-1.0
Prod.-last 3 months	-8.0	-3.1
RT vol. of stock	4.6	5.0
Public invest.	21.1	-6.6

Table 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 a decline in both real imports and gold-excluded real imports index, while real exports and gold-excluded exports will continue accelerating. The 8.8 percent decrease in real imports and the 5.9 percent decrease in gold-excluded real imports are remarkable (Table **??**).

We expect high declines in imports in the third period of 2018 compared to same quarter of 2018. Real imports will increase by 17.4 percent, while real exports increase only by 5.1 percent (Table **??**).

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

	2018Q2	2018Q3
Exports	0.3	6.4
Imports	-6.9	-8.8
Exports excluding gold	0.9	5.0
Imports excluding gold	-4.3	-5.9

Table 6: Foreign trade compared to the previous quarter.

	2018Q2	2018Q3
Exports	-1.4	5.1
Imports	-1.8	-17.4
Exports excluding gold	3.3	7.9
Imports excluding gold	1.7	-12.3

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

General Evaluation

Among other variables that we use in GDP forecasting, seasonally and calendar day adjusted manufacturing production index, price for the retail sector and electricity consumption index are expected to increase by 0.9 percent, 5.9 percent and 2.7 percent, respectively. On the other hand, demand for services will decrease by 7.1 percent (Table **??**). Compared to the same quarter of the previous year, expected price for the retail sector is continuing to increase so that demand for services declines at a higher pace (Table **??**).

In the light of fully-released August and partly-released September leading indicators, quarter-on-quarter growth rate is expected to be 0.3 percent and year-on-year growth rate is expected to be 1.7 percent in the second quarter of 2018. Even though our next forecast with the fully-released September data is likely to change, we can say that there will be a stagnation in the economy in the third quarter. However, the main question is about the persistency of this stagnation which will hinge on precautions that will be taken.

	2018Q2	2018Q3
IPI-manufacturing	-1.1	0.9
RT price exp.	6.0	5.9
CUR	-0.9	-0.8
Ser. demand turnover	-3.2	-7.1
Expected invest.-12m	-4.2	-4.3
Electricity cons.	0.4	2.7

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)

	2018Q2	2018Q3
IPI-manufacturing	4.9	-1.8
RT price exp.	17.3	23.7
CUR	-0.9	-1.4
Ser. demand turnover	-8.0	-15.1
Expected invest.-12m	1.8	-3.6
Electricity cons.	2.8	4.1

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.

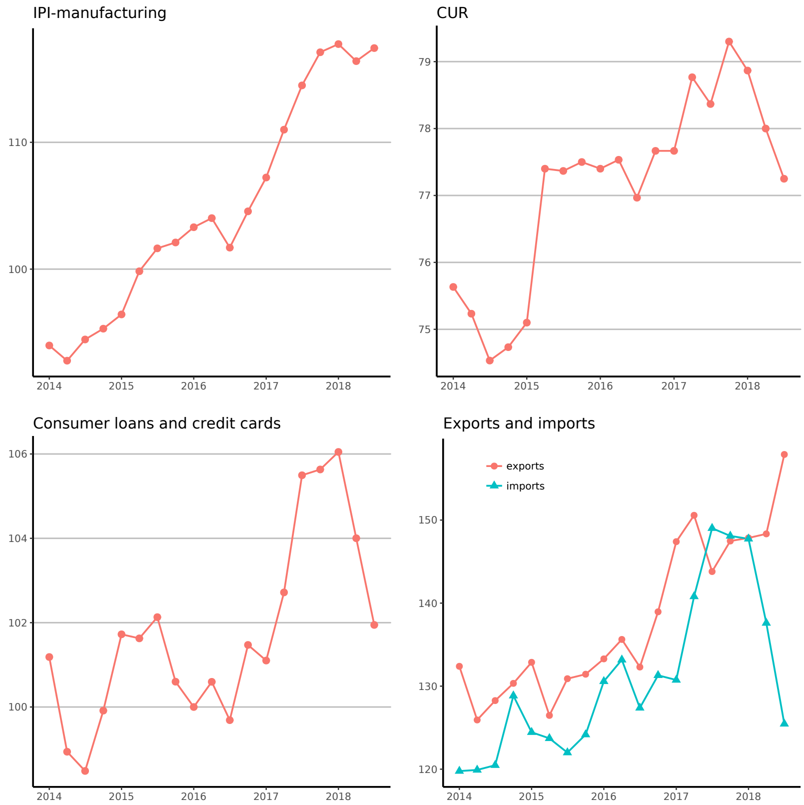

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.