Bahçeşehir Üniversitesi Ekonomik ve Toplumsal Araştırmalar Merkezi
Betam

Economic Growth and Forecasts:
May 2021

BAHÇEŞEHİR ÜNİVERSİTESİ

27 May 2021

High Growth Continues in the First Quarter

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Executive Summary

In the light of fully-released January, February, and March leading indicators, we expect GDP to expand by 6.9 percent on a year-on-year basis for the first quarter of 2021. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth to be 1.4 percent.

The leading indicators record mostly increases on year-on-year basis while some of them contract quarterly. A number of indicators contract both yearly and quarterly. Despite these observations, we expect high quarterly and yearly GDP growth rates.

GDP growth forecasts	2020Q1
Quarter-on-quarter	1.4
Year-on-year	6.9

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.

Mixed outlook in consumption spending

Compared to the previous quarter, except for durable and non-durable consumption goods (6.0 percent and 0.9 percent increases respectively), all leading consumption indicators decrease. According to our calculations based on the seasonally and calendar adjusted data, special consumption tax, and consumption goods imports are the most severely contracted indicators with respectively 14.1 and 5.7 percent rate while mortgage loans decreases by 5.1 percent (Table 2).

On a year-on-year basis, we see growth in all consumption indicators except public spending (minus 3.8 percent). The most important growth rates are in durable consumption goods with a rate of 22.3 percent while consumer and mortgage loans increase with 17.5 and 15.7 percent (Table 3).

	2020Q4	2021Q1
Imports-cons. goods	11.4	-5.7
Mortgage loans	-2.2	-5.1
Consumer loans + CC	0.5	-2.2
IPI-nondurable goods	2.6	0.9
IPI-durable goods	6.3	6.0
Special cons. tax	-6.9	-14.1
Public cons.	2.3	-2.7

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

	2020Q4	2021Q1
Imports-cons. goods	22.2	5.6
Mortgage loans	26.0	15.7
Consumer loans + CC	26.9	17.5
IPI-nondurable goods	7.7	6.4
IPI-durable goods	17.6	22.3
Special cons. tax	39.4	8.8
Public cons.	1.4	-3.8

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

Signs of contraction in investments

According to seasonal and calendar adjusted data, our calculations suggest public investments, intermediate good production index, and investment goods capacity utilization rate record expansions(7.2, 4.9 and 1.7 percent respectively). We expect 4.5 percent decrease in commercial credits and 4.2 percent in the production volume of the last three months (Table 4).

On a year-on-year basis, we see that some investment indicators change in a completely different directions. Public investments decline surprisingly at a rate of 46.5 percent while the yearly growth rate in commercial credits reaches 24.9 percent high. Intermediate goods production and investment goods imports grow considerably by 15.1 and 14.8 percent (Table 5).

	2020Q4	2021Q1
IPI-inter. goods	5.6	4.9
CUR-invest. goods	3.0	1.7
Imports-invest. goods	16.7	-1.5
Commercial loans + CC	4.9	-4.5
Prod.-last 3 months	15.6	-4.2
RT vol. of stock	1.1	-3.6
Public invest.	-4.8	7.2

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.

	2020Q4	2021Q1
IPI-inter. goods	12.6	15.1
CUR-invest. goods	-2.5	-1.1
Imports-invest. goods	30.7	14.8
Commercial loans + CC	34.4	24.9
Prod.-last 3 months	12.4	6.5
RT vol. of stock	2.3	-2.8
Public invest.	22.6	-46.5

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

Foreign trade balance except gold deteriorates

In the first quarter of 2021, according to seasonal and calendar adjusted data, we expect exports to grow by 0.6 percent compared to the previous quarter while imports to decrease at a rate of 5.0 percent (Table 6).

When we compare the first quarter of 2021 with the same period of 2020, we forecast exports to grow by 10.7 percent and imports to not change (Table 7).

Excluding gold, exports contract while imports surge implying a deterioration of the non-gold foreign trade balance.

	2020Q4	2021Q1
Exports	7.7	0.6
Imports	3.0	-5.0
Exports excluding gold	20.7	-1.3
Imports excluding gold	17.1	0.3

Table 6: Foreign trade compared to the previous quarter.

	2020Q4	2021Q1
Exports	5.7	10.7
Imports	12.1	-0.0
Exports excluding gold	-4.3	-1.8
Imports excluding gold	5.3	3.3

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, most of the seasonal and calendar day adjusted leading indicators show increases. The most eye-catching increases are in investment expectations in 12 months with 7.6 percent and in electricity consumption with 2.5 percent. On the other hand, retail price expectations decrease by 8.0 percent while capacity utilization rate remains nearly the same (Table 8).

On a year-on-year basis, services demand shows decreases (minus 10.5 percent) despite its quarterly growth. The strongest yearly surges are recorded in investment expectations in 12 months (12.1 percent) and in manufacturing production (11.8 percent) (Table 9).

In the light of fully-released January, and partially-released February leading indicators, we expect GDP to expand by 6.9 percent on a year-on-year basis for the first quarter of 2021. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth to be 1.4 percent.

	2020Q4	2021Q1
IPI-manufacturing	5.0	2.7
RT price exp.	0.2	-8.0
CUR	2.5	0.4
Ser. demand turnover	11.8	3.0
Expected invest.-12m	16.8	7.6
Electricity cons.	3.2	4.7

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)

	2020Q4	2021Q1
IPI-manufacturing	10.9	11.8
RT price exp.	9.2	-2.3
CUR	-1.3	-0.6
Ser. demand turnover	-10.7	-10.5
Expected invest.-12m	1.0	12.1
Electricity cons.	4.5	6.0

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.

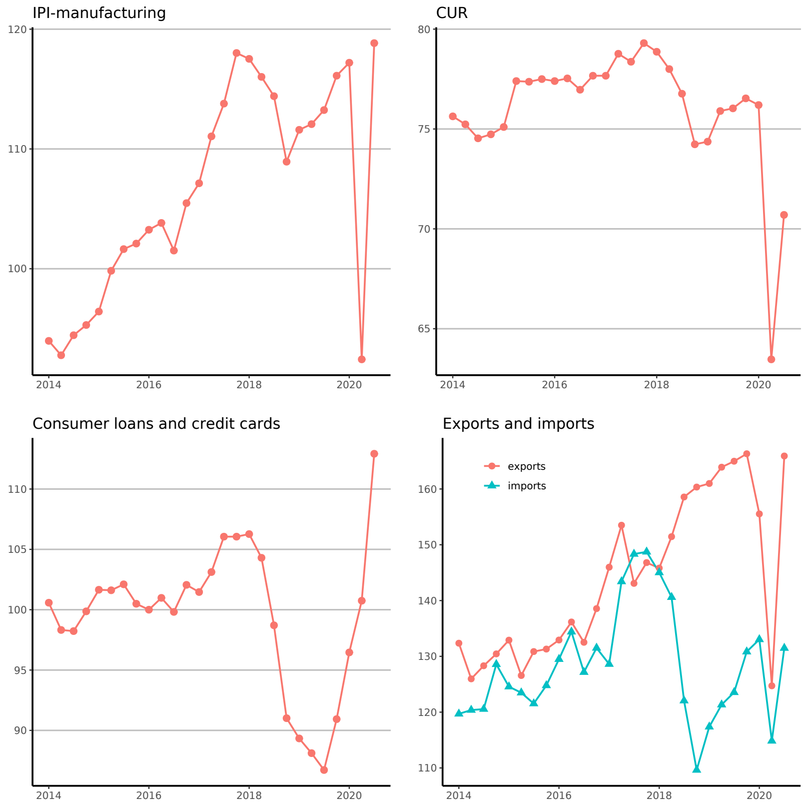

Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.