Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: May 2020

BAHÇEŞEHİR ÜNİVERSİTESİ

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Strong Growth in the First Quarter

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Executive Summary

In the light of fully-released January, February, and March leading indicators, we expect year-on-year GDP growth to be 6,7 percent for the first quarter of 2020. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth as 1.3 percent for the first quarter.

There are two main reasons for this relatively high growth estimate. Firstly, there is a strong base effect: in the first quarter of 2019 the year-on-year growth rate was minus 2.3 percent. Secondly, the effects of Covid-19 are limited in the first quarter of 2020 because the pandemic impacts the economy in March.

We expect the growth estimate of the next month to be lower because of similar two reasons. In the second quarter of 2019 year-on-year growth was minus 1.6 percent indicating a lower base effect for the same quarter of 2020. Secondly, the Covid-19 is in effect through the entire second quarter.

GDP growth forecasts	2020Q1
Quarter-on-quarter	1.3
Year-on-year	6.7

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.

Consumption indicators present a mixed outlook

Compared to fourth quarter of 2019, there are increases in all leading consumption indicators except durable and non-durable goods. We expect special consumption tax to have the most remarkable rate of increase with 9.6 percent. Imports of consumption goods increases at a 9.1 percent rate which is significantly lower than our previous estimate (16.7 percent increase). When we include March data to our calculations, consumer and mortgage loans show 5.7 and 3.5 percent increases which are milder than the previous estimates. Durable and non-durable goods decreases with 2.6 and 0.1 percent rate; hence, the consumption leading indicators presents a more mixed outlook compared to our previous estimates (Table 2).

On a year-on-year basis, imports of consumption goods (17.4 percent), special consumption tax (11.8 percent), and public consumption expenditure (8.5 percent) increases are remarkable. We forecast 5.5 percent decrease in consumption of durable goods (Table 3).

	2019Q4	2020Q1
Imports-cons. goods	6.7	9.1
Mortgage loans	3.1	3.5
Consumer loans + CC	3.5	5.7
IPI-nondurable goods	0.6	-0.1
IPI-durable goods	4.6	-2.6
Special cons. tax	-4.0	9.6
Public cons.	3.1	0.5

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	17.4
Mortgage loans	-9.0	-1.3
Consumer loans + CC	-1.4	6.9
IPI-nondurable goods	5.3	4.9
IPI-durable goods	-5.0	-5.5
Special cons. tax	18.5	11.8
Public cons.	13.2	8.5

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

Strong 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 (12.5 percent). Contractions in public investment spending (minus 1.9 percent) and production volume in the last three months (minus 0.4 percent) present a mixed picture for the investment component. As in the case of consumer loans, commercial loans shows a solid recovery (3 percent), but with a milder rate than our previous estimate (5.5 percent) (Table 4).

On a year-on-year basis, we expect imports of investment goods increase with 23.2 percent rate, and production volume in the last three months 13.5 percent. Public investment expenditures, on the other hand, contracts with a rate of 23.9 percent (Table 5).

	2019Q4	2020Q1
IPI-inter. goods	2.4	1.5
CUR-invest. goods	0.6	0.5
Imports-invest. goods	2.9	12.5
Commercial loans + CC	-1.6	3.0
Prod.-last 3 months	10.0	-0.4
RT vol. of stock	2.2	1.3
Public invest.	-11.2	-1.9

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	6.4	8.2
CUR-invest. goods	1.5	2.3
Imports-invest. goods	10.6	23.2
Commercial loans + CC	-3.3	-0.0
Prod.-last 3 months	20.5	13.5
RT vol. of stock	-7.2	-3.0
Public invest.	-25.1	-23.9

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

Imports grow while exports fall

In the first quarter of 2020, according to seasonal and calendar adjusted data, we expect exports to decrease 5.4 percent compared to the previous quarter while imports rise at a rate of 3.3 percent (Table 6).

When we compare the first quarter of 2020 with the same period of 2019, imports exhibits a strong increase (15.8 percent) and exports recorded a decrease (minus 2.7 percent) (Table 7).

Important trade partners of Turkey such as European countries and neighbors such as Iraq experience economic slowdowns; hence, Turkish exports are subdued. Turkey's demand for imported goods is somewhat resilient. Although declines in the energy prices and slower growth rates in imports of consumption goods weigh down the total imports, there is still growth in imports of Turkey.

	2019Q4	2020Q1
Exports	0.6	-5.4
Imports	6.2	3.3
Exports excluding gold	-2.1	-4.2
Imports excluding gold	3.4	1.5

Table 6: Foreign trade compared to the previous quarter.

	2019Q4	2020Q1
Exports	3.7	-2.7
Imports	18.6	15.8
Exports excluding gold	4.1	-2.4
Imports excluding gold	14.4	11.4

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 show positive growth, except investment expectations and capacity utilization rate. There is a strong quarter-on-quarter increase in the demand for services with 5.2 percent, but this figure is much lower than our previous estimate of 6.7 percent. Increase in electricity consumption is limited with 2.2 percent. Retail trade sector as one of the most affected sectors from the pandemic expects no change in retail prices (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 is eye-catching. There is a 6 percent growth in manufacturing industrial production index (IPI) as well (Table 9).

In the light of fully-released January and partly-released February leading indicators, we expect year-on-year GDP growth to be 6.7 percent and quarter-on-quarter growth to be 1.3 percent for the first quarter of 2020. There are two main reasons for this relatively high growth estimate. Firstly, there is a strong base effect: in the first quarter of 2019 the year-on-year growth rate was minus 2.3 percent. Secondly, the effects of Covid-19 are limited in the first quarter of 2020 because the pandemic impacts the economy in March.

	2019Q4	2020Q1
IPI-manufacturing	1.8	0.2
RT price exp.	3.7	0.0
CUR	0.5	-0.3
Ser. demand turnover	5.8	5.2
Expected invest.-12m	4.6	-3.1
Electricity cons.	-0.8	2.2

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

	2019Q4	2020Q1
IPI-manufacturing	5.7	6.0
RT price exp.	0.2	5.0
CUR	2.3	1.4
Ser. demand turnover	23.7	29.0
Expected invest.-12m	10.4	2.1
Electricity cons.	0.5	3.2

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.

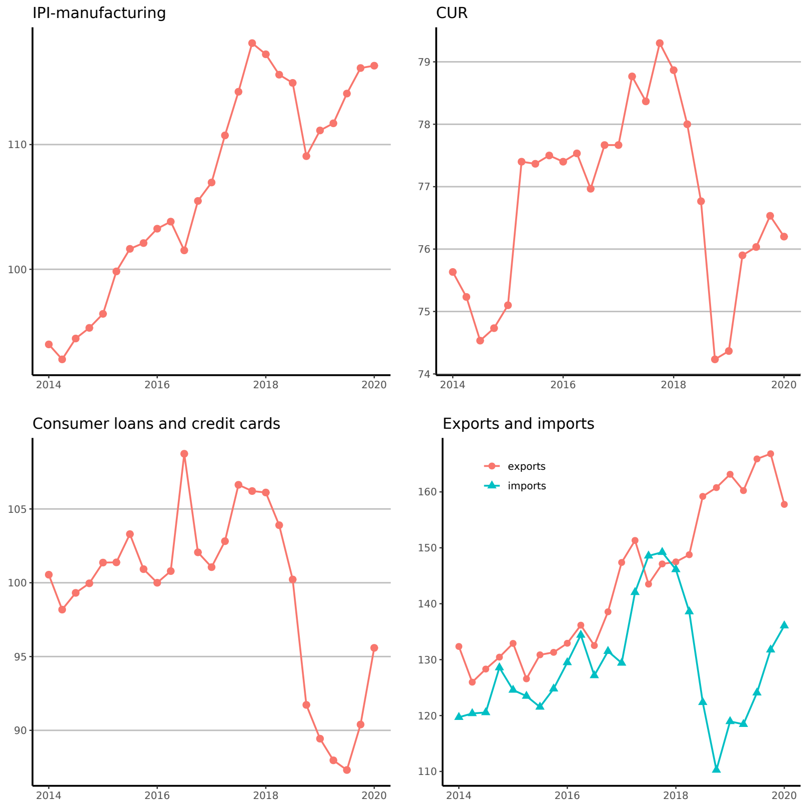

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.