Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts: November 2020

BAHÇEŞEHİR ÜNİVERSİTESİ

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Signs of Strong Recovery

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Executive Summary

In the light of fully-released July and August, and partially released September leading indicators, we expect GDP to expand by 5.0 percent on a year-on-year basis for the third quarter of 2020. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth as 12.0 percent for the third quarter.

Nearly all of the leading indicators record significant increases. The normalization steps taken at the start of the June supported the Turkish economy. There is a base effect, although mildly in the annual figure, in these rapid GDP growth rates. We can say that the Turkish economy has recovered after hitting the bottom. We anticipate that this strong recovery in the third quarter will not continue in the last quarter of the year due to the new measures and restrictions taken in December.

GDP growth forecasts	2020Q3
Quarter-on-quarter	12.0
Year-on-year	5.0

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.

Consumption spending increases rapidly

Compared to previous quarter, there are significant increases in all leading consumption indicators except public consumption. According to our calculations based on the seasonally and calendar adjusted data, special consumption tax, durable consumption goods, consumption good imports, and non-durable consumption goods are the most rapidly increasing items with 48.0, 45.1, 34.5, and 27.2 growth rates respectively (Table 2).

On a year-on-year basis, we see a similar outlook. While special consumption tax, and mortgage and consumer loans are the fastest growing items with a rate of 40.8, 33.0 and 32.2 percent respectively, consumption goods imports records 23.2 percent increase (Table 3).

	2020Q2	2020Q3
Imports-cons. goods	-22.1	34.5
Mortgage loans	2.6	21.8
Consumer loans + CC	4.2	14.0
IPI-nondurable goods	-19.8	27.2
IPI-durable goods	-25.0	45.1
Special cons. tax	-9.2	48.0
Public cons.	-4.6	-2.3

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

	2020Q2	2020Q3
Imports-cons. goods	-9.5	23.2
Mortgage loans	6.7	33.0
Consumer loans + CC	14.4	32.2
IPI-nondurable goods	-16.2	5.8
IPI-durable goods	-30.5	17.7
Special cons. tax	2.4	40.8
Public cons.	-2.6	-2.9

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

Investment indicators recover

According to seasonal and calendar adjusted data, our calculations suggest surges in all investment indicators except retail trade stock volume and public investment (7.5 and 2.0 percent contraction respectively). We expect increases in production volume in the last three months by 91.3 percent, intermediate goods production index by 28.7 percent, and investment goods imports by 23.8 percent. On the other hand, our calculations suggest that there will be milder growth rates in investment goods capacity utilization rate and commercial loans (10.4 and 6.6 percent respectively) (Table 4).

On a year-on-year basis, we see decreases in public investments (minus 15.5), investment goods capacity utilization rate (minus 5.0 percent) while the other indicators record expansions. The strongest recovery is in the commercial credits with a rate of 32.1 percent. Investment goods imports follows with a growth rate of 19.2 percent. Intermediate goods production grows by 10.8 percent and retail trade stock volume by 3.2 percent (Table 5).

Recovery in investment spending is a great news for the Turkish economy, since it has fallen since the second half of 2018 continuously.

	2020Q2	2020Q3
IPI-inter. goods	-18.8	28.7
CUR-invest. goods	-16.2	10.4
Imports-invest. goods	-17.9	23.8
Commercial loans + CC	19.0	6.6
Prod.-last 3 months	-51.7	91.3
RT vol. of stock	7.8	-7.5
Public invest.	0.3	-2.0

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.

	2020Q2	2020Q3
IPI-inter. goods	-14.0	10.8
CUR-invest. goods	-14.7	-5.0
Imports-invest. goods	5.6	19.2
Commercial loans + CC	19.0	32.1
Prod.-last 3 months	-43.6	1.4
RT vol. of stock	9.2	3.2
Public invest.	22.2	-15.5

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

Strong recovery in foreign trade

In the third quarter of 2020, according to seasonal and calendar adjusted data, we expect exports to increase by 29.7 percent compared to the previous quarter while imports to grow at a rate of 22.2 percent (Table 6).

When we compare the third quarter of 2020 with the same period of 2019, we forecast exports to decrease by 1.6 percent because of the base effect, and imports to grow by 16.7 percent (Table 7). Exports and imports net of gold contract; on the other hand, indicating that exports and imports growth are essentially due to the gold trade.

The rapid quarterly decline in exports observed in the first half of the 2020 is now replaced by increases in exports. This development will support the economic growth of the next period positively.

	2020Q2	2020Q3
Exports	-19.7	29.7
Imports	-13.1	22.2
Exports excluding gold	-35.5	26.0
Imports excluding gold	-19.2	14.4

Table 6: Foreign trade compared to the previous quarter.

	2020Q2	2020Q3
Exports	-23.8	-1.6
Imports	-6.5	16.7
Exports excluding gold	-38.3	-21.9
Imports excluding gold	-12.7	-1.9

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 significant growth. The most eye-catching increase is in the services demand with 46.4 percent and in manufacturing industry production index with 32.2 percent. Retail trade price expectations shows 17.6 percent rise while investment expectations in 12 months and electricity consumption are expected to grow by 16.8 and 15.3 percent respectively (Table 8).

On a year-on-year basis, the services demand declines sharply with a figure of 21.3 percent despite its quarterly surge. Likewise, investment expectations in 12 months and capacity utilization rate decreases by 9.5 and 3.5 percent respectively. The yearly declines are due to the pandemic. The strongest yearly recovery is in the retail price expectations with 14.7 percent while manufacturing industry production index rises by 9.2 percent and electricity consumption by 3.6 percent (Table 9).

Nearly all of the leading indicators record significant increases. The normalization steps taken at the start of the June supported the Turkish economy. There is a base effect, although mildly in the annual figure, in these rapid GDP growth rates. We can say that the Turkish economy has recovered after hitting the bottom. We anticipate that this strong recovery in the third quarter will not continue in the last quarter of the year due to the new measures and restrictions taken in December.

	2020Q2	2020Q3
IPI-manufacturing	-21.1	32.2
RT price exp.	-7.2	17.6
CUR	-12.7	9.2
Ser. demand turnover	-53.7	46.4
Expected invest.-12m	-23.6	16.8
Electricity cons.	-12.8	15.3

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)

	2020Q2	2020Q3
IPI-manufacturing	-17.3	9.2
RT price exp.	-9.8	14.7
CUR	-12.7	-3.5
Ser. demand turnover	-55.4	-21.3
Expected invest.-12m	-22.2	-9.5
Electricity cons.	-11.5	3.6

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.

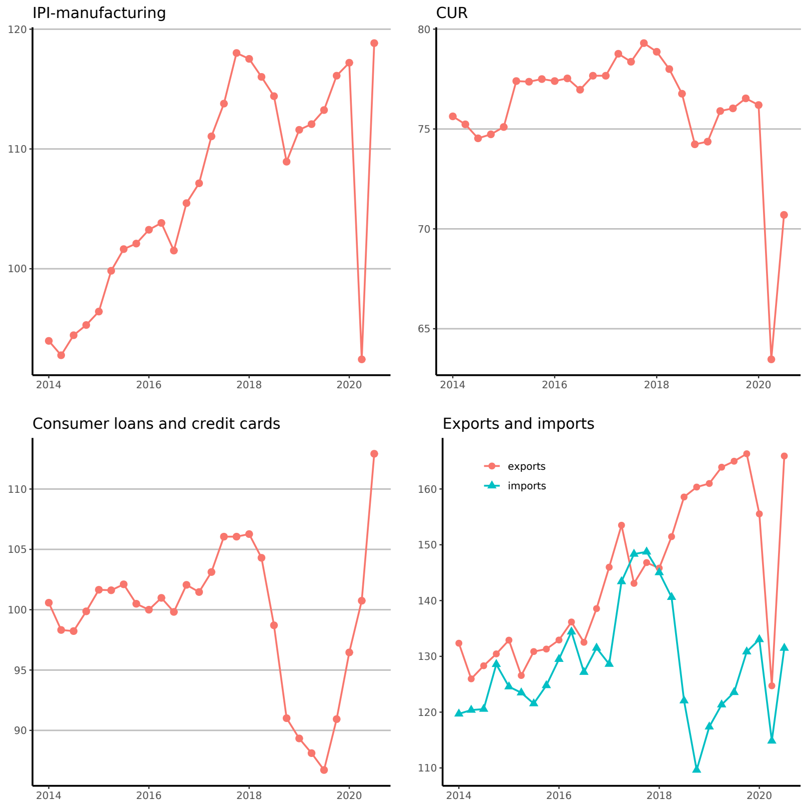

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.