Quarter-on-Quarter Growth is Positive

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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 minus 2 percent in the third quarter of 2019. Our estimate for seasonally and calendar day adjusted quarter-on-quarter growth is 0.5 percent in the third quarter of 2019.

As known, the growth rate in 2019 was revised as 0.5 percent in the New Economy Program. However, the final forecast of The World Bank, OECD and IMF are 0.0, -0.3 and 0.2 percent, respectively.

GDP growth forecasts	2019Q3
Quarter-on-quarter	0,5
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.

Continuation of drop in consumption levels

Compared to the second quarter of 2019, we observe that while decline in some seasonally and calendar day adjusted consumption leading indicators continues, some of them are on the rise. In fact, imports of consumption goods which showed a decrease of 11.2 percent in the second quarter of 2019, is expected to increase by 5.4 percent in the third quarter of 2019. Also, special consumption tax and public consumption are predicted to increase by 1.1 and 2.7 percent, respectively (Table 2).

Compared to the same quarter of the previous year, we anticipate all leading indicators to decrease except the industrial production index of non-durable goods and public consumption. The sharp decline in mortgage loans (20 percent) continues in this quarter (Table 3).

	2019Q2	2019Q3
Imports-cons. goods	-11.2	5.4
Mortgage loans	-4.1	-3.6
Consumer loans + CC	-1.4	-2.4
IPI-nondurable goods	0.6	1.4
IPI-durable goods	-1.1	-8.4
Special cons. tax	-2.1	1.1
Public cons.	-0.6	2.7

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

	2019Q2	2019Q3
Imports-cons. goods	-33.9	-10.5
Mortgage loans	-20.4	-20.4
Consumer loans + CC	-14.4	-12.1
IPI-nondurable goods	-0.1	1.8
IPI-durable goods	4.1	-13.9
Special cons. tax	-18.8	-1.7
Public cons.	0.4	8.1

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

Increase in public investment

Compared to the second quarter of 2019, we expect recovery in seasonal and calendar-day adjusted investment leading indicators. In particular, public investment expenditures which decreased by 47.7 percent in the previous quarter are expected to increase by 40.7 in third quarter of 2019. We estimate that imports of investment goods will increase by 11.8 percent (Table 4).

Compared to the same quarter of the previous year, we expect all investment leading indicators to decrease except the production index for last three months and public investments which are expected to increase 50 percent year-on-year (Table 5).

	2019Q2	2019Q3
IPI-inter. goods	0.1	1.3
CUR-invest. goods	-0.2	0.7
Imports-invest. goods	-6.2	11.8
Commercial loans + CC	0.4	-3.4
Prod.-last 3 months	0.8	-0.6
RT vol. of stock	-4.2	-2.4
Public invest.	-47.7	40.7

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.

	2019Q2	2019Q3
IPI-inter. goods	-7.7	-5.2
CUR-invest. goods	-4.8	-1.9
Imports-invest. goods	-24.2	-0.8
Commercial loans + CC	-10.7	-11.4
Prod.-last 3 months	-5.3	1.0
RT vol. of stock	4.3	-1.9
Public invest.	-53.2	27.0

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

Re-acceleration in exports

We expect that seasonal and calendar-day adjusted real imports and real exports, which declined in the second quarter, to increase respectively by 3.1 and 4.5 percent in the third quarter (Table 6).

When we compare with the same quarter of the previous year, real imports are estimated to increase by 2.3 percent while for real exports the increase is estimated as 5.2 percent (Tablo 7).

In the light of summarized observations above, we anticipate that the positive contribution of net trade to year-on-year growth is expected to continue, however, its contribution to quarter-on-quarter growth is likely be negative in the third quarter of 2019.

	2019Q2	2019Q3
Exports	-1.3	3.1
Imports	-1.5	4.5
Exports excluding gold	0.5	4.3
Imports excluding gold	-1.5	4.1

Table 6: Foreign trade compared to the previous quarter.

	2019Q2	2019Q3
Exports	7.5	5.2
Imports	-16.0	2.3
Exports excluding gold	11.6	12.8
Imports excluding gold	-14.2	0.0

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, all seasonally and calendar day adjusted leading indicators show positive growth except electricity consumption and expected price for retail sector. The demand for services is expected to increase by 6.7 percent (Table 8).

Compared to the same quarter of the previous year, service demand turnover which decreased 10 percent in the second quarter of 2019 is expected to increase 4.9 percent in the third quarter of 2019. We estimate a striking decrease of 18.6 percent in expected prices for retail sector (Table 9).

In the light of fully-released June, August and partly-released September leading indicators, in the third quarter of 2019, our estimate for the seasonally and calendar day adjusted quarter-on-quarter GDP growth is 0.5, however, year-on-year growth is expected to decrease by 2 percent.

	2019Q2	2019Q3
IPI-manufacturing	0.5	0.9
RT price exp.	10.9	-8.2
CUR	1.5	0.1
Ser. demand turnover	4.5	6.7
Expected invest.-12m	0.3	0.9
Electricity cons.	1.5	-0.3

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)

	2019Q2	2019Q3
IPI-manufacturing	-3.8	-2.2
RT price exp.	-4.1	-18.6
CUR	-1.7	-0.6
Ser. demand turnover	-10.0	4.9
Expected invest.-12m	-10.7	-2.2
Electricity cons.	0.4	2.0

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.

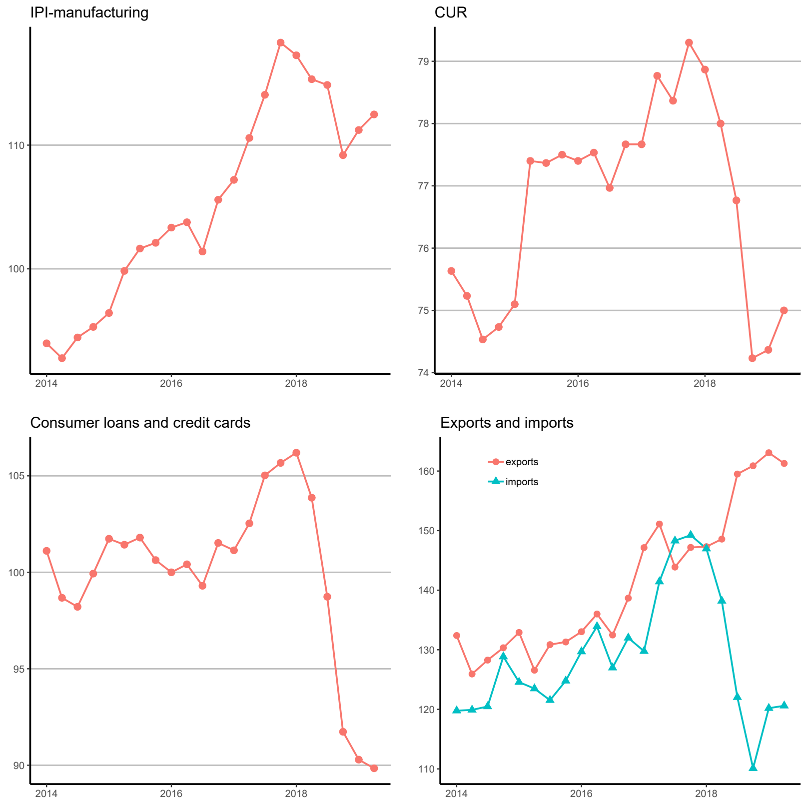

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.