

Exports and Investment Indicators Accelerate in the Last Quarter of 2010

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Executive Summary

December data on the Industrial Production Index (IPI) and foreign trade are released by TurkStat a few weeks ago. According to the figures, IPI and exports increased considerably in December from a month ago, by 5.7 and 9.6 percent, respectively. This increase contributed to the overall growth in the fourth quarter which had gained pace since October. After the release of the December data Betam revised its estimate of quarter to quarter real GDP growth to 2.6 percent in 2010 - 4th Quarter from its previous estimate of 2.2 percent. Betam also revised its yearly growth rate in 2010 upwards to 8.9 percent from the preceding 8.7 percent.

Balance of payments data released by the Central Bank of Turkey show a current account deficit of \$7.5 billion in December. The current account deficit in total in 2010 stands at \$48.6 billion. Using Betam's GDP estimates, this amounts to a current account deficit of 6.5% of the GDP in 2010, a considerably high figure. The Central Bank of Turkey's aim with its new policy mix was to reduce capital inflows and the current account deficit, however, we do not see any such sign in the data, yet. Foreign trade

deficit in January was \$7.3 billion and in February estimates point to similar figures which undermines Central Bank's hopes of reducing the current account but we might have to wait a little longer to see the effects of the new policy.

To this date, data for only a limited number of Betam's indicators are released for the month of January, but it looks like the first quarter will not be as promising as the last quarter in terms of economic growth. Both the real sector and consumer confidence look weak and some indicators are down from their December levels. We are not sure yet whether this is a consequence of the Central Bank's new policy mix or the confusion it created in the markets.

Table 1: Betam's quarterly and annual growth forecasts

	Real GDP Growth (%)	Current Account Deficit (% of GDP)
2010 Q4 (quarter-on-quarter)	2.6	-
2010 Q4 (year-on-year)	7.7	-
2010 (annual)	8.9	6.5

Source: Betam. Seasonally and calendar day adjusted figures.

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Investment indicators increase in December, consumption is strong

Table 1 lists the monthly indicators Betam follows and their monthly and quarterly percentage changes.¹ A high increase in almost all indicators are observed in the fourth quarter, however, the increase in the investment indicators are remarkable.

Production of investment goods increased by 15.6 percent in the fourth quarter from the previous quarter and investment good imports increased by 28.6 percent. These numbers are considerably high when compared to the increases in the previous quarter and suggest an acceleration in the growth rate of investment. Our view is fortified by the increase in the Real Sector Confidence Index, 9.2 percent from the previous quarter.

Consumption indicators are all up as well. The Special Consumption Tax increased by 5.7 percent in the fourth quarter. Some of the increase is due to increases in imports. Imports of consumer goods increased by 13.7 percent in the fourth quarter. Production of durable and non-durable consumption goods also increased, 1.1 and 1.9 percent, respectively. Consumer confidence index was up 10.4 percent in the fourth quarter. These figures suggest that consumption demand is strong in Turkey although the unemployment rate is still above its pre-crisis level.

Demand for Turkey's exports is increasing as the world economy is recovering from the crisis, however, high economic growth fuels the surge in import demand. In the fourth quarter, exports increased by 5.1 percent while imports increased twice as fast, by 10.2 percent. Hence, we expect net exports to contribute negatively to real GDP growth in the fourth quarter.

¹All indicators are real (or inflation adjusted) and seasonally adjusted.

Betam's forecasts for 2010-Q4 revised

Betam releases its forecasts on a monthly basis and revises its forecasts every month after updating its monthly indicators. Table 1 summarizes Betam's forecasts for the year end and quarterly growth rate of real GDP. We expect the real GDP to grow by 2.6 percent in the fourth quarter from the previous quarter.

Our forecast of real GDP growth rate from the same quarter of the previous year is 7.7 percent and finally we estimate the yearly growth rate in 2010 to be 8.9 percent.

IPI is at its historically highest level, CUR is still below the pre-crisis rates

Figure 1 shows monthly changes of real and seasonally adjusted Capacity Utilization Rate (CUR) and Industrial Production Index (IPI) since January 2007. As shown in the figure, IPI reached a new historical level, that is 128 point, in December. On the other hand, CUR is not back to its pre-crisis level yet. CUR's 2007 average was 80.2 percent. In January 2011, CUR reached 77.1 percent according to Turkish Central Bank's seasonally adjusted numbers. We think that the high increase in investment expanded capacity at a fast rate and hence the rise of CUR is limited despite the surge in production. According to these numbers, we expect that the industry will stay below pre-crisis capacity utilization level for a few quarters more.

Figure 4 shows the monthly changes of real and seasonally adjusted IPI's and CUR's components. Figures clearly show that intermediate and investment goods manufacturing was the engine of the Turkish economy in 2010. Since December 2009 intermediate and investment goods manufacturing increased by 18 percent and 37.7 percent, respectively.

Investment goods manufacturing showed a real surge in December. As shown in table 2, investment goods manufacturing increased by 20.2 percent

in December and it is followed by durable consumer goods manufacturing which increased by 9.2 percent.

The surge in exports in December became the driving force behind industrial production

Figure 2 shows monthly changes of seasonally adjusted import and export volume indices. Between December 2009 and December 2010, exports increased by 1.2 percent per month on average. On the other hand, the monthly average growth of imports was 2.4 percent. In December exports enjoyed the largest increase of the year, a 9.6 percent increase from the previous month. This surge became the driving force behind the increase in industrial production. On the other hand imports showed a smaller increase of 4 percent in December.

Figure 3 shows the monthly changes in exports for major manufacturing industries in Turkey. In December, all the major manufacturing sectors showed a great increase. Especially exports of automobile industry had the highest growth, increasing by 27 percent. Furthermore, textile goods, machine and equipment sectors both increased over 10 percent.

Figure 5 shows the export performance of all manufacturing firms in November and December. After the fall in November, it is surprising to see a large increase in December. Furthermore, the increase in December is ubiquitous among all manufacturing sectors and provides an optimistic outlook for coming months.

Figure 6 shows the monthly changes of real and seasonally adjusted imports of basic economic categories. About 70% of Turkey's imports are intermediate goods which includes oil and natural gas, though lately the surge in imports is caused by imports of investments goods. In December, imports of investment goods increased by 10.7 percent. It is followed by the increase in consumer good imports which was 9.8 percent. Between December 2009 and December 2010, imports of investment goods, con-

sumer goods and intermediate goods increased by 7, 2.9 and 1.5 percent per month on average respectively.

First signals of 2011

Table 2 shows the monthly indicators for January 2011. Although some of the data is still to be announced, we can see early signs of a slowing down in economic activity in the first quarter of 2011.

The consumer confidence index is flat for January. The Special Consumption Tax and automobile production have both decreased. Automobile production is quite volatile in Turkey since a large fraction of it is exported, however, it still is a good predictor of consumption demand. The Special Consumption Tax is more stable and a good measure of demand for gasoline and luxury items. The fall in both indicators might be a signal of weakening consumption demand.

The real sector confidence index is down in January, first time since August, by -1.1 percent and IMKB 100 is steady after a decrease in December. This is probably due to the confusion Central Banks' new policy mix created in the markets as uncertainty always undermines confidence.

We believe that as the market's view of the new policy mix becomes more clear, there is no need for the Turkish economy to slow down. However, the uprisings in the Middle East and North Africa might impact exports and the industrial production for a short time.

Table 2: Monthly and quarterly changes of Betam's selected indicators

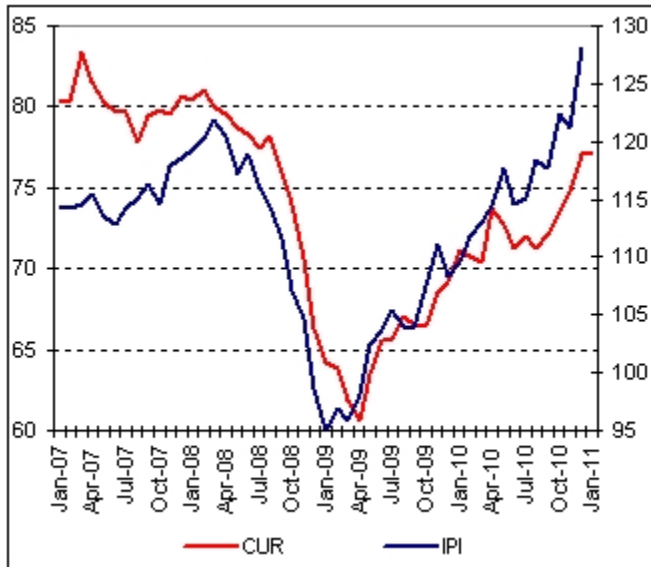
Indicators	October	November	December	January	2010 Q3	2010 Q4
Imports						
Intermediate goods imports	-0.1	3.3	6.6	**	3.2	7.0
Consumer goods imports	10.0	-0.2	9.7	**	9.7	13.7
Investment goods imports	15.6	6.9	10.7	**	12.8	28.6
Industrial Production Index (IPI)	3.9	-1.0	5.7	**	1.3	5.8
Nondurable consumer goods	0.7	-1.1	2.4	**	0.9	0.9
Durable consumer goods	12.4	-14.9	9.2	**	4.0	1.5
Intermediate goods	0.9	1.9	3.0	**	3.8	4.8
Investment goods	13.3	-7.8	20.3	**	2.7	15.6
Capacity Utilization Rate (CUR)	1.4	1.2	2.4	0.1	-0.8	3.3
Nondurable consumer goods	0.4	0.4	0.4	-1.0	1.0	1.1
Durable consumer goods	0.3	1.7	0.5	2.0	-1.3	1.9
Intermediate goods	2.5	0.6	3.6	-2.0	-0.1	3.8
Investment goods	-2.3	3.6	0.3	1.6	0.9	2.4
Soft Data						
Consumer confidence index (TurkStat)	0.2	2.6	-0.4	0.0	8.9	10.4
Reel sector confidence index	5.0	2.7	1.2	-0.9	-0.9	9.2
Financial Data						
IMKB 100 (Stock Exchange)	6.9	1.2	-3.9	-0.1	4.8	9.8
Others						
Special consumer tax*	5.2	1.5	-0.8	-3.4	4.0	5.7
Automobile production	14.3	-3.6	11.7	-4.8	3.6	22.4

Source: TurkStat, TCMB, Treasury, IMKB, Betam. All series are real (or inflation adjusted) wherever necessary and seasonally adjusted.

*This tax is collected on sales of selected goods such as gas, fuel oils, alcohol, tobacco products and automobiles.

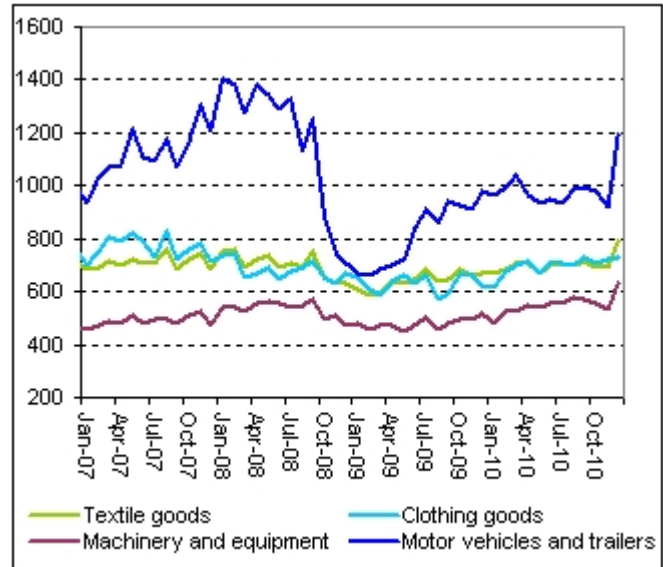
**Data not yet released.

Figure 1: CUR ve IPI (real, calendar day corrected and seasonally adjusted, left axis for CUR and right axis for IPI)



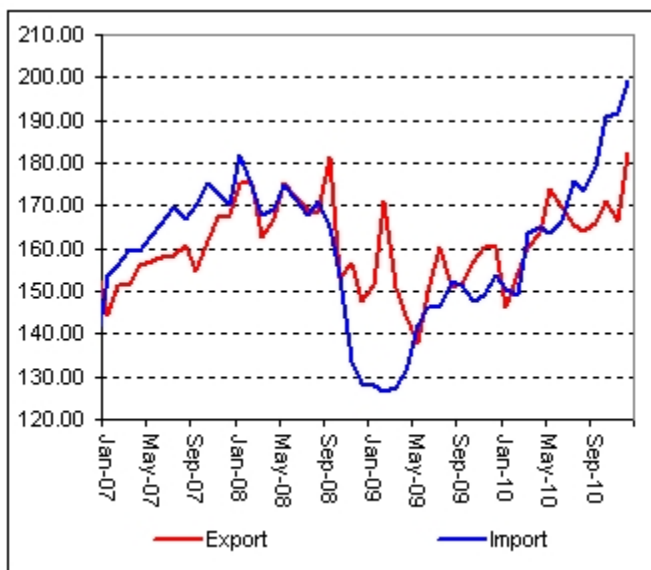
Source: TurkStat, Betam.

Figure 3: Monthly changes of important industries' exports (real, calendar day corrected and seasonally adjusted, million \$)



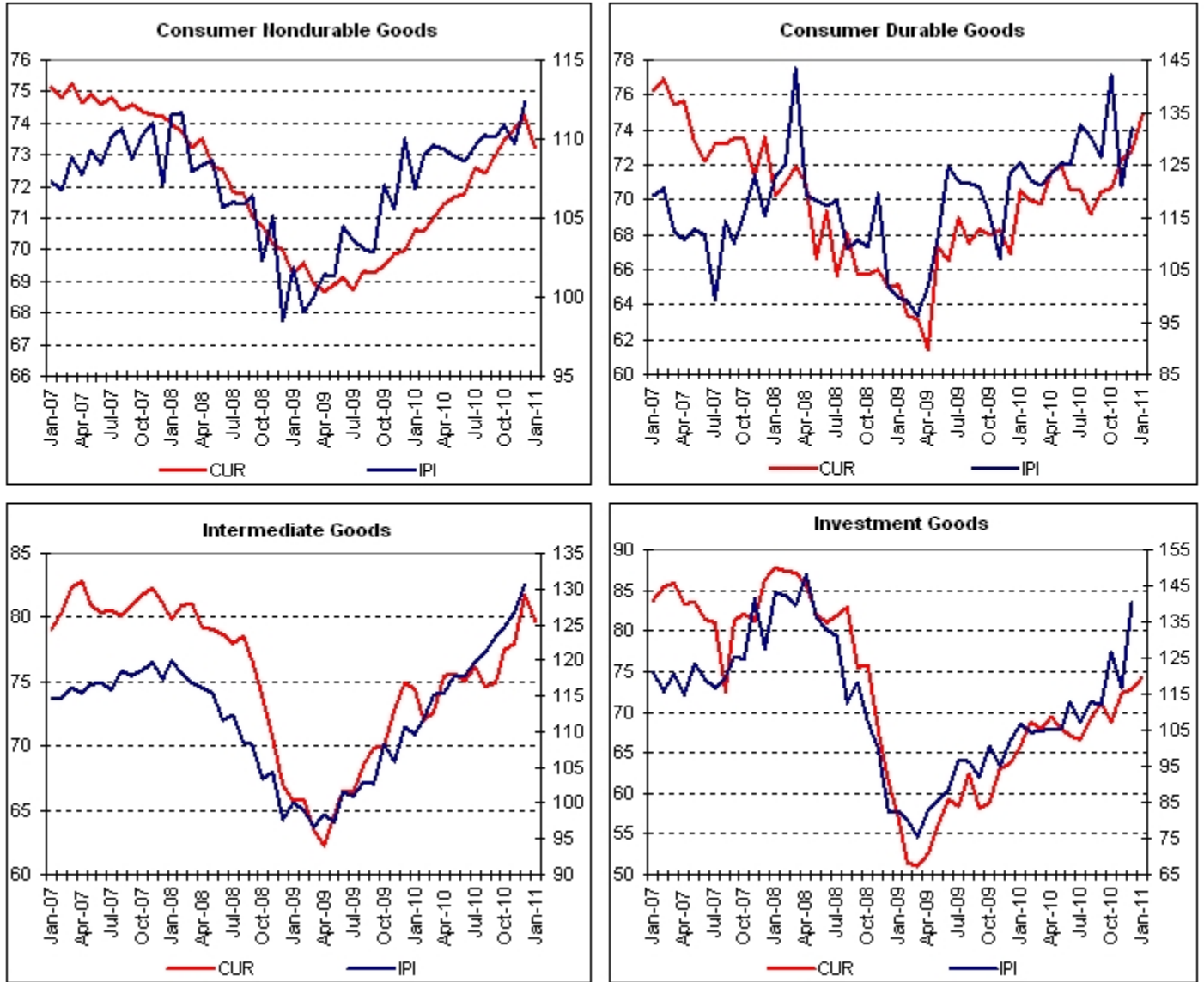
Source: TurkStat, Betam. Each component of exports are transformed into real series by using TUIK's price index of the corresponding component and then it is seasonally adjusted.

Figure 2: Volume indices of exports and imports (real, calendar day corrected and seasonally adjusted)



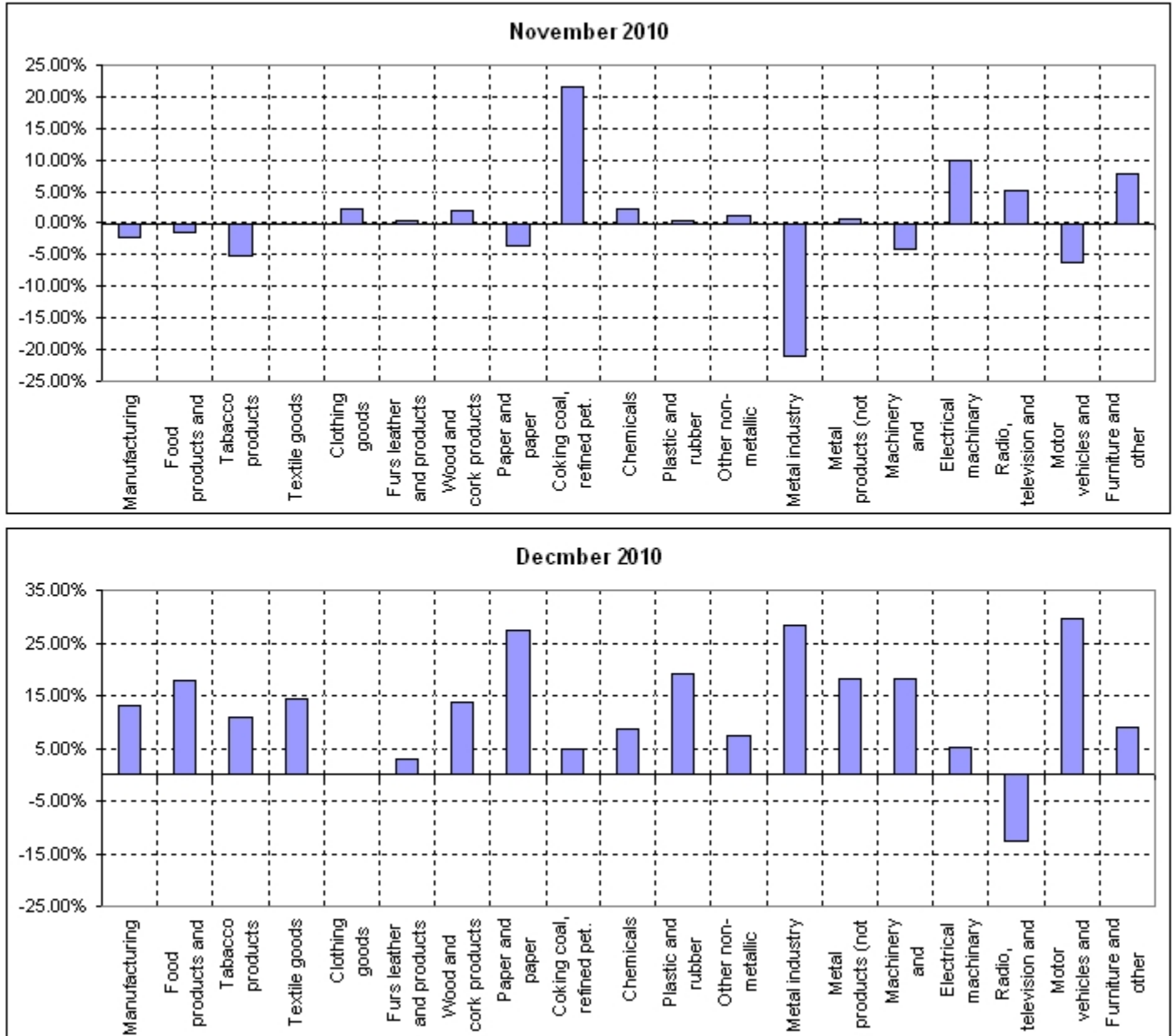
Source: TurkStat, Betam.

Figure 4: Monthly changes of CUR's and IPI's components



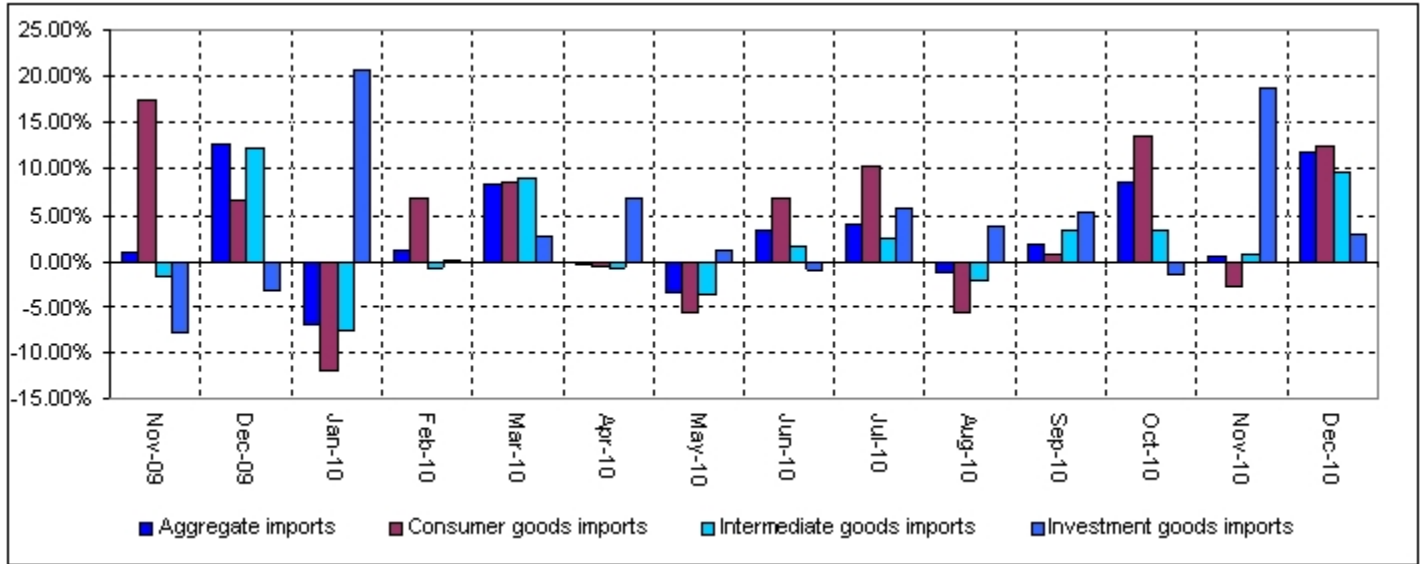
Source: TurkStat, Betam. Real and seasonally adjusted series

Figure 5: Monthly changes of manufacturing industry exports, October 2010 and November 2010



Source: TurkStat, Betam. Real and seasonally adjusted series

Figure 6: Monthly changes of imports' components



Source: TurkStat, Betam. Real and seasonally adjusted series