

## Exports Drive Growth in the Third Quarter

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### Executive Summary

In the light of fully-released July, August and partially-released September leading indicators, we expect GDP to expand by 5.6 percent on a year-on-year basis for the third quarter of 2021. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth to be 1.6 percent.

There are two sources of economic growth in the third quarter. The first one is the increase in public investment spending on the annual basis. The second one is positive trade balance. We expect GDP growth in 2021 to be around 10 percent if there is no big surprise. IMF has recently raised its growth forecast for Turkey for 2021 from 5.8 percent to 9 percent. Current developments are in line with this forecast.

GDP growth forecasts	2021Q3
Quarter-on-quarter	1.6
Year-on-year	5.6

**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

We expect some of leading seasonally and calendar adjusted indicators of consumption to shrink in the third quarter of 2021 compared to the previous quarter. We predict imported consumption to decrease more than 10 percent on the quarterly basis (Table 2).

On a year-on-year basis, we see decline in almost all consumption indicators. We predict private consumption tax and imported consumption to shrink up to 30 percent and 20 percent, respectively. (Table 3).

	2021Q2	2021Q3
Imports-cons. goods	-4.4	-11.6
Mortgage loans	-3.8	-2.8
Consumer loans + CC	-0.9	-0.5
IPI-nondurable goods	0.6	3.0
IPI-durable goods	-1.7	-3.8
Special cons. tax	-8.1	1.3
Public cons.	2.3	1.1

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

	2021Q2	2021Q3
Imports-cons. goods	33.5	-18.1
Mortgage loans	8.8	-11.6
Consumer loans + CC	11.6	-2.3
IPI-nondurable goods	31.9	1.9
IPI-durable goods	62.5	-2.7
Special cons. tax	3.3	-28.4
Public cons.	3.2	-0.7

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

*Increase in public investment expenditure on annual basis*

According to seasonally and calendar adjusted data, we observe decreases in indicators of investment in the third quarter of 2021. Import of investment good reduces 7.5 percent (Table 4).

There are rise signals in public investment spending (34.7 percent) and production in last three month (13.8 percent) on the annual basis. We expect commercial loans and credit cards to decrease (Table 5).

*Exports increase while imports decrease*

We calculate both seasonally and calendar adjusted exports and imports figures to decline by 1.4 percent and 0.3 percent respectively in the third quarter of 2021 (Table 6).

When we compare the third quarter of 2021 with the same period of 2020, we forecast exports to increase by 8.9 percent while imports to see contraction with 9.4 percent. Thus we expect foreign trade to contribute growth both year-on-year in the third quarter of 2021 (Table 7).

	2021Q2	2021Q3
IPI-inter. goods	1.9	0.8
CUR-invest. goods	-4.2	1.3
Imports-invest. goods	-3.9	-7.5
Commercial loans + CC	-3.6	-4.1
Prod.-last 3 months	-6.4	2.1
RT vol. of stock	-3.2	-3.4
Public invest.	16.2	-3.5

**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.

	2021Q2	2021Q3
IPI-inter. goods	44.8	7.4
CUR-invest. goods	10.7	1.5
Imports-invest. goods	35.0	-2.6
Commercial loans + CC	3.1	-8.3
Prod.-last 3 months	85.3	13.8
RT vol. of stock	-13.8	-8.9
Public invest.	28.4	34.7

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

	2021Q2	2021Q3
Exports	10.6	-1.4
Imports	3.7	-0.3
Exports excluding gold	3.4	3.1
Imports excluding gold	4.7	-0.0

**Table 6:** Foreign trade compared to the previous quarter.

	2021Q2	2021Q3
Exports	53.2	8.9
Imports	19.9	-9.4
Exports excluding gold	65.3	22.1
Imports excluding gold	31.0	8.6

**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 of the seasonal and calendar day adjusted leading indicators show increases. The most eye-catching increase is in demand for services with 9 percent (Table 8).

Compared with the same quarter of the previous year, demand for services and investment expectation are expected to increase more than 30 percent. Increases in capacity utilization rate and manufacturing production index continue, albeit slowly (Table 9).

In the light of fully-released July, August and partially-released September leading indicators, we expect GDP to expand by 5.6 percent on a year-on-year basis for the third quarter of 2021. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth to be 1.6 percent.

	2021Q2	2021Q3
IPI-manufacturing	1.6	1.1
RT price exp.	3.3	3.4
CUR	0.3	0.7
Ser. demand turnover	3.4	9.0
Expected invest.-12m	4.0	0.4
Electricity cons.	2.3	2.8

**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)

	2021Q2	2021Q3
IPI-manufacturing	42.9	3.5
RT price exp.	7.9	-1.4
CUR	12.5	4.0
Ser. demand turnover	80.0	33.7
Expected invest.-12m	52.6	31.2
Electricity cons.	19.3	11.1

**Table 9:** Some of leading indicators compared to the same quarter of the previous year.

### BOX: EXPLANATIONS

#### Explanation on seasonal and calendar day adjustment:

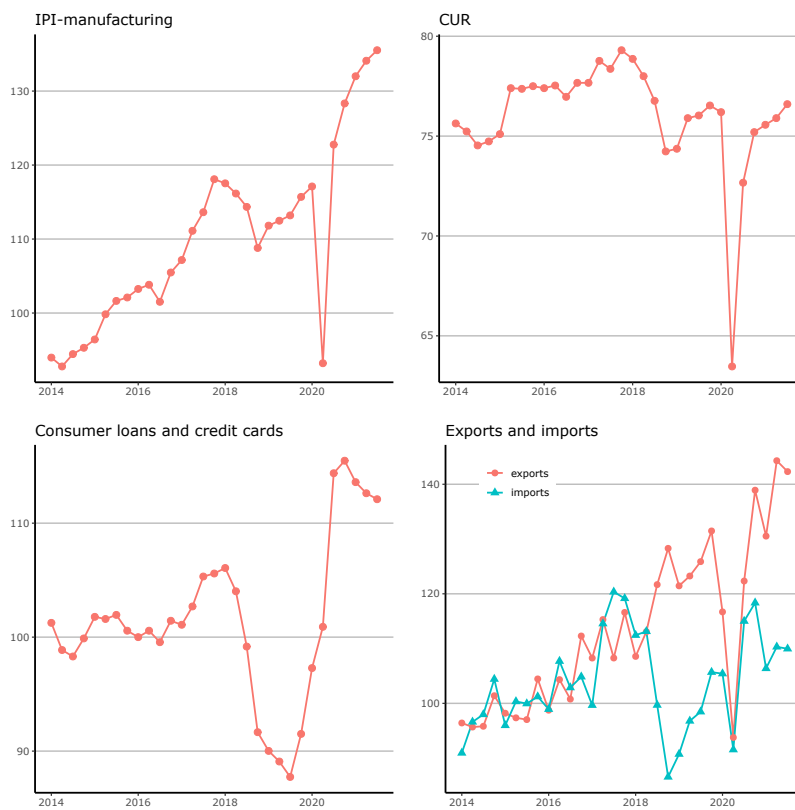
While forecasting quarter-on-quarter GDP growth rate, we adjust all series for seasonal and calendar day effects. If there is an adjusted series released by institutions, we use this released adjusted series and if not, BETAM performs seasonal and calendar day adjustments. Status of variables used in 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 monthly 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 forecasting 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.