

Exports Continue to Drive Growth

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Executive Summary

In the light of fully-released October and partly-released November leading indicators, we expect GDP to expand by 5.3 percent on a year-on-year basis for the last quarter of 2021. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth to be 1.3 percent.

There are two sources of economic growth in the third quarter: the increase in demand on services on the annual basis, and the positive balance of foreign trade. IMF has recently raised its growth forecast for Turkey for 2021 from 5.8 percent to 9 percent. If the growth rate in the fourth quarter is close to our forecast then, the 2021 growth will be over 10 percent. However, the decrease or stagnation in leading investment indicators, especially in the import of investment goods, is likely to reduce the growth rate in the following periods.

GDP growth forecasts	2021Q4
Quarter-on-quarter	1.3
Year-on-year	5.3

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 continues to decline

We expect some of leading seasonally and calendar adjusted indicators of consumption to shrink in the fourth quarter of 2021 compared to the previous quarter. We predict imported consumption to decrease 6 percent and special consumption tax to decrease more than 10 percent on the quarterly basis (Table 2).

On a year-on-year basis, we see a one-third decline in imported consumption and special consumption tax. On the other hand, there is 13.2 percent increase in public consumption (Table 3).

	2021Q3	2021Q4
Imports-cons. goods	-10.8	-6.0
Mortgage loans	-3.4	-2.2
Consumer loans + CC	-0.6	-0.0
IPI-nondurable goods	3.7	4.4
IPI-durable goods	-1.9	3.9
Special cons. tax	-4.0	-10.4
Public cons.	3.1	8.0

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

	2021Q3	2021Q4
Imports-cons. goods	-14.6	-29.3
Mortgage loans	-11.8	-12.8
Consumer loans + CC	-1.9	-2.6
IPI-nondurable goods	7.2	7.7
IPI-durable goods	6.0	0.8
Special cons. tax	-29.0	-34.5
Public cons.	5.0	13.2

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

Investments crash on the annual basis

According to seasonally and calendar adjusted data, we observe decreases in all indicators of investment except investment goods import in the last quarter of 2021. Import of investment goods reduces 7.2 percent (Table 4).

On an annual basis, we calculate that import of investment goods and public investment expenditures decrease by 23 percent. Close to 10 percent shrinkage is expected in commercial loans and credit cards (Table 5).

The positive course of foreign trade continues

We calculate seasonally and calendar adjusted export to increase by 2.2 percent and import to decline by 7.5 percent in the last quarter of 2021 (Table 6).

When we compare the last quarter of 2021 with the same period of 2020, we forecast exports to increase by 10.4 percent while imports to see contraction with 22.1 percent. Thus we expect foreign trade to contribute growth both year-on-year in the last quarter of 2021 (Table 7).

	2021Q3	2021Q4
IPI-inter. goods	1.4	2.2
CUR-invest. goods	2.5	1.2
Imports-invest. goods	-6.3	-7.2
Commercial loans + CC	-3.8	0.5
Prod.-last 3 months	4.6	6.2
RT vol. of stock	-1.7	8.9
Public invest.	-2.2	8.5

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.

	2021Q3	2021Q4
IPI-inter. goods	12.4	9.3
CUR-invest. goods	3.0	0.9
Imports-invest. goods	0.8	-23.0
Commercial loans + CC	-8.7	-9.5
Prod.-last 3 months	13.4	3.6
RT vol. of stock	-7.3	-0.2
Public invest.	33.7	-23.6

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

	2021Q3	2021Q4
Exports	1.5	2.2
Imports	-1.2	-7.5
Exports excluding gold	5.2	3.5
Imports excluding gold	-0.9	-11.1

Table 6: Foreign trade compared to the previous quarter.

	2021Q3	2021Q4
Exports	15.6	10.4
Imports	-7.5	-22.1
Exports excluding gold	29.9	21.5
Imports excluding gold	10.7	-13.9

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 of the seasonal and calendar day adjusted leading indicators except price expectations show increases (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 (Table 9).

In the light of fully-released October and partly-released November leading indicators, we expect GDP to expand by 5.3 percent on a year-on-year basis for the last quarter of 2021. According to seasonal and calendar adjusted data, we forecast quarter-on-quarter GDP growth to be 1.3 percent.

	2021Q3	2021Q4
IPI-manufacturing	1.7	1.8
RT price exp.	2.5	-5.7
CUR	1.1	0.5
Ser. demand turnover	10.1	5.4
Expected invest.-12m	1.1	4.5
Electricity cons.	2.1	1.8

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)

	2021Q3	2021Q4
IPI-manufacturing	9.0	4.2
RT price exp.	-2.1	-6.2
CUR	4.4	2.4
Ser. demand turnover	36.5	35.7
Expected invest.-12m	32.1	18.2
Electricity cons.	6.4	3.3

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.

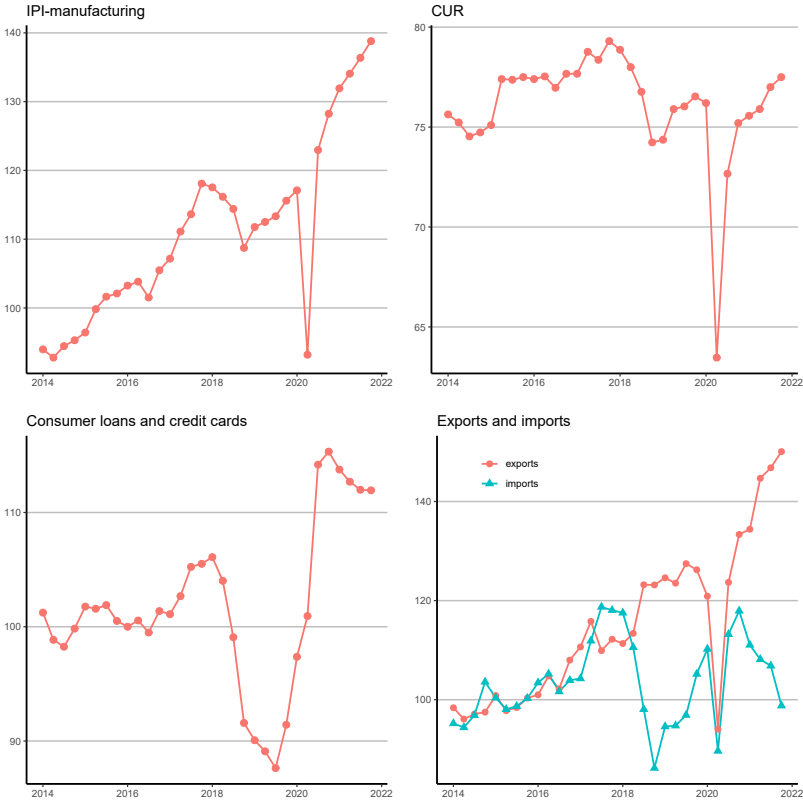


Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.