

SHARP DROP IN INVESTMENTS

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Executive Summary

In August, exports continued to increase whereas imports continued to decline. We expect that positive contribution of net exports to quarterly GDP will be significantly high. On the other hand, industrial production index decreased back to its June level. According to our analysis, this decrease was mainly caused by the fall in production of investment goods. Our economic indicators show that there is a sharp drop in investments. Consumption indicators are also on a downward trend. Deceleration in the economy manifested itself as the fall in imports and investments. Betam revised down its quarter on quarter growth forecast for the third quarter from 0.8 percent to 0.6 percent. We also expect the change from the same quarter of the previous year to be 7.4 percent. Our estimations showed that current account deficit was less than 4 billion dollars in August. Betam's current account deficit forecast for the end of third quarter is 9.7 percent of GDP.

Tablo1. Betam's quarterly and annual growth rate forecasts

	Third Quarter - 2011
Real GDP growth, % (quarter on quarter, sa*)	0.6
Real GDP growth, % (year on year, ca**)	7.4
Current account deficit (% of GDP, annual)	9.7

Source: Betam *sa: seasonally and calendar day adjusted **ca: calendar day adjusted

Restrained Slowdown

Turkish economy began to show all signs of a slowdown. Imports and investments are decreasing. Trade deficit is improving. Imports of intermediate goods which is an important leading indicator for the Turkish economy have been in a downward trend for the last two quarters. All these data show that in the third and the fourth quarter growth will continue to slow down. We revised down our quarterly growth forecast from 0.8 percent to 0.6 percent for the third quarter. Due to base affect, we expect that year on year growth will be over 7 percent in the third quarter. Our third quarter year on year forecast is 7.4 percent.

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However, we expect the fourth quarter year on year growth rate to be around 4 percent.

After this point, Turkish central bank should be very careful. On the one hand, CBRT will use expansionary policies in order for the slow down in the economy not to turn into a recession. But on the other hand, CBRT will try to prevent a rise in the current account deficit due to those expansionary policies. Fiscal policy should also be tight because the depreciation of the Turkish Lira due to monetary expansionary policy might cause inflationist pressures. However, it might become harder for the government to keep a tight fiscal stance in the coming year because the fall in imports causes a decrease in taxes.

Consumer confidence is deteriorating

Consumer confidence index that began to deteriorate in July continued its downward rally in August and fell by 3.3 percent. Imports of consumer goods also decreased by 8.4 percent. However, durable and nondurable consumer goods manufacturing increased by 3.9 and 0.8 percent, respectively. In spite of the increase in consumer goods manufacturing, we expect a small decrease in consumption in the third quarter.

High drop in investment goods manufacturing

After three months of consecutive declines in the Real Sector Confidence Index (RSCI), RSCI increased by 5.2 percent in September. Capacity utilization rate also increased by 0.4 percent in

September. Industrial production index decreased by 2.6 percent in August. This fall mainly caused by the 8.8 percent decrease in investment goods production. However, imports of investment goods increased by 1.6 percent in August after a 14.6 percent fall in July. In general looking at these changes, we expect to see a sharp drop in investment demand in the third quarter.

The engine of third quarter growth: net exports

Figure 2 shows monthly changes of seasonally adjusted import and export volume indices. In August, exports increased by 5.2 percent and imports decreased by 5 percent. For the last two months the increase in exports amounted to 12.6 percent whereas imports decreased 5.6 percent. We expect the contribution of net exports to quarterly GDP growth to be the main driving force of growth in the third quarter.

Current account deficit goes up to 9.7 percent

Due to the surge in exports and the decline in imports in July and August, trade deficit in volume decreased greatly (see Figure 2). Current account deficit also decreased due to high tourism income. According to data released by Turkish Exporters Assembly, exports might decrease in September. However, there will be an increase in the current account deficit to GDP ratio in the third quarter. Betam expects the current account deficit to be 9.7 percent of GDP at the end of the third quarter.

Table 2. Monthly and quarterly changes of Betam's selected indicators (real and sa)

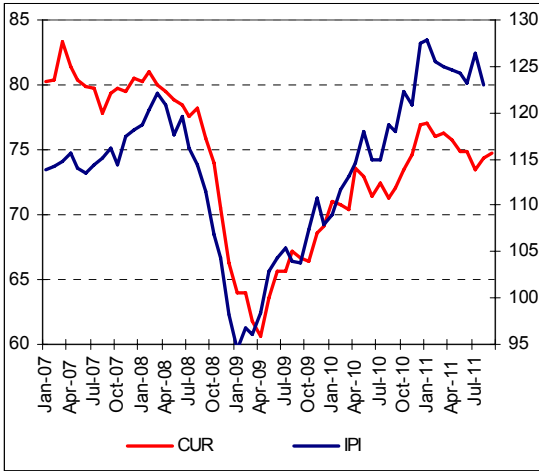
Indicators	June	July	August	September	2011 2. Quarter	2011 3. Quarter
Exports	2.2	7.0	5.2	**	2.7	9.0
Imports	1.3	-0.6	-5.0	**	0.0	-2.8
Intermediate goods import	0.2	-0.6	-3.5	**	-1.7	-2.7
Consumer goods import	6.3	-7.0	-8.4	**	-0.4	-8.8
Investment goods import	-1.0	-14.6	1.6	**	9.7	-12.5
Industrial Production Index (IPI)	-0.9	2.6	-2.6	**	-1.7	0.6
Nondurable consumer goods	0.7	-4.7	3.9	**	0.1	-1.9
Durable consumer goods	-0.8	1.8	0.8	**	2.0	2.9
Intermediate goods	-1.1	0.5	1.0	**	-1.2	0.7
Investment goods	4.5	3.9	-8.8	**	-3.4	1.6
Capacity Utilization Rate (CUR)	0.0	-1.4	1.0	0.4	-1.3	-1.0
Nondurable consumer goods	0.2	-0.3	0.3	-0.4	-0.7	-0.0
Durable consumer goods	2.2	0.6	-1.7	1.5	-1.2	0.5
Intermediate goods	0.2	-1.8	1.3	-0.2	-1.5	-1.1
Investment goods	0.6	-1.8	3.4	0.4	0.3	0.5
Soft Data						
Consumer confidence index (Turkstat)	3.9	-0.8	-3.3	**	1.2	-0.2
Reel sector confidence index	-0.5	-0.4	-2.5	5.2	-4.0	-0.6
Financial Data						
IMKB 100 (Stock Exchange)	-0.5	-1.7	-12.7	3.6	-0.8	-10.8
Other						
Special consumer tax* (SCT)	11.0	-7.5	-1.0	**	5.9	-2.8
Automobile production	7.4	1.0	-2.7	**	-10.8	3.1

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 goods such as gas, fuel oils, alcohol, tobacco products and automobiles.

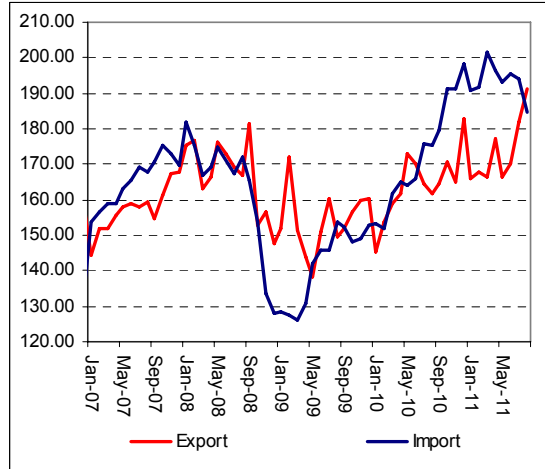
**Data not yet released

Figure 1: Capacity utilization rate and industrial production index (sa. left axis for CUR and right axis for IPI)



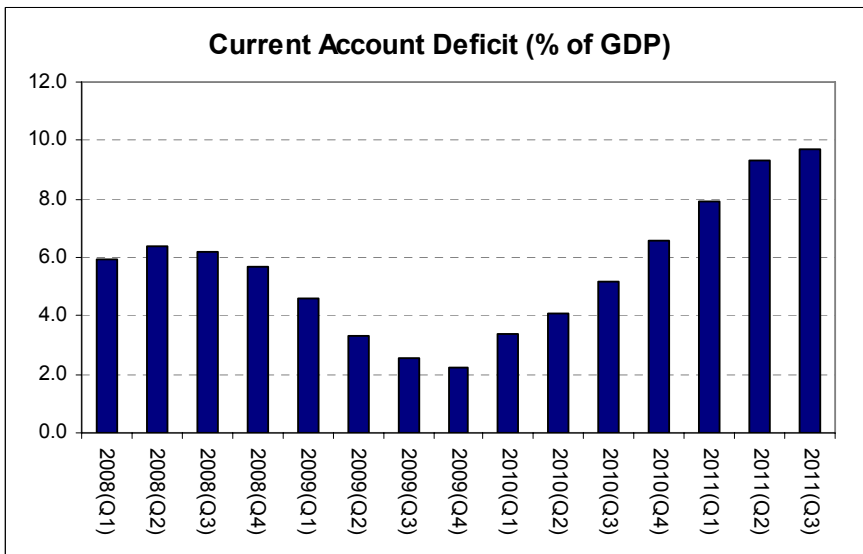
Source : TurkStat. Betam

Figure 2: Volume indices of exports and imports (sa)



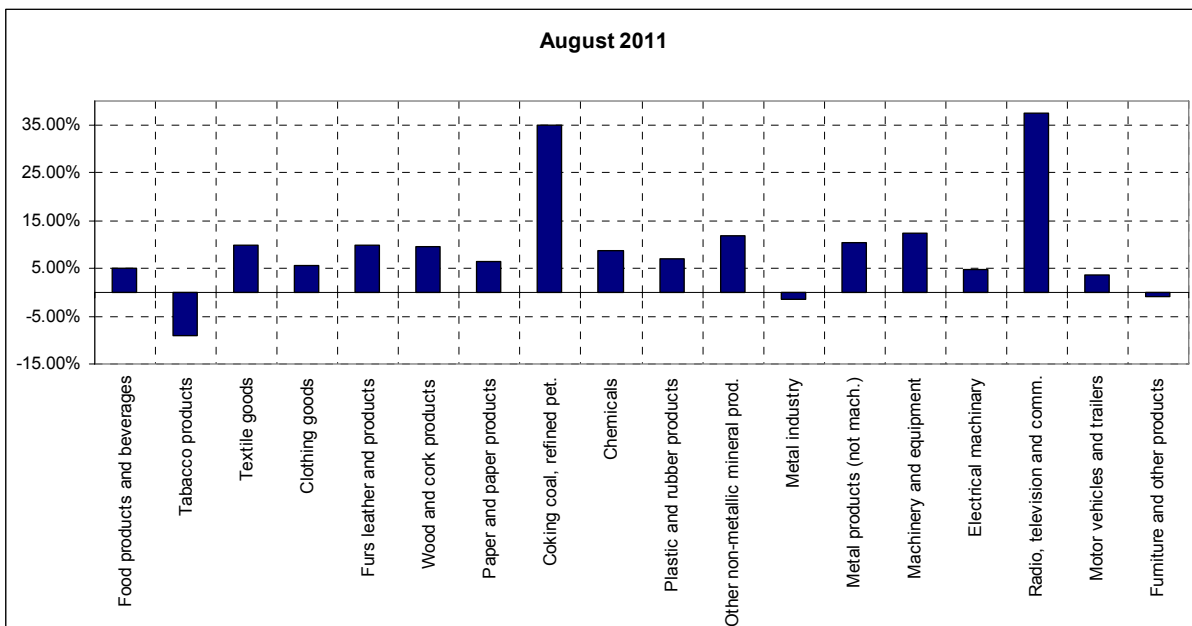
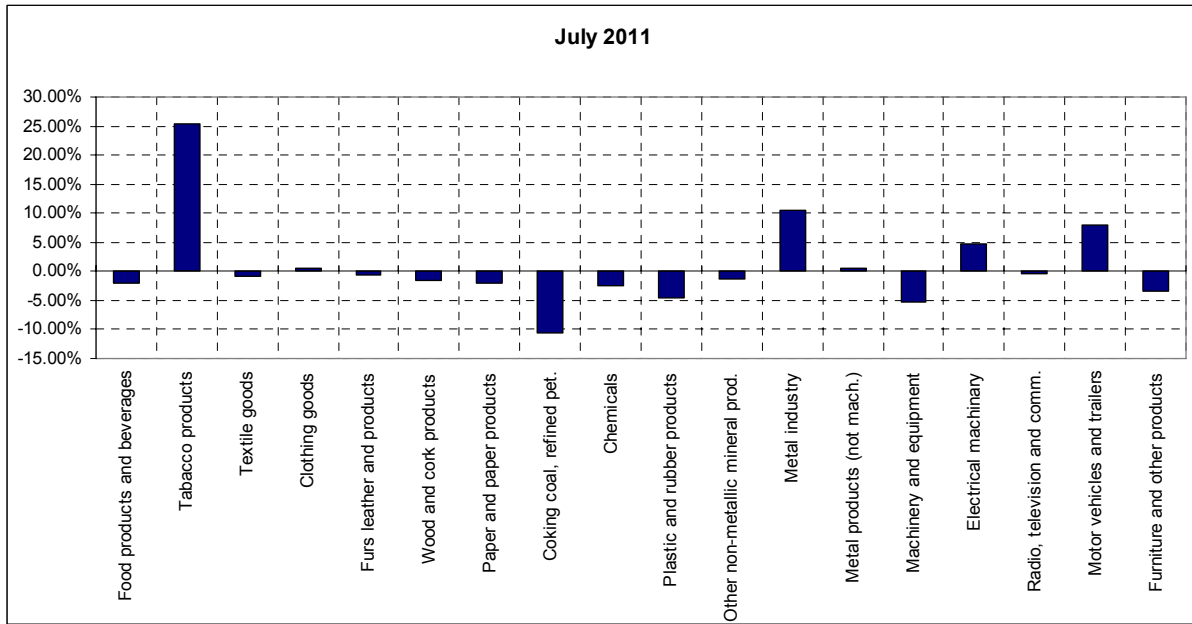
Source : TurkStat. Betam

Figure 3: Ratio of current account deficit to GDP (annual)



Source: Turkstat, Betam

Figure 4: Monthly changes of manufacturing industry exports (sa)



Source : Turkstat, Betam

