Bahçeşehir Üniversitesi
Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts:
March 2020

BAHÇEŞEHİR ÜNİVERSİTESİ

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Economic Recovery Continues

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Executive Summary

In the light of fully-released January and partly-released February leading indicators, we expect year-on-year GDP growth to be 7 percent for the first quarter of 2020. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth as 1.7 percent for the first quarter.

There is a notable base effect in the year-on-year growth rate of the first quarter of 2020, considering the year-on-year growth rate of the same period of 2019 was minus 2.3 percent. A word of caution is necessary at this point. January and February leading indicators do not reflect the adverse impacts of coronavirus pandemic, since these effects have occurred in March for the Turkish economy. Thus, we suspect our estimates for the year-on-year and quarter-on-quarter growth rates of the first quarter of 2020 are somewhat upward biased. It is very likely that our estimates will be smaller in the following months.

GDP growth forecasts	2020Q1
Quarter-on-quarter	1,7
Year-on-year	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.

Increase in consumption expenditures

Compared to fourth quarter of 2020, there are increases in all leading consumption indicators except special consumption tax. We expect imports of consumption goods to have the most remarkable rate of increase with 17.4 percent. We predict strong quarterly increases in consumer loans (3.7 percent) and durable consumption goods (3.9 percent) as well (Table 2).

On a year-on-year basis, imports of consumption goods (12 percent), special consumption tax (14.2 percent) and public consumption expenditures (15.6 percent) increased at a rapid rate in the first quarter of 2020 (Table 3).

	2019Q4	2020Q1
Imports-cons. goods	6.6	17.4
Mortgage loans	2.5	1.8
Consumer loans + CC	4.7	3.7
IPI-nondurable goods	0.7	2.4
IPI-durable goods	4.8	3.9
Special cons. tax	-4.8	-1.0
Public cons.	3.7	1.0

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

	2019Q4	2020Q1
Imports-cons. goods	14.6	12.0
Mortgage loans	-8.6	-3.0
Consumer loans + CC	-0.1	5.8
IPI-nondurable goods	5.3	6.2
IPI-durable goods	-5.0	-9.0
Special cons. tax	18.5	14.2
Public cons.	13.2	15.6

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

Rapid growth in imports of investment goods

According to seasonal and calendar adjusted data, our calculations suggest a rapid increase in imports of investment goods in the first quarter of 2020 compared to the previous quarter. Contractions in public investment spending (minus 2.4 percent) and production volume in the last three months (minus 2.7 percent) present a mixed picture for the investment component (Table 4).

On a year-on-year basis, we expect public investment expenditures to grow at 30.5 percent, imports of investment goods 18.6 percent, and production volume in the last three months 15.2 percent (Table 5).

	2019Q4	2020Q1
IPI-inter. goods	2.4	2.6
CUR-invest. goods	0.5	-0.1
Imports-invest. goods	3.1	18.4
Commercial loans + CC	1.5	1.2
Prod.-last 3 months	10.0	-2.7
RT vol. of stock	2.2	3.3
Public invest.	-10.5	-2.4

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.

	2019Q4	2020Q1
IPI-inter. goods	6.5	4.9
CUR-invest. goods	1.5	1.4
Imports-invest. goods	10.6	18.6
Commercial loans + CC	-1.7	-1.0
Prod.-last 3 months	20.5	15.2
RT vol. of stock	-7.2	-1.2
Public invest.	-25.1	30.5

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 first quarter of 2020, according to seasonal and calendar adjusted data, exports increased 2.8 percent compared to the previous quarter while imports rose at a rate of 7.6 percent (Table 6).

When we compare the first quarter of 2020 with the same period of 2019, imports exhibited a strong increase (18.9 percent) and exports recorded a decrease (minus 1.3 percent) (Table 7).

We could say that the coronavirus pandemic has mixed effects on Turkish foreign trade. At the beginning of the outbreak when Turkey did not affected directly, shifting demands of European countries from China to Turkey increased Turkey's exports. The slowing down of the European countries and some neighbor countries such as Iraq due to the spread of the coronavirus will weigh down Turkey's exports. Also, Turkey's demand for imported goods may diminish. On the other hand, the sharp declines in energy prices will decrease Turkey's imports.

	2019Q4	2020Q1
Exports	0.6	2.8
Imports	6.3	7.6
Exports excluding gold	-2.0	6.2
Imports excluding gold	3.6	7.4

Table 6: Foreign trade compared to the previous quarter.

	2019Q4	2020Q1
Exports	3.7	-1.3
Imports	18.6	18.9
Exports excluding gold	4.1	2.7
Imports excluding gold	13.8	14.8

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 investment expectations and capacity utilization rate. A strong quarter-on-quarter increase in the demand for services (5.2 percent) is remarkable. Also, we expect 2.3 percent increase in electricity consumption (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 electricity consumption are eye-catching. We forecast that the annual rate of growth in investment expectations become much milder (Table 9).

In the light of fully-released January and partly-released February leading indicators, we expect year-on-year GDP growth to be 7 percent and quarter-on-quarter growth to be 1.7 percent for the final quarter of 2019. Since our calculations are based on the monthly data which do not reflect the coronavirus outbreak, these estimates are optimistic. We think that our estimates in the following months will be more realistic.

	2019Q4	2020Q1
IPI-manufacturing	1.8	1.3
RT price exp.	3.7	0.5
CUR	0.5	-0.7
Ser. demand turnover	5.8	5.2
Expected invest.-12m	4.6	-2.7
Electricity cons.	-0.8	2.3

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)

	2019Q4	2020Q1
IPI-manufacturing	5.7	2.8
RT price exp.	0.2	7.6
CUR	2.3	1.3
Ser. demand turnover	23.7	25.3
Expected invest.-12m	10.4	2.5
Electricity cons.	0.5	9.4

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.

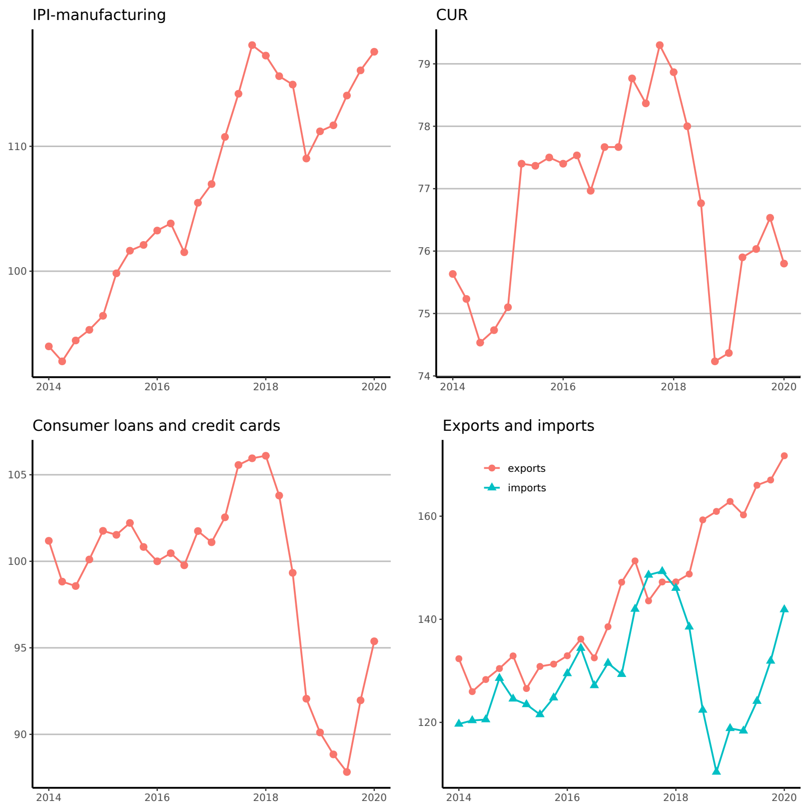

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.