Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: June 2019

BAHÇEŞEHİR ÜNİVERSİTESİ

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Low growth performance in the second quarter of 2019

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Executive Summary

In the light of fully-released April and May leading indicators, our estimate for the year-on-year GDP growth is minus 3.1 percent in the second quarter of 2019. Quarter-on-quarter growth rate had been negative in the last three quarters of 2018, while Turkish economy grew by 1.3 percent in the first quarter of 2019, compared to the previous quarter. Seasonally and calendar day adjusted quarter-on-quarter growth is expected to increase by only 0.3 percent in the second quarter of 2019.

As known, the growth rate in 2019 was targeted at 2.3 percent in the New Economy Program. However, the final forecast of OECD and IMF were minus 2.6 and minus 2.5 percent, respectively. The weak growth performance expected in the second quarter confirms the forecasts of international organizations for 2019.

GDP growth forecasts	2019Q2
Quarter-on-quarter	0.3
Year-on-year	-3.1

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.

Slowdown in consumption revival

Compared to the first quarter of 2019, we observe both positive and negative changes in all seasonally and calendar day adjusted consumption leading indicators in the second quarter of 2019. On the other hand, we expect the industrial production index of non-durable goods to grow by 1.8 percent in the second quarter of 2019, speeding up its increase in the last quarter. Among the leading consumption indicators, another indicator group that improved compared to the first quarter of the year is mortgage loans, consumer loans and credit cards. We observe decreases in the negative trends of these indicators. We anticipate a decrease of 11.5 percent in consumption goods imports and a decrease of 4.8 percent in special tax revenue. We expect that increase in public consumption, observed to improve in the first quarter of the year, will decline from 3.9 percent to 0.7 percent. (Tablo 2).

	2019Q1	2019Q2
Imports-cons. goods	13.2	-11.5
Mortgage loans	-4.2	-2.9
Consumer loans + CC	-1.6	-0.5
IPI-nondurable goods	1.1	1.8
IPI-durable goods	0.7	-2.1
Special cons. tax	19.2	-4.8
Public cons.	3.9	0.7

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 anticipate deteriorations in some of the indicators for the second quarter of 2019. The expected year-on-year growth rate of consumption goods imports is minus 35.3 percent, while special consumption tax is predicted to decrease by 24.8 percent. Even though the annual drops in mortgages, consumer loans and credit cards (19.2 and 14 percent) increase the pressure on consumption, we expect relative recoveries in both durable and nondurable consumption goods (2.5 and -2.2 percent). In public consumption, we foresee an increase of 5.2 percent (Table 2 and 3).

	2019Q1	2019Q2
Imports-cons. goods	-31.0	-35.3
Mortgage loans	-19.6	-19.2
Consumer loans + CC	-15.1	-14.0
IPI-nondurable goods	-2.1	4.0
IPI-durable goods	2.9	4.5
Special cons. tax	-20.3	-24.8
Public cons.	5.1	5.2

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

Hard braking in public investments

Compared to the first quarter of 2019, we expect all seasonally and calendar day adjusted investment leading indicators are worsening, except the commercial loans and credit cards for the second quarter of 2019. In our forecast for the first quarter's growth, we had predicted an increase of 36.8 percent on quarterly basis in public investment expenditures. According to the announced growth data of first quarter, the increase in public expenditure was 61.8 percent and stronger than our expectation. In the second quarter of the year, we expect a striking decrease of 41.3 percent in public investment spending. On the other hand, investment goods imports and capacity utilization rate are other remarkable indicators, whose quarter-on-quarter growth has turned from positive to negative. (Tablo 4).

Compared to the same quarter of the previous year, our forecast model shows decreases in all the investment leading indicators excluding current volume of stock of retail trade sector. Public investment expenditures are approximately 50 percent below its level one year ago. 24.8 and 13.1 percent decreases in imports of investment goods and production index of last three months are striking. Nevertheless, we expect a 14.2 percent increase in the annual public investment expenditures. (Table 5).

In the light of summarized observations above, in the second quarter of 2019, it appears that the supportive policy undertaken by the public sector through investments in the previous quarters came to an end.

	2019Q1	2019Q2
IPI-inter. goods	2.8	0.7
CUR-invest. goods	0.2	-1.5
Imports-invest. goods	3.8	-9.6
Commercial loans + CC	-1.0	1.8
Prod.-last 3 months	5.1	1.1
RT vol. of stock	-3.0	-4.2
Public invest.	61.8	-41.3

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.

	2019Q1	2019Q2
IPI-inter. goods	-9.5	-5.0
CUR-invest. goods	-8.9	-6.3
Imports-invest. goods	-27.6	-24.8
Commercial loans + CC	-14.0	-10.1
Prod.-last 3 months	-17.4	-13.1
RT vol. of stock	8.5	4.4
Public invest.	14.2	-50.6

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

Reduction in the contribution of net exports

When we look at seasonally and calendar day adjusted figures, we expect the increase of 1.4 percent increase in real exports in the first quarter would give place to a decrease of 1.1 percent in the second quarter. In gold-excluded real exports growth, a fall from 4.4 percent to 2 percent is forecasted as well. On the other hand, we expect real imports increase would drop from 9.2 percent to 0.3 percent, while the increase in non-gold imports is expected to decline from 6.5 percent to 0.4 percent, from the first quarter to the second. (Tablo 6).

When we look at the year-on-year changes, it is seen that the decrease in imports and the increase in exports is continuing. Real imports are expected to decrease by 11.8 percent, while real exports are predicted to increase only by 12.8 percent in the second quarter of 2019.(Tablo 7).

As a result, we expect that the decline in exports is able to reduce

	2019Q1	2019Q2
Exports	1.4	-1.1
Imports	9.2	0.3
Exports excluding gold	4.4	2.0
Imports excluding gold	6.5	0.4

Table 6: Foreign trade compared to the previous quarter.

	2019Q1	2019Q2
Exports	9.2	12.8
Imports	-19.1	-11.8
Exports excluding gold	11.7	12.3
Imports excluding gold	-16.6	-10.9

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

the contribution of net exports to GDP growth that had compensated partly the strong domestic demand contraction in the previous quarters.

General Evaluation

Considering the other variables that we use in GDP forecasting, seasonally and calendar day adjusted expected prices in the retail sector which was minus 7.2 percent in the first quarter is expected to increase by 10,6 percent. Demand for the services sector which diminished by 0.2 percent in the previous quarter is expected to grow by 4.4 percent in this quarter. We anticipate that industrial production index growth to decline by 0.8 percentage points to 1.1 percent. We also expect an increase of 0.3 percent in electricity consumption similar to previous quarters. (Table 8).

Compared to the same quarter of the previous year, we expect that the decrease in demand for services to slow down slightly and the growth rate would increase from minus 25 percent to minus 14.5 percent. In addition, we expect improvements in most indicators excluding electricity consumption, especially in manufacturing industry production index, on the basis of annual growth rates. (Tablo 9).

In the light of fully-released April and May leading indicators, our estimate for the quarter-on-quarter GDP growth is 0.3 percent in the first quarter of 2019. However, seasonally and calendar day adjusted year-on- year growth is expected to decrease increase by 3.1 percent.

	2019Q1	2019Q2
IPI-manufacturing	1.9	1.1
RT price exp.	-7.2	10.6
CUR	0.1	0.6
Ser. demand turnover	-0.2	4.4
Expected invest.-12m	4.8	4.6
Electricity cons.	0.3	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), **Expected invest.-12m:** Investment expectations (next 12 months)

	2019Q1	2019Q2
IPI-manufacturing	-6.0	-0.7
RT price exp.	-8.6	-2.9
CUR	-3.7	-2.8
Ser. demand turnover	-25.4	-14.5
Expected invest.-12m	-14.7	-6.9
Electricity cons.	-1.5	-1.7

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.

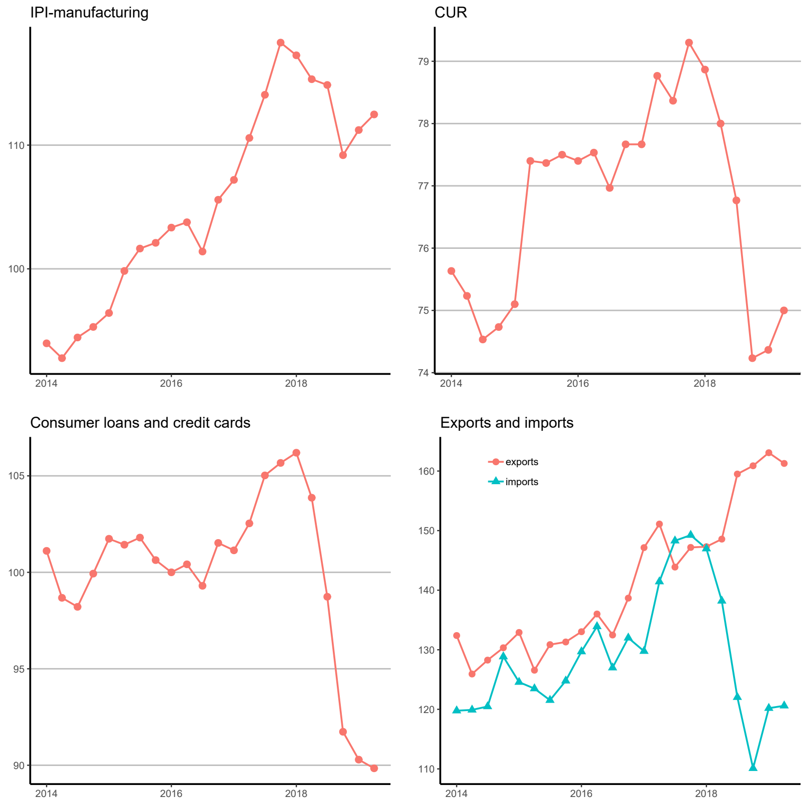

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.