Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

# Economic Growth and Forecasts: August 2019

BAHÇEŞEHİR ÜNİVERSİTESİ

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## *Low growth rate in the second quarter*

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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 minus 2 percent in the second quarter of 2019. Seasonally and calendar day adjusted quarter-on-quarter growth is expected to increase by 0.4 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 World Bank revised its forecast of 1.0 percent growth in January 2019 to minus 1.6 percent in June 2019. The weak growth performance expected in the second quarter confirms the forecasts of international organizations for 2019.

| GDP growth forecasts | 2019Q2 |
|---|---|
| Quarter-on-quarter | 0,4 |
| Year-on-year | -2,0 |

**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.

### *Continuation of drop in consumption levels*

Compared to the first quarter of 2019, we observe negative changes in all seasonally and calendar day adjusted consumption leading indicators except the industrial production index of durable and non-durable goods. It is striking that the consumption goods imports, which showed an increase of 13.3 percent in the first quarter of 2019, is expected to decrease by 11.6 percent in the second quarter of 2019 (Table 2).

Compared to the same quarter of the previous year, we anticipate detoriorations in leading indicators except the industrial production index of durable goods and public consumption. The sharpest decline is observed in consumption goods imports by 33.9 percent (Table 3).

| | 2019Q1 | 2019Q2 |
|---|---|---|
| Imports-cons. goods | 13.3 | -11.6 |
| Mortgage loans | -4.2 | -4.4 |
| Consumer loans + CC | -1.6 | -1.4 |
| IPI-nondurable goods | 0.8 | 0.1 |
| IPI-durable goods | 1.6 | 0.6 |
| Special cons. tax | 18.9 | -2.2 |
| Public cons. | 3.9 | -0.9 |

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

| | 2019Q1 | 2019Q2 |
|---|---|---|
| Imports-cons. goods | -31.0 | -33.9 |
| Mortgage loans | -19.6 | -20.4 |
| Consumer loans + CC | -15.1 | -14.4 |
| IPI-nondurable goods | -2.1 | -0.2 |
| IPI-durable goods | 2.8 | 4.1 |
| Special cons. tax | -20.3 | -18.8 |
| Public cons. | 5.1 | 0.4 |

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

## *Continuation of significant decrease in public investments*

Compared to the first quarter of 2019, we expect detoriorations in all seasonal and calendar-day adjusted investment leading indicators except production for last three months in the second quarter of 2019. The slump in public investment expenditures is striking. While it grew by 62.7 percent in the first quarter of 2019, public investment expenditures are expected to fall significantly by 48.1 percent (Table 4).

Compared to the same quarter of the previous year, we expect all investment leading indicators to decrease except the current volume of stock of retail trade sector. Another point to mention is that decreases in public investment expenditures are expected to exceed 50 percent year-on-year (Table 5).

| | 2019Q1 | 2019Q2 |
|---|---|---|
| IPI-inter. goods | 2.6 | -0.1 |
| CUR-invest. goods | 0.3 | -0.2 |
| Imports-invest. goods | 4.1 | -6.8 |
| Commercial loans + CC | -1.1 | -0.1 |
| Prod.-last 3 months | 5.0 | 0.5 |
| RT vol. of stock | -3.0 | -4.2 |
| Public invest. | 62.7 | -48.1 |

**Table 4:** Foreign trade 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 | -7.8 |
| CUR-invest. goods | -8.9 | -4.8 |
| Imports-invest. goods | -27.6 | -24.2 |
| Commercial loans + CC | -14.0 | -10.7 |
| Prod.-last 3 months | -17.4 | -5.3 |
| RT vol. of stock | 8.5 | 4.3 |
| Public invest. | 14.2 | -53.2 |

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

## *Foreign trade deficit shrinks*

Based on the calculations with seasonal and calendar-day adjusted data, we expect all foreign trade items to decrease. In addition, the reduction in total imports is remarkable. Total imports grew by 8.8 percent in the previous quarter are expected to decline by 1.8 percent in the second quarter (Table 6).

When we compare with the same quarter of the previous year, while we expect imports excluding gold and imports to decrease by 14,2 and 16,0 percent respectively, exports excluding gold and exports are estimated to increase by 11,5 and 7,5 percent, respectively (Tablo 7). In the light of summarized observations above, we anticipate foreign trade deficit to decrease in the second quarter of 2019.

| | 2019Q1 | 2019Q2 |
|---|---|---|
| Exports | 1.3 | -1.4 |
| Imports | 8.8 | -1.8 |
| Exports excluding gold | 5.3 | -0.0 |
| Imports excluding gold | 4.4 | -2.1 |

**Table 6:** Foreign trade compared to the previous quarter.

| | 2019Q1 | 2019Q2 |
|---|---|---|
| Exports | 9.2 | 7.5 |
| Imports | -19.1 | -16.0 |
| Exports excluding gold | 11.6 | 11.5 |
| Imports excluding gold | -16.6 | -14.2 |

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

## *General Evaluation*

Considering the other variables that we use in GDP forecasting, seasonally and calendar day adjusted data forecasts positive growth rates in all indicators.This can be interpreted as an economic recovery (Table 8). Compared to the same quarter of the previous year, we expect all indicators to decrease except electricity consumption in the second quarter of 2019. We estimate the largest decrease in demand for services and investment expectations (next 12 months) by 10,0 and 10,7 percent, respectively (Table 9).

In the light of fully-released April, May and June leading indicators, in the second quarter of 2019, our estimate for the seasonally and calendar day adjusted quarter-on-quarter GDP growth is 0.4, however, year-on-year growth is expected to decrease by 2 percent. Since the leading indicators came out as we expect, we do not change our last estimation result.

| | 2019Q1 | 2019Q2 |
|---|---|---|
| IPI-manufacturing | 1.7 | 0.3 |
| RT price exp. | -7.2 | 10.9 |
| CUR | 0.1 | 1.5 |
| Ser. demand turnover | -0.2 | 4.5 |
| Expected invest.-12m | 4.8 | 0.3 |
| Electricity cons. | 0.4 | 1.5 |

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

| | 2019Q1 | 2019Q2 |
|---|---|---|
| IPI-manufacturing | -6.0 | -3.8 |
| RT price exp. | -8.6 | -4.1 |
| CUR | -3.7 | -1.7 |
| Ser. demand turnover | -25.4 | -10.0 |
| Expected invest.-12m | -14.7 | -10.7 |
| Electricity cons. | -1.5 | 0.4 |

**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.

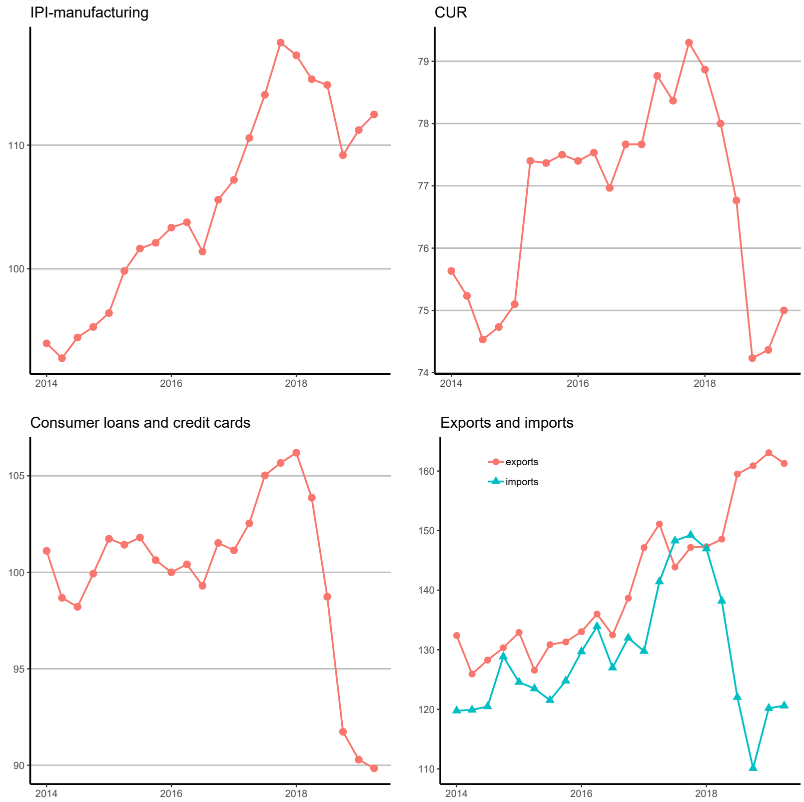


**Figure 1:** Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.