Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: July 2020

BAHÇEŞEHİR ÜNİVERSİTESİ

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Sharp Decline in the Second Quarter

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Executive Summary

In the light of fully-released April and May, and partially released June leading indicators, we expect GDP to contract by 7.5 percent on a year-on-year basis for the second quarter of 2020. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth as minus 5.0 percent for the second quarter.

We would like to note that almost all leading indicators decreases. There is not any positive contribution to the GDP growth either from consumption, investments, or foreign trade. Some indicators such as industrial production index and capacity utilization rates recorded limited recoveries compared to our former forecast; however, they are still in the negative side. The effects of the economic stimulation policies (CBRT policy rate cuts, cheap credits provided by the public banks, and economic support programs for SMEs) have been limited.

GDP growth forecasts	2020Q2
Quarter-on-quarter	-5.0
Year-on-year	-7.5

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 spending decreases

Compared to previous quarter, there are significant decreases in all leading consumption indicators except consumer and mortgage loans. The sharpest declines realize in durable and non-durable goods (38.4 percent and 26.6 percent respectively), and in imported consumption goods (29.8 percent). We calculate that the mortgage loans increases moderately by 0.5 percent quarterly while consumption loans and credit cards show stronger rate of increase with 2.7 percent (Table 2).

On a year-on-year basis, we expect similar decreases in both durable goods, non-durable goods, and imported consumption goods (44.3, 26.5, and 22.1 percent respectively). We calculate milder contractions in special consumption tax and public consumption expenditures while rapid increases for mortgage loans and consumption loans (Table 3).

	2020Q1	2020Q2
Imports-cons. goods	6.6	-29.8
Mortgage loans	3.1	0.5
Consumer loans + CC	6.0	2.7
IPI-nondurable goods	0.1	-26.6
IPI-durable goods	-1.8	-38.4
Special cons. tax	6.5	-12.2
Public cons.	0.0	-3.9

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

	2020Q1	2020Q2
Imports-cons. goods	17.4	-22.1
Mortgage loans	-0.3	4.1
Consumer loans + CC	8.0	12.1
IPI-nondurable goods	5.1	-26.5
IPI-durable goods	-5.0	-44.3
Special cons. tax	11.8	-5.2
Public cons.	8.5	-0.6

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

Investment indicators are on the negative side

According to seasonal and calendar adjusted data, our calculations suggest declines in all investment indicators except commercial credits and retail trade stocks in the second quarter of 2020 compared to the previous quarter. We calculate that production volume in the last three months, and intermediate goods production index to fall by 49.6 and 26.3 percent respectively while capacity utilization rate of the investment goods and imports of investment goods to decrease by 19.4 percent. We expect a strong growth in commercial loans with 16.0 percent, and 9.6 percent increase in retail trade stocks (Table 4).

On a year-on-year basis, we face a similar picture. The imports of investment goods declines at a mild rate (0.3 percent) while there are sharp decreases in production volume in the last three months, production of intermediate and investment goods. We expect a solid growth in commercial credits as well (Table 5).

	2020Q1	2020Q2
IPI-inter. goods	1.4	-26.3
CUR-invest. goods	0.6	-19.4
Imports-invest. goods	12.4	-19.4
Commercial loans + CC	2.2	16.0
Prod.-last 3 months	-0.4	-49.6
RT vol. of stock	1.3	9.6
Public invest.	6.3	-0.5

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.

	2020Q1	2020Q2
IPI-inter. goods	8.2	-23.7
CUR-invest. goods	2.3	-17.7
Imports-invest. goods	23.2	-0.3
Commercial loans + CC	0.1	17.5
Prod.-last 3 months	13.5	-40.6
RT vol. of stock	-3.1	10.9
Public invest.	-23.9	-2.2

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

Foreign trade shrinks

In the second quarter of 2020, according to seasonal and calendar adjusted data, we expect exports to decrease by 27.2 percent compared to the previous quarter while imports decline at a rate of 19.7 percent (Table 6).

When we compare the second quarter of 2020 with the same period of 2019, we forecast exports to contract by 32.7 percent, and imports 12.8 percent (Table 7).

The decreases in the foreign trade volume is inevitable because all of the economies are affected adversely by the pandemic. Exports decreases at a faster rate than imports in the Turkish economy indicating that foreign trade weighs down the economic growth. We note that the losses in exports and imports are less than our former forecast. On the other hand, the tourism sector continues to suffer

	2020Q1	2020Q2
Exports	-6.6	-27.2
Imports	1.7	-19.7
Exports excluding gold	-2.5	-41.7
Imports excluding gold	1.9	-21.5

Table 6: Foreign trade compared to the previous quarter.

	2020Q1	2020Q2
Exports	-2.7	-32.7
Imports	15.8	-12.8
Exports excluding gold	-1.7	-44.3
Imports excluding gold	12.2	-14.7

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 negative growth. The most eye-catching decline is in the services demand with 52.5 percent. Manufacturing production index decreases by 28.8 percent while investment expectations contracts at a rate of 26.4 percent and reflects the pessimism of the market actors (Table 8).

All indicators decrease on a year-on-year basis comparison as well. Similar to the quarter-on-quarter figures, the sharpest decline is in the demand for services (56.4 percent). Manufacturing production index and investment expectations show minus 27.9 and 25.1 percent growth rates respectively (Table 9).

In the light of fully-released April and May, and partially released June leading indicators, we expect GDP to contract by 7.5 percent on a year-on-year basis for the second quarter of 2020. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth as minus 5.0 percent for the second quarter. We would like to note that almost all leading indicators decreases. There is not any positive contribution to the GDP growth either from consumption, investments, or foreign trade. Some indicators such as industrial production index and capacity utilization rates recorded limited recoveries compared to our former forecast; however, they are still in the negative side. The effects of the economic stimulation policies (CBRT policy rate cuts, cheap credits provided by the public banks, and economic support programs for SMEs) have been limited.

	2020Q1	2020Q2
IPI-manufacturing	0.2	-28.8
RT price exp.	0.0	-13.6
CUR	-0.3	-13.9
Ser. demand turnover	5.2	-52.5
Expected invest.-12m	-3.1	-26.4
Electricity cons.	2.3	-15.4

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)

	2020Q1	2020Q2
IPI-manufacturing	6.1	-27.9
RT price exp.	5.0	-15.3
CUR	1.4	-14.0
Ser. demand turnover	29.0	-56.4
Expected invest.-12m	2.1	-25.1
Electricity cons.	3.2	-16.0

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.

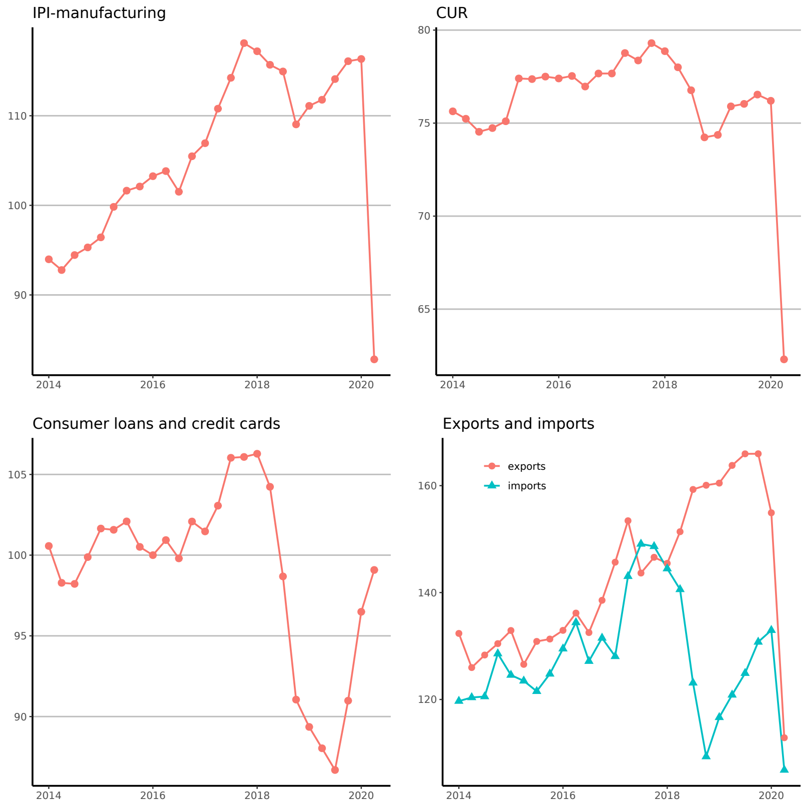

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.