Negative Outlook for Growth Continues

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Executive Summary

In light of the fully-released July and partly-released August leading indicators, we expect the Turkish economy to shrink by 0.4 percent in the third quarter of 2024 compared to the same quarter of the previous year. According to seasonal and calendar-adjusted data, we forecast quarter-on-quarter GDP decline to be 0.9 percent.

GDP growth forecasts	2024Q3
Quarter-on-quarter	-0.9
Year-on-year	-0.4

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.

Mortgage loans and public consumption continue to decline

In the third quarter of 2024, we expect a 3.3 percent quarter-on-quarter increase in special consumption tax, a 5 percent decline in mortgage loans and a 4.8 percent decrease in public consumption expenditures. (Table 2).

Compared to the same quarter of the previous year, imports of consumer goods and public consumption expenditures increased (by 7 percent and 18.6 percent), while mortgage loans decreased significantly (by 33.2 percent). In the same period, we expect a 6.2 percent decline in consumer loans (Table 3).

	2024Q2	2024Q3
Imports-cons. goods	6.7	-1.4
Mortgage loans	-9.2	-5.0
Consumer loans + CC	-0.7	-1.5
IPI-nondurable goods	-3.1	0.3
IPI-durable goods	-2.9	-0.1
Special cons. tax	-4.3	3.3
Public cons.	-11.6	-4.8

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

	2024Q2	2024Q3
Imports-cons. goods	18.0	7.0
Mortgage loans	-39.1	-33.2
Consumer loans + CC	-10.8	-6.2
IPI-nondurable goods	-5.4	-2.0
IPI-durable goods	-2.9	-0.3
Special cons. tax	-0.3	-5.8
Public cons.	19.6	18.6

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

Increase in public investment expenditures

According to seasonally and calendar-adjusted data, we expect a 6.4 percent decline in imports of investment goods and a 6.4 percent increase in public investment expenditures in the third quarter of 2024. The expected changes in other investment leading indicators are between a 1.8 percent decrease and a 1.4 percent increase (Table 4).

On an annual basis, we expect a very high increase in public investment spending (66.2 percent) and a decline in production expectations (13.6 percent). We calculate a 4.9 percent decline in retail inventories and a 3 percent decline in commercial loans (Table 5).

Foreign trade indicators negative on a quarterly basis

In the third quarter of 2024, seasonally and calendar adjusted foreign trade figures suggest a 2 percent decline in exports and a 6.3 percent fall in imports (Table 6).

Compared to the same quarter of the previous year, exports are up 3.4 percent, while non-gold exports are up 1.7 percent. Imports, on the other hand, decline by 3.5 percent, while imports excluding gold increase by 2.2 percent (Table 7).

	2024Q2	2024Q3
IPI-inter. goods	-4.6	-0.6
CUR-invest. goods	-0.8	-0.2
Imports-invest. goods	1.4	-6.4
Commercial loans + CC	-1.7	0.2
Prod.-last 3 months	-5.4	-1.8
RT vol. of stock	-0.8	1.4
Public invest.	7.5	6.4

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.

	2024Q2	2024Q3
IPI-inter. goods	-3.0	-0.8
CUR-invest. goods	-2.9	-1.1
Imports-invest. goods	-1.9	2.5
Commercial loans + CC	-12.7	-3.0
Prod.-last 3 months	-5.5	-13.6
RT vol. of stock	-8.0	-4.9
Public invest.	32.0	66.2

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

	2024Q2	2024Q3
Exports	0.1	-2.0
Imports	1.6	-6.3
Exports excluding gold	2.3	-0.5
Imports excluding gold	1.6	-2.1

Table 6: Foreign trade compared to the previous quarter.

	2024Q2	2024Q3
Exports	1.9	3.4
Imports	-4.9	-3.5
Exports excluding gold	3.8	1.7
Imports excluding gold	-3.1	2.2

Table 7: Foreign trade compared to the same quarter of the previous year.

General Evaluation

Considering the other seasonal and calendar-adjusted leading indicators we use in GDP forecasting, we observe a decline of 11.8 percent in electricity consumption and 4 percent in investment expectations for the next 12 months (Table 8).

Compared to the same period of the previous year, we expect retail sector price expectations to decrease by 9.8 percent, electricity consumption by 7.5 percent and investment expectations for the next 12 months by 7.4 percent (Table 9).

In light of the fully-released July and partly-released August leading indicators, we expect the Turkish economy to shrink by 0.4 percent in the third quarter of 2024 compared to the same quarter of the previous year. According to seasonal and calendar-adjusted data, we forecast quarter-on-quarter GDP decline to be 0.9 percent.

	2024Q2	2024Q3
IPI-manufacturing	-4.4	-1.1
RT price exp.	-5.9	-2.7
CUR	-0.3	-0.7
Ser. demand turnover	-1.7	-2.2
Expected invest.-12m	-0.6	-4.0
Electricity cons.	3.4	-11.8

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)

	2024Q2	2024Q3
IPI-manufacturing	-4.2	-1.6
RT price exp.	-3.6	-9.8
CUR	0.4	-0.9
Ser. demand turnover	-0.0	-0.1
Expected invest.-12m	-5.0	-7.4
Electricity cons.	9.1	-7.5

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

BOX: EXPLANATIONS

Explanation on seasonal and calendar day adjustment:
While forecasting the quarter-on-quarter GDP growth rate, we adjust all series for seasonal and calendar day effects. If institutions release an adjusted series, we use this released adjusted series, and if not, BETAM performs seasonal and calendar day adjustments. The status of variables used in this brief can be summarized as follows:

- Central Bank of the Republic of Turkey (TCMB): Capacity utilization rate of the manufacturing industry (CUR), Real sector confidence index.

- Turkstat (TUIK): Industrial production index (IPI) and its sub-components; export, import, and import sub-components concerning 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 the leading indicators.

Explanation on leading indicators: Betam shares three forecasts for each quarter. For some indicators of the quarter, of which the growth rate is forecasted, the last two months' observations and for others' last month's observations are missing when we run the forecasting model. While estimating growth rates of leading indicators, we use forecasts based on previous observations of each series for missing months. 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 remarkable variables within the current period and success in the forecast instead of representing all of them in the research brief and tables.
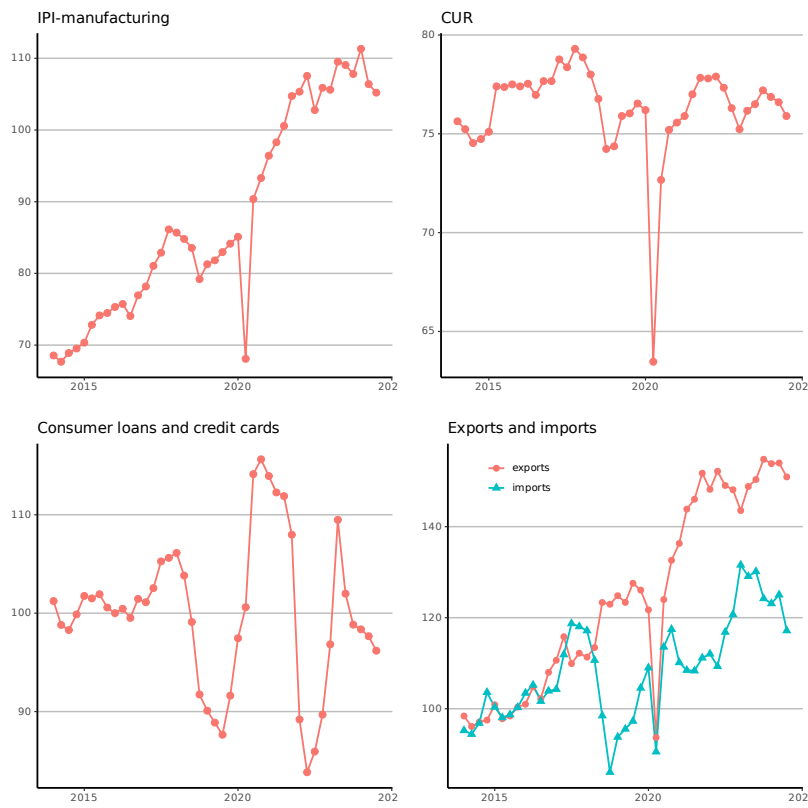
Figure 1: Seasonally and calendar day adjusted quarterly leading indicators. Consumer credits and individual credit cards in the first quarter of 2016 are indexed at 100.