Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi Betam

Economic Growth and Forecasts: February 2020

BAHÇEŞEHİR ÜNİVERSİTESİ

21 February 2020

Growth Exceeds The Government Target

Ozan Bakış,[1] Gökhan Dilek[2]

[1] Betam, ozan.bakis@eas.bau.edu.tr
[2] Betam, gokhan.dilek@eas.bau.edu.tr

Executive Summary

In the light of fully released October, November and December leading indicators, we expect year-on-year GDP growth to be 5.8 percent for the final quarter of 2019. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth as 1.9 percent for the fourth quarter.

The government set a target of 0.5 percent yearly growth rate for 2019 in the New Economy Program. The yearly growth rate should exceed the official target if our calculations come true. Considering the minus 3 percent contraction in the fourth quarter of 2018, it will be no surprise if the year-on-year growth in the fourth quarter of 2019 reaches above 5 percent, due to the base effect.

GDP growth forecasts	2019Q4
Quarter-on-quarter	1,9
Year-on-year	5,8

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.

Increase in consumption expenditures

Compared to third quarter of 2019, there are increases in all leading consumption indicators except special consumption tax. Especially, mortgage and consumer loans are recovering at a strong rate, 2.4 and 4.6 percent respectively (Table 2).

On a year-on-year basis, imports of consumption goods (14.6 percent), special consumption tax (18.5 percent) and public consumption expenditures (13.2 percent) increased at a rapid rate in the fourth quarter of 2019 (Table 3).

	2019Q3	2019Q4
Imports-cons. goods	7.6	6.0
Mortgage loans	-3.0	2.4
Consumer loans + CC	-1.2	4.6
IPI-nondurable goods	2.8	0.9
IPI-durable goods	-7.6	5.1
Special cons. tax	8.6	-4.9
Public cons.	3.1	3.8

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

	2019Q3	2019Q4
Imports-cons. goods	-8.2	14.6
Mortgage loans	-20.0	-8.6
Consumer loans + CC	-11.6	-0.1
IPI-nondurable goods	6.3	5.2
IPI-durable goods	-10.1	-5.1
Special cons. tax	4.0	18.5
Public cons.	6.2	13.2

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

Production volume expanded, public investment contracted

Except the public investment spending, seasonal and calendar adjusted investment indicators increased on the fourth quarter of 2019 compared to the third quarter of the same year. We draw attention to the increase in the production volume at the last three months (10 percent) and the decrease in the public investment spending (minus 11.8 percent) (Table 4).

We see a similar pattern when leading indicators are compared to the same quarter of the previous year. The production volume in the last three months expanded 20.5 percent while public investment spending contracted 25.1 percent (Table 5).

	2019Q3	2019Q4
IPI-inter. goods	1.7	2.0
CUR-invest. goods	0.9	0.4
Imports-invest. goods	9.6	3.2
Commercial loans + CC	-3.2	2.1
Prod.-last 3 months	1.9	10.0
RT vol. of stock	-2.2	2.2
Public invest.	0.6	-11.8

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.

	2019Q3	2019Q4
IPI-inter. goods	-3.0	6.5
CUR-invest. goods	-2.0	1.5
Imports-invest. goods	-3.7	10.6
Commercial loans + CC	-12.0	-1.7
Prod.-last 3 months	-1.2	20.5
RT vol. of stock	-1.6	-7.2
Public invest.	5.0	-25.1

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

The rate of increase is higher in imports than exports

In the fourth quarter of 2019, according to seasonal and calendar adjusted data, exports increased 0.5 percent compared to the previous quarter while imports rose at a rate of 5.8 percent (Table 6).

When we compare the fourth quarter of 2019 with the same period of 2018, imports exhibited a strong increase (18.6 percent) and exports recorded a milder rate (4 percent) (Table 7).

In the light of our calculations, the positive contribution of the net exports to the quarter-on-quarter and year-on-year economic growth has come to an end. The shrunken import demand caused by the economic slowdown has been the main reason of the positive contribution of the net exports throughout 2019 rather than a relatively competitive exchange rate. The pattern of the net exports will depend on the exchange rate and growth dynamics in the next periods.

	2019Q3	2019Q4
Exports	3.5	0.5
Imports	4.3	5.8
Exports excluding gold	3.2	-1.8
Imports excluding gold	4.4	3.2

Table 6: Foreign trade compared to the previous quarter.

	2019Q3	2019Q4
Exports	7.1	4.0
Imports	2.3	18.6
Exports excluding gold	11.4	5.1
Imports excluding gold	0.0	12.3

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 seasonal and calendar day adjusted leading indicators showed positive growth, except electricity consumption. A strong quarter-on-quarter increase in the demand for services (5.8 percent) and 4.6 percentage growth in investment expectations are remarkable (Table 8).

All indicators increased on a year-on-year basis comparison. Similar to the quarter-on-quarter figures, the growth in demand for services and investment expectations are eye-catching (Table 9).

In the light of fully released October, November and December leading indicators, we expect year-on-year GDP growth to be 5.8 percent and quarter-on-quarter growth to be 1.9 percent for the final quarter of 2019.

	2019Q3	2019Q4
IPI-manufacturing	1.9	1.8
RT price exp.	-7.6	3.7
CUR	0.1	0.5
Ser. demand turnover	8.5	5.8
Expected invest.-12m	0.4	4.6
Electricity cons.	-0.2	-0.8

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)

	2019Q3	2019Q4
IPI-manufacturing	1.0	5.6
RT price exp.	-17.9	0.2
CUR	-0.7	2.3
Ser. demand turnover	5.2	23.7
Expected invest.-12m	-2.6	10.4
Electricity cons.	-1.5	0.5

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.

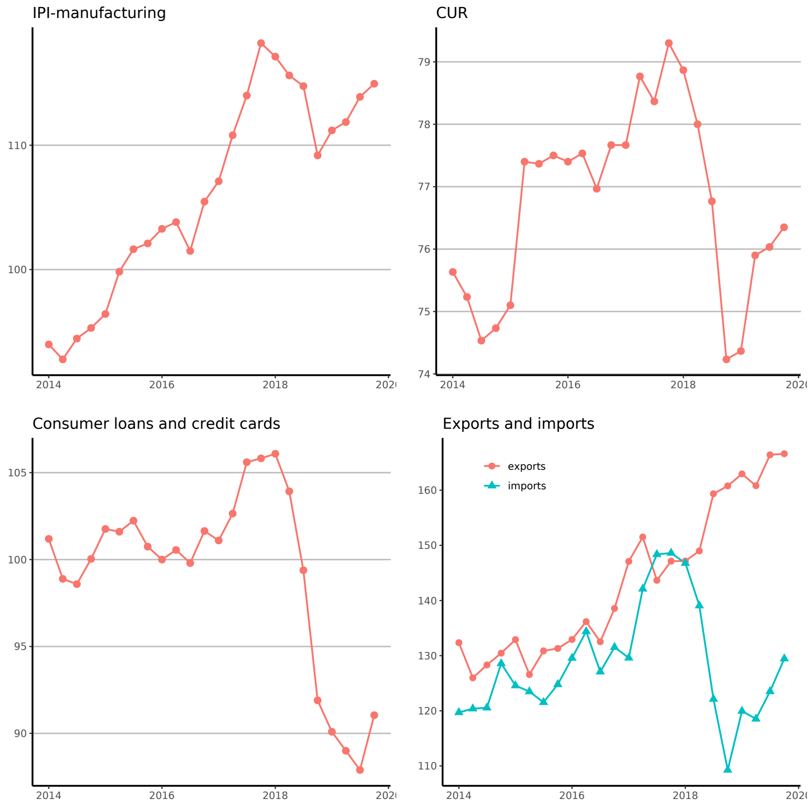

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.