

## Economic Outlook

November 2022

### Coincident Economic and Financial Conditions Indexes Current Estimates

Cem Çakmaklı, PhD  
Koç University, College of Administrative Sciences and Economics  
Department of Economics  
Email: [ccakmakli@ku.edu.tr](mailto:ccakmakli@ku.edu.tr)  
Twitter: [@Cem\\_Cakmakli](https://twitter.com/Cem_Cakmakli)

This report publishes the current estimates of the coincident economic (CEI) and financial conditions indexes (FCI) we have designed for the Turkish economy using advanced econometric methods. We used a rich dataset including many macroeconomic and financial indicators with different timing and frequencies.

As financial stability is one of the main conditions for economic growth, FCI is considered a primary leading indicator for CEI. Therefore, based on the joint behavior of these two indexes, we computed the probability of entering an economic recession within the same model framework. This report also publishes these probabilities' current estimates as a numerical reflection of our expectations of the economy's direction in addition to the current estimates of these indices.

The model we use in this report has been published in one of the internationally respected journals in the field. For details, our article can be found at <https://onlinelibrary.wiley.com/doi/full/10.1111/obes.12413>.

## Coincident Economic Index (CEI)

**According to the most recent model estimates, CEI decreased by -0.24 % in November compared to the previous month.** The changes in October and September were -0.16% and 0.23%, respectively. Considering the quarterly predictions, we expect a change of 0.31% in real GDP in the fourth quarter of 2022 compared to the previous quarter. On the other hand, when the fourth quarter of 2022 is compared to the fourth quarter of 2021, this rate corresponds to a 2.6% growth. **Consequently, based on the data available as of November, we expect a mild growth in the economy in the fourth quarter.**

Considering the constituents of CEI, on the production side, an decrease of 1.7% was observed in September compared to the previous month in the latest industrial production index data. On the demand side, retail sales volume increased by 1.8% in September. Finally, considering the developments in the labor market, a 1.7% decrease was observed in total employment in September. From the data published timelier, the PMI was announced as 46.4 for November, the eighth consecutive month with a value lower than the critical value of 50. Based on all these components, we see a volatile pattern of CEI in the first three quarters of 2022. Nevertheless, since the trend is not affected by these changes, the indicator points to stagnation in the following months.

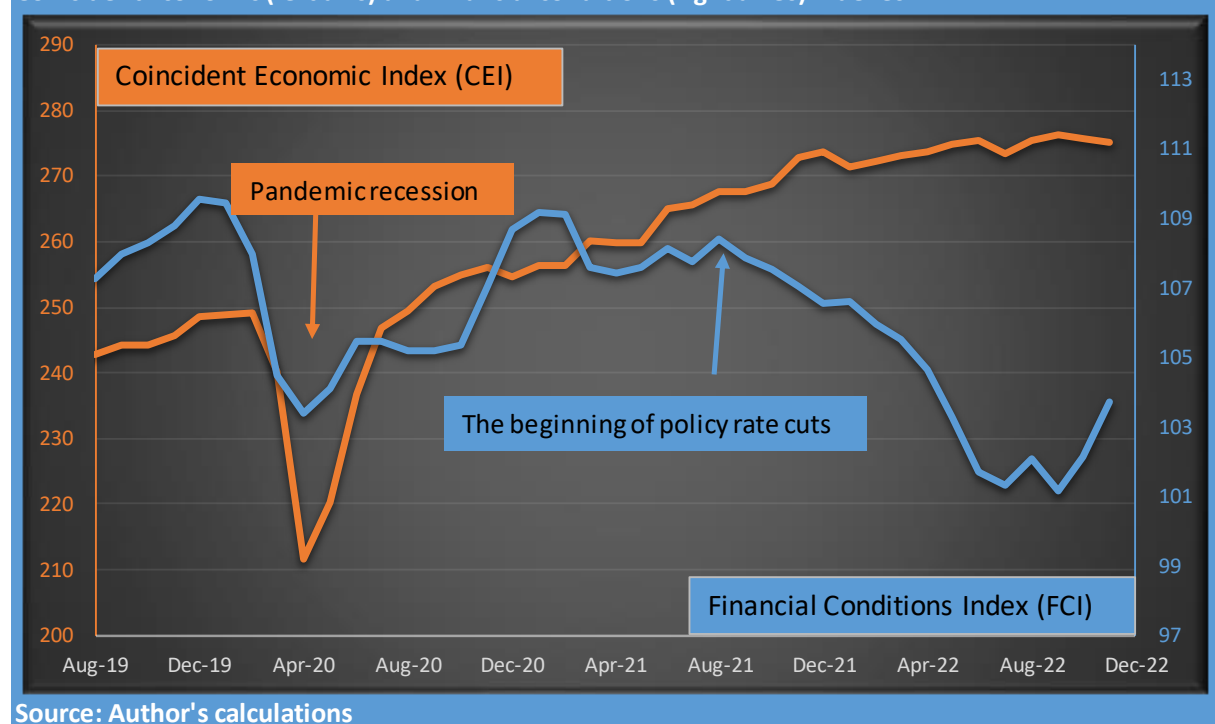
## Financial Conditions Index (FCI)

**According to the most recent model estimates, FCI increased by 1.58% in November compared to the previous month.** The changes in October and September were -0.93% and 0.96%, respectively. Therefore, the contraction in financial conditions for many months seems to be halted in the last two months. The most important reason for this development is the reduction of the US inflation after its peak.

Considering the constituents of FCI, gross FX reserves experienced an increase in November. Turkey's 5-year CDS premium is once again around 500 with 566 basis points. These figures indicate that Turkey's risk perception deterioration is very high despite the elevating risk appetite in the world. One of the underlying reasons for the high CDS rate is the high course of inflation and inflation expectations. Finally, we see a decline in total credit volume in real terms due to high inflation.

Figure 1 shows the evolution of FCI and CEI starting from 2019. In the first half of 2020, the sharp economic contraction caused by the Covid-19 pandemic and the subsequent rapid rebound is observed in CEI's evolution. Similar drops and rapid rises can be detected for FCI, especially during the term of former Central Bank Governor Naci Ağbal. On the other hand, the contraction in FCI since September 2021 has ceased in the last two months. This month, the FCI started to an expansion with rising risk appetite in the world. In CEI, WE observe stagnation since the start of 2022.

**Figure 1. Coincident Economic and Financial Conditions Indexes Estimates as of November 2022**  
Coincident Economic (left axis) and financial conditions (right axes) indexes

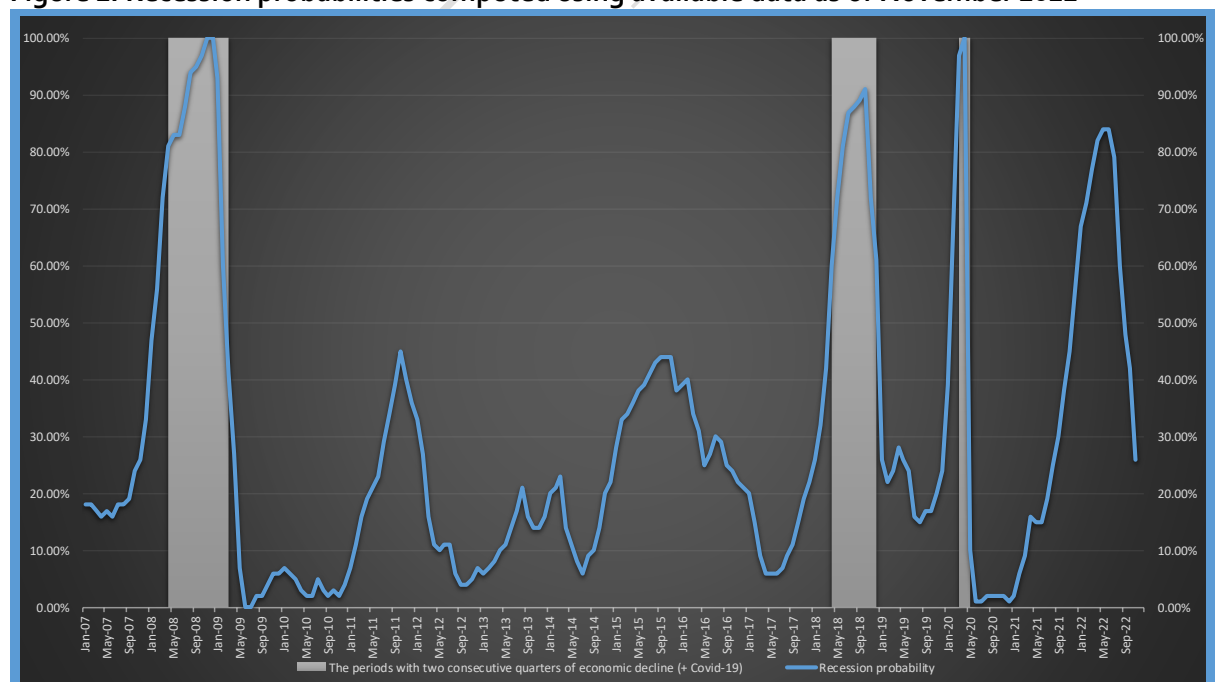


Source: Author's calculations

## Probability of Economic Recession

We compute the probability of the economy entering a recession in the short term based on the joint behavior of CEI and FCI. **We calculate this probability as 26% as of November.** Figure 2 shows these probabilities' evolution from 2007 to the present.

**Figure 2. Recession probabilities computed using available data as of November 2022**



Source: Author's calculations