

PROMISING START IN THE 2ND QUARTER

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Executive Summary

In April, Industrial production index (IPI) increased by 1.0 percent, export volume index increased by 7.6 percent and import volume index decreased by 2.6 percent from March. Economic indicators show that economic growth continues in the second quarter. The volatility in monthly export and import data is high but we expect net exports to continue contributing positively to growth. Betam's quarter on quarter (QoQ) growth forecast for the second quarter of 2012 is 1.0 percent. The corresponding year on year (YoY) growth rate is 3.3 percent. Our forecasts for the first quarter remain the same as last month.

The trade deficit and the current account deficit continued to decline in April. Due to the high increase in exports, the trade deficit decreased by \$2.5 billion and fell to \$6.6 billion. In line with the decline in the trade deficit, the current account deficit fell to \$5 billion. We expect that the ratio of current account deficit to GDP will fall to 8.3 percent from 9.3 percent at the end of second quarter.

Table 1. Betam's quarterly and annual growth rate forecasts

	2012 2. Quarter Forecast	2012 1. Quarter Forecast
Real GDP growth, % (quarter on quarter, sa*)	1.0	0.3
Real GDP growth, % (year on year, ca**)	3.3	3.5
Current account deficit (% of GDP, annual)	8.3	9.3

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

2nd Quarter looks more promising

Early economic indicators for the second quarter indicate that economic growth for the second quarter is stronger than the first quarter. In January, IPI fell nearly by 3 percent and could not reach its pre-January level until April, even though there were small increases in February and March. In April, the first month of the second quarter, IPI increased by 1 percent. The ongoing increase in exports and the ongoing decline in imports increase the contribution of net exports to real GDP. However, it should be noted that the high increase in exports in April was partly caused by gold exports which are temporary. Following the surge in April, exports could decline slightly in

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May. On the other hand, imports may continue to fall. Investment goods imports increased greatly in March, but fell more than that in April. It seems that investment appetite continues to remain low. Finally, the decline in capacity utilization rate (CUR) in May shows that although the economy continues to grow the revival in the second quarter may not be very strong.

Brent type crude oil price decreased by 4.7 percent in April and 7 percent in May (Figure 5). Due to the decline in crude oil price, the fall in inflation in May was greater than expected. The decrease in oil prices helps Turkey's Central Bank in bringing down the inflation rate closer to the target. On the fiscal policy side though, meeting the budget target is not going to be easy. Indirect tax income is decreasing as imports decrease and high salary increase for civil servants has put extra pressure on the expenditure side.

If economic climate in Europe does deteriorate, Turkish economy can grow around 3 percent in 2012. However, the ongoing uncertainty in Greece and the increase in Spain's borrowing costs raise uncertainty in Europe.

Consumer goods imports is on the decline

In April compared to the previous month, durable and nondurable consumer goods production increased by 1.0 and 1.1 percent, respectively, and the consumer confidence index increased by 0.5 percent. On the other hand, consumer goods imports continued to fall as it did for the last four months. In April, consumer goods imports decreased by 4.9 percent. In line with the decline

in consumer goods imports, special consumer tax income fell by 1.2 percent. When we evaluated the first quarter consumption indicators, we expect a slight increase in the second quarter compared to the first quarter.

Investment may decrease

In March, investment goods imports increased by 10.1 percent, but decreased by 12.1 percent in April. Furthermore, CUR fell by 0.4 and 1.1 percent points in April and May, respectively. Finally, real sector confidence index decreased by 0.6 and 1.7 percent in April and May, respectively. The decline in these three economic indicators may indicate a fall in private investment expenditure in the second quarter compared to the first quarter.

Surge in exports in April

Figure 2 shows monthly changes of seasonally adjusted import and export volume indices. In April, export volume index increased by 7.6 percent and import volume index decreased by 2.6 percent. The surge in exports is promising, but it was mainly caused by exports of metal industry (mainly gold) as it's seen in Figure 4, which is typically temporary. We expect that net exports will be main engine of economic growth in the second quarter as well.

Current account deficit continues to fall in the second quarter

Following the decline in the trade deficit in April, the current account deficit decreased to \$5 billion.

The 7 percent fall in Brent type crude oil price in May will accelerate the decline in the current account deficit. For now, there seems to be no problem in financing the current account deficit. The ongoing crisis in Europe and the slightly rising unemployment ratio in USA will cause the foreign capital to stay in emerging countries. We expect that as the Turkish economy and the demand for imports continue to slowdown, the current account deficit to GDP ratio will fall. At

the end of the second quarter, we expect the current account to GDP ratio to fall down to 8.3 percent (Figure 3).

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

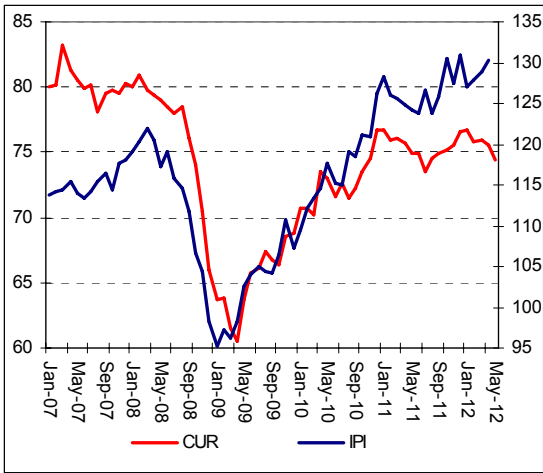
Indicators	February	March	April	May	2011 4. Quarter	2012 1. Quarter
Exports	5.2	1.1	7.6	**	3.5	10.1
Imports	-0.1	3.2	-2.6	**	0.7	-0.6
Intermediate goods import	-1.8	0.6	0.1	**	1.0	-0.1
Consumer goods import	-2.5	-0.4	-4.9	**	-5.3	-6.0
Investment goods import	-0.8	10.1	-12.1	**	6.8	-6.6
Industrial Production Index (IPI)	0.7	0.8	1.0	**	-1.4	1.8
Nondurable consumer goods	-1.4	2.4	1.1	**	-0.1	2.3
Durable consumer goods	2.1	-0.8	1.0	**	-2.9	1.2
Intermediate goods	-0.3	-0.1	1.8	**	-0.0	1.6
Investment goods	0.3	-3.1	2.1	**	-4.7	0.0
Capacity Utilization Rate (CUR)	-1.0	0.2	-0.4	-1.1	0.4	-1.2
Nondurable consumer goods	-0.8	0.4	0.3	-0.3	0.8	0.2
Durable consumer goods	1.6	0.7	0.4	-2.2	0.6	0.2
Intermediate goods	-0.8	-1.5	0.1	-0.3	-1.2	-1.4
Investment goods	-1.8	0.8	0.1	-1.4	-0.5	-0.7
Manufacturing Order Index	1.5	1.3	**	**	2.4	**
Domestic Orders	2.3	0.6	**	**	2.0	**
Foreign Orders	1.5	1.4	**	**	2.9	**
Soft Data						
Consumer confidence index (Turkstat)	0.4	0.5	0.5	**	1.3	0.9
Reel sector confidence index	3.6	1.9	-0.6	-1.7	-0.1	0.9
Financial Data						
IMKB 100 (Stock Exchange)	17.4	-1.8	-5.6	-3.2	4.9	-3.4
Other						
Special consumer tax* (SCT)	1.7	5.0	-1.2	**	-5.2	2.6
Automobile production	0.4	-10.2	-3.5	**	-8.8	-10.2

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.

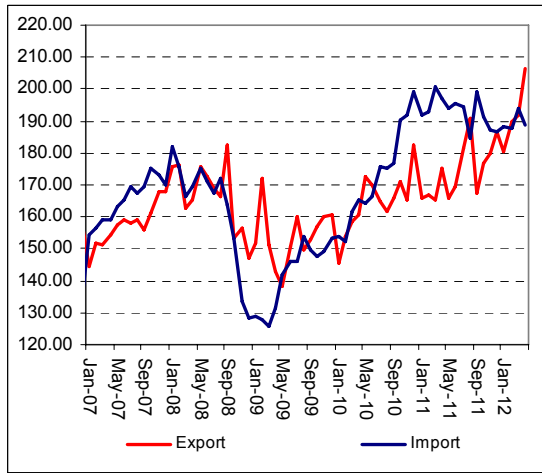
**Data not yet released

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



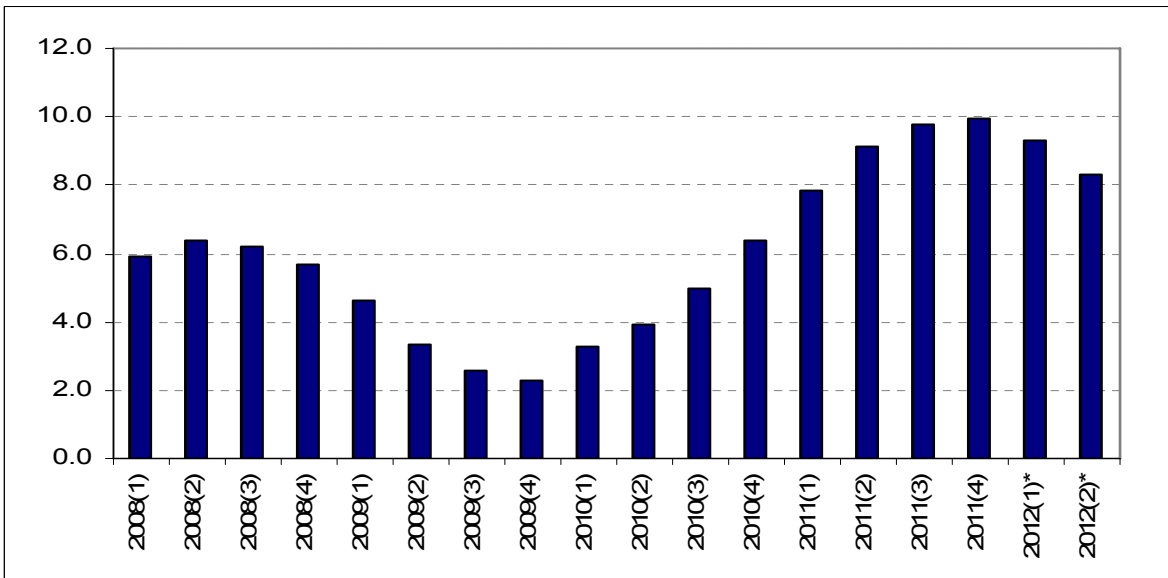
Source : TurkStat. Betam

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



Source : TurkStat. Betam

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



Source: TCMB. TurkStat. Betam

* Betam's forecasts

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

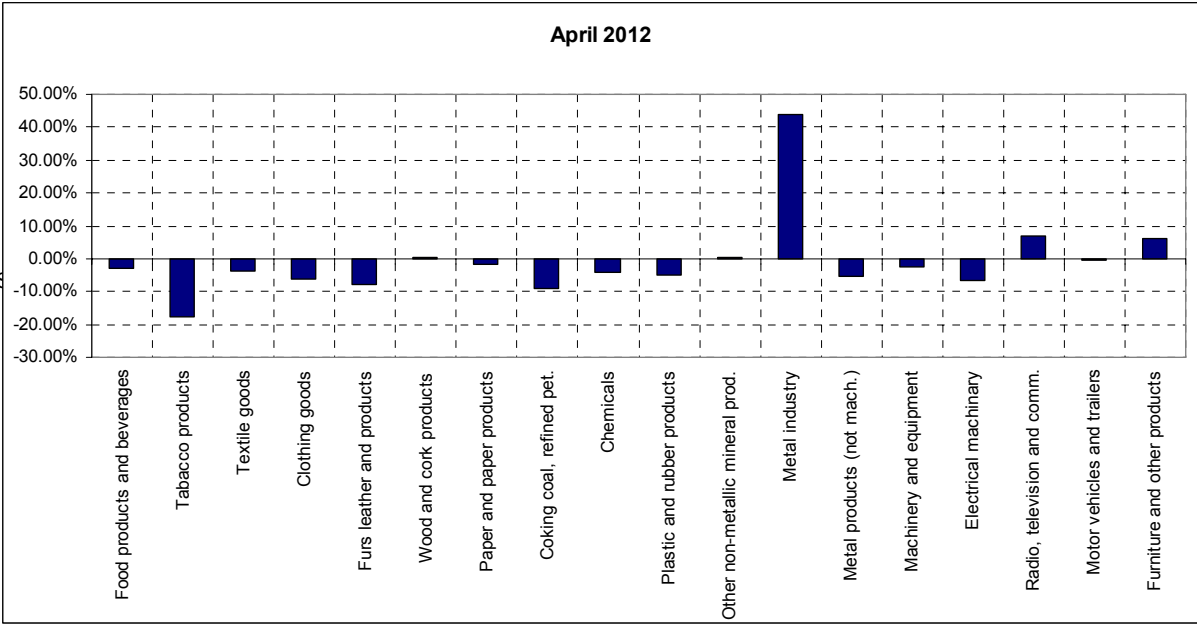
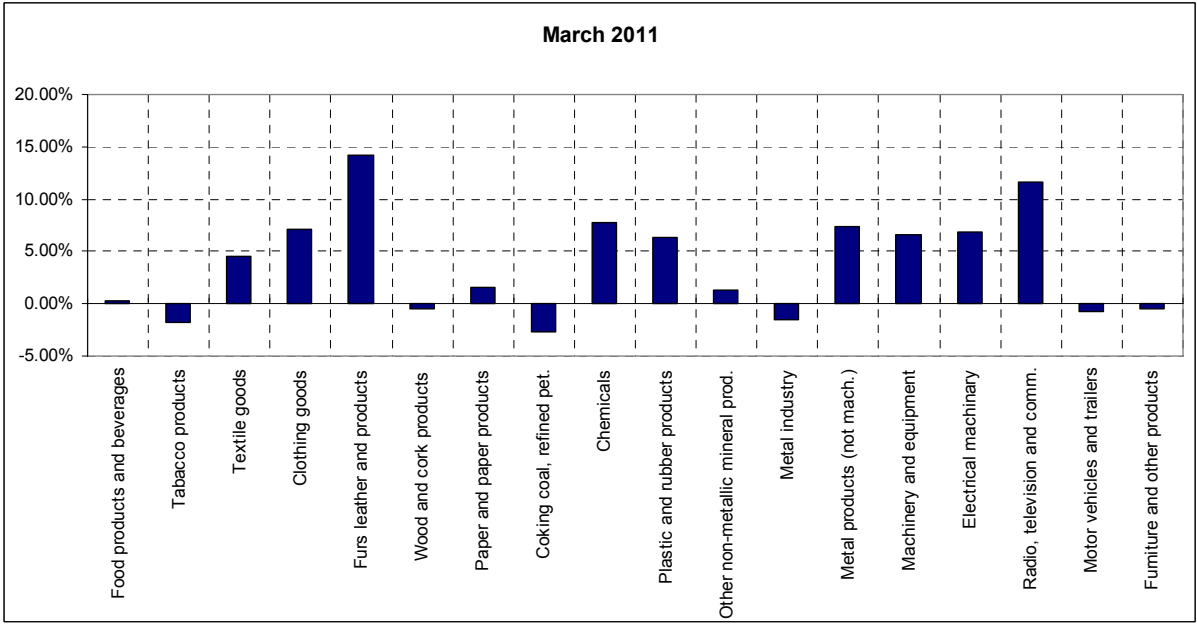
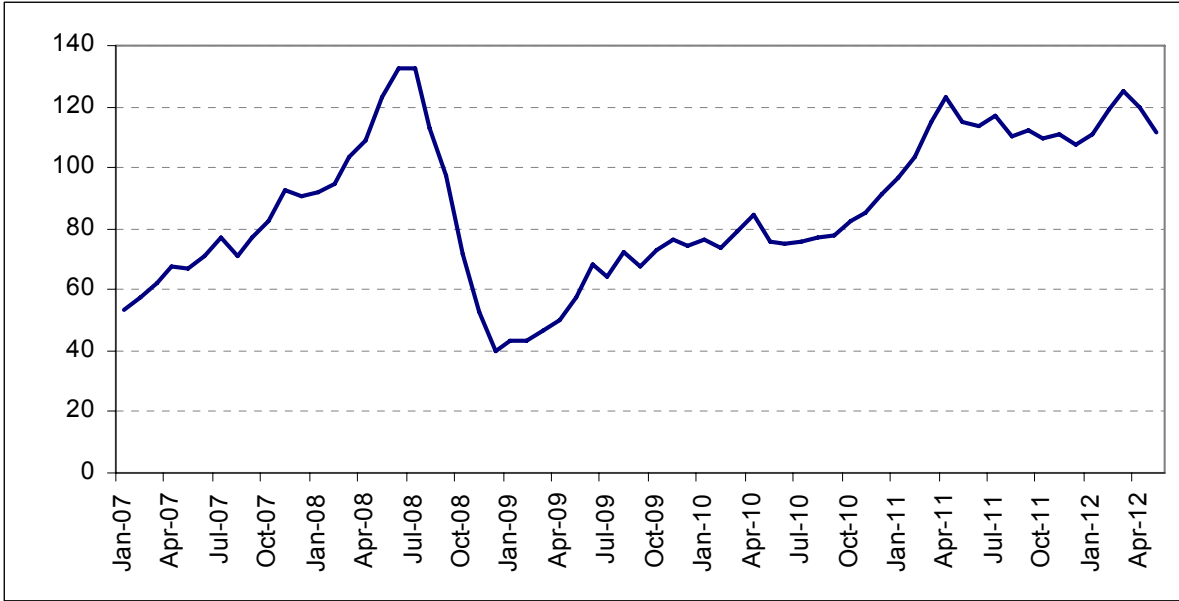


Figure 5. Brent type crude oil price per barrel (USD)



Source: TDM.