

VAKIFBANK TURKISH ECONOMY WEEKLY

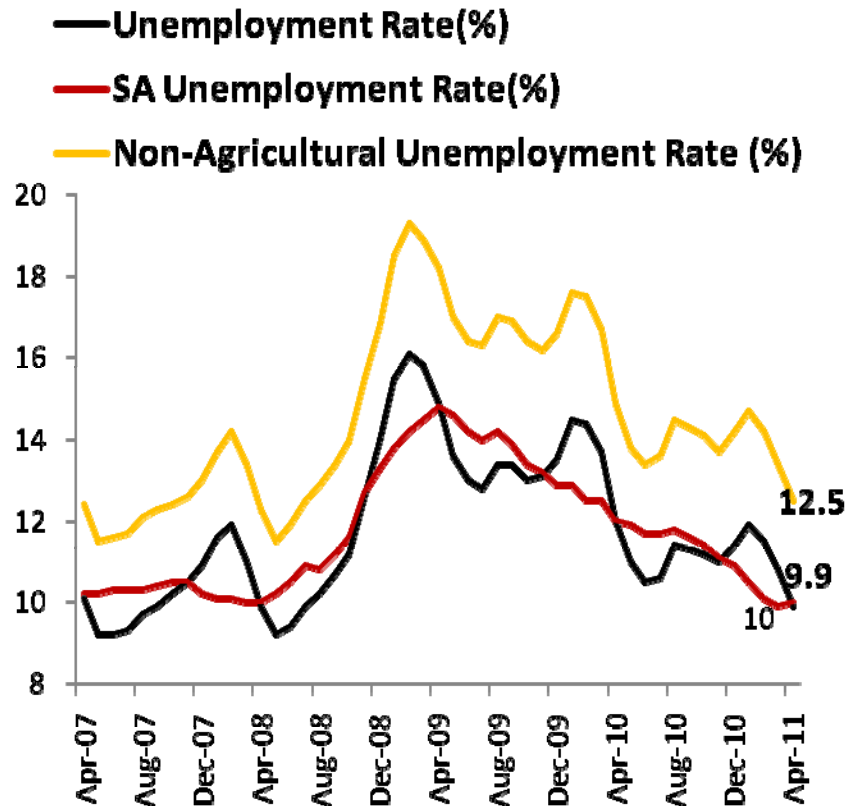
**How will the unemployment rate
perform in the rest of 2011?**



T. Vakıflar Bankası T.A.O



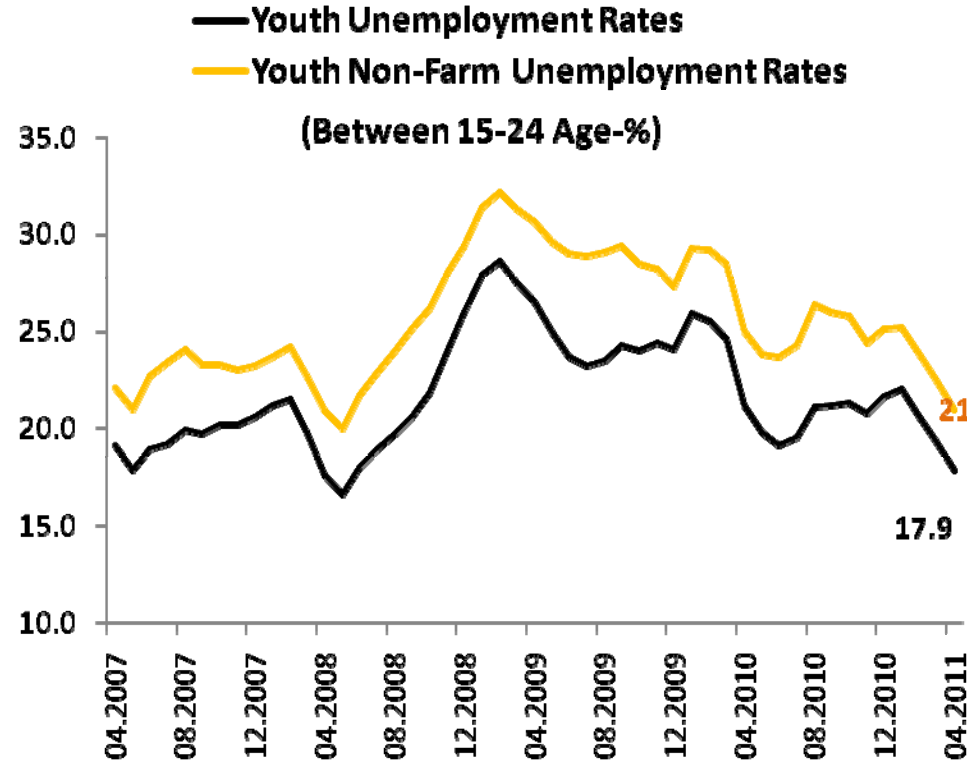
Unemployment rate declined to 9.9% in April...



Source: TurkStat

- Unemployment rate which was 12% in 2010 April, was 9.9% in the same month of 2011.
- Seasonally adjusted (SA) labour force participation rate was 49.9% by increasing 1 percentage point and SA unemployment rate was 10%.
- There was a relatively steady decline in the SA unemployment rate.
- Moreover, there was a slight rise in the SA unemployment rate in this month shows that rise in employment which was effective in the decline of unemployment rate, does not depend on the seasonal effects.
- Number of employed people increased by 1,454 thousand to 23,955 thousand in April 2011 compared to the same month of 2010.

The youth unemployment rate decreased to 17.9% in April 2011...

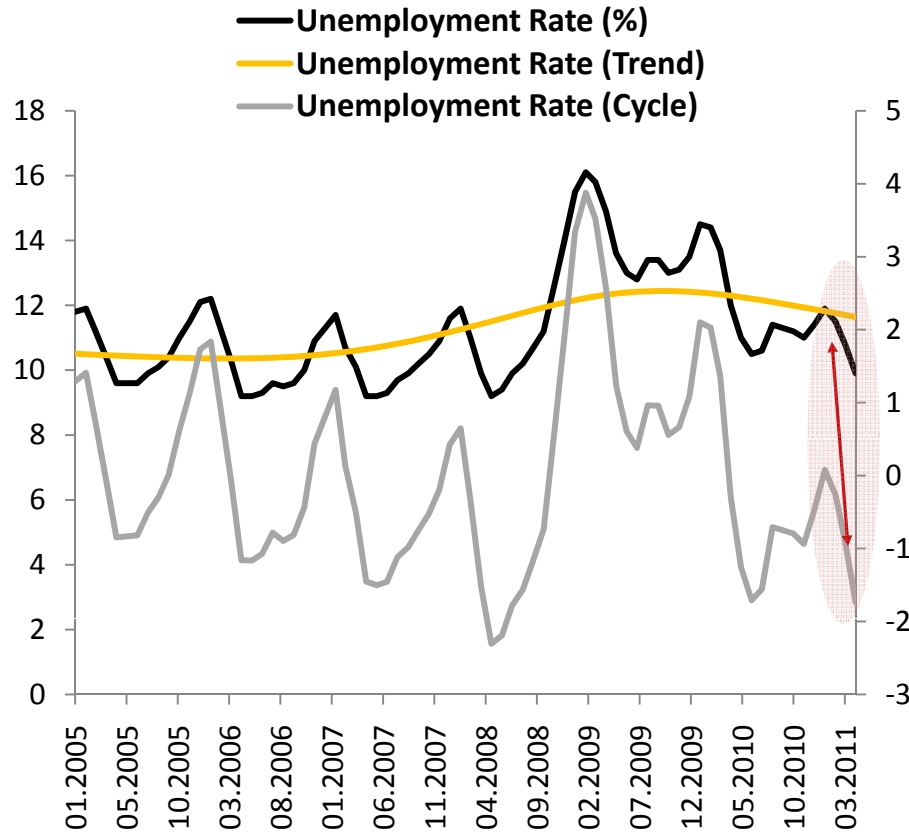


Source: TurkStat

📌 The youth unemployment rate decreased to 17.9% with the 3.3 percentage points decreasing compared to a year earlier.

📌 The decline in the youth unemployment rate resulted from the decreasing in non-farm unemployment rate in the same age group.

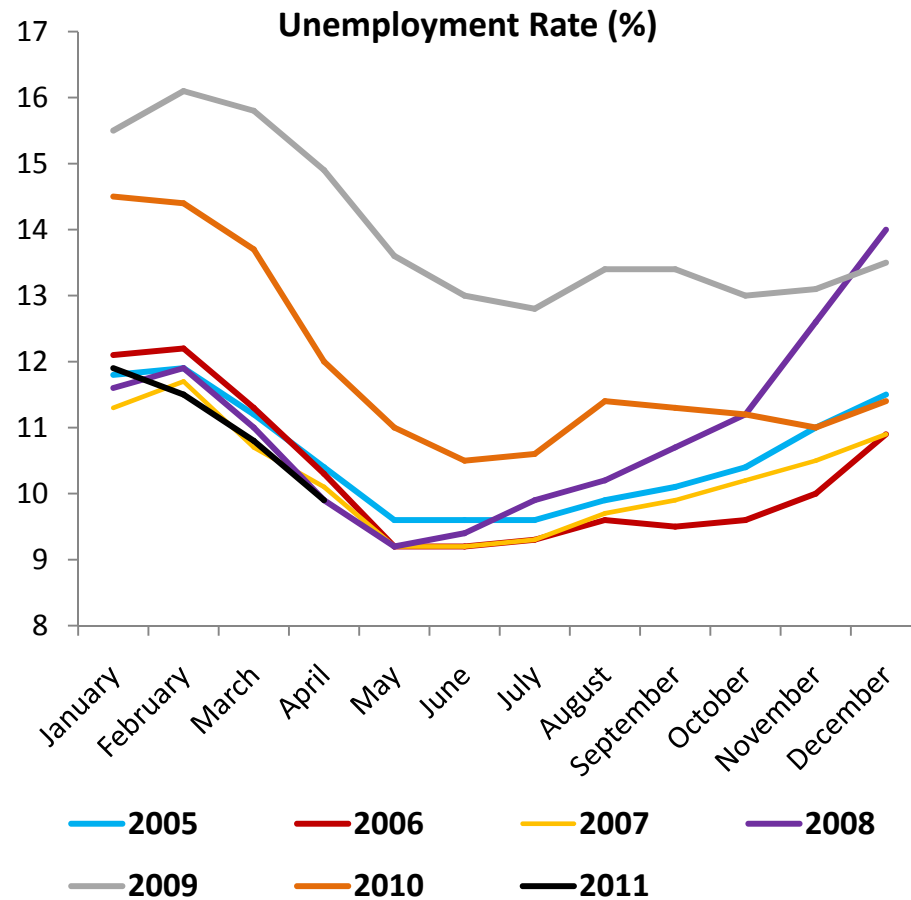
In spite of economic recovery, improvement in trend series has been still limited...



Source: TurkStat, VakifBank

- Unemployment rate is decoupled as trend and cycle series using HP Filtering Method.
- The cycle shows downward movement with the economic recovery but improvement in trend series has been still limited.
- Moreover the spread between the unemployment rate and the cycle series has increased since the second quarter of 2010. This indicates that the improvement in the unemployment rate arises from the cyclical improvement in the Turkish economic environment.
- The high levels of trend series show the structural problems in labor market.

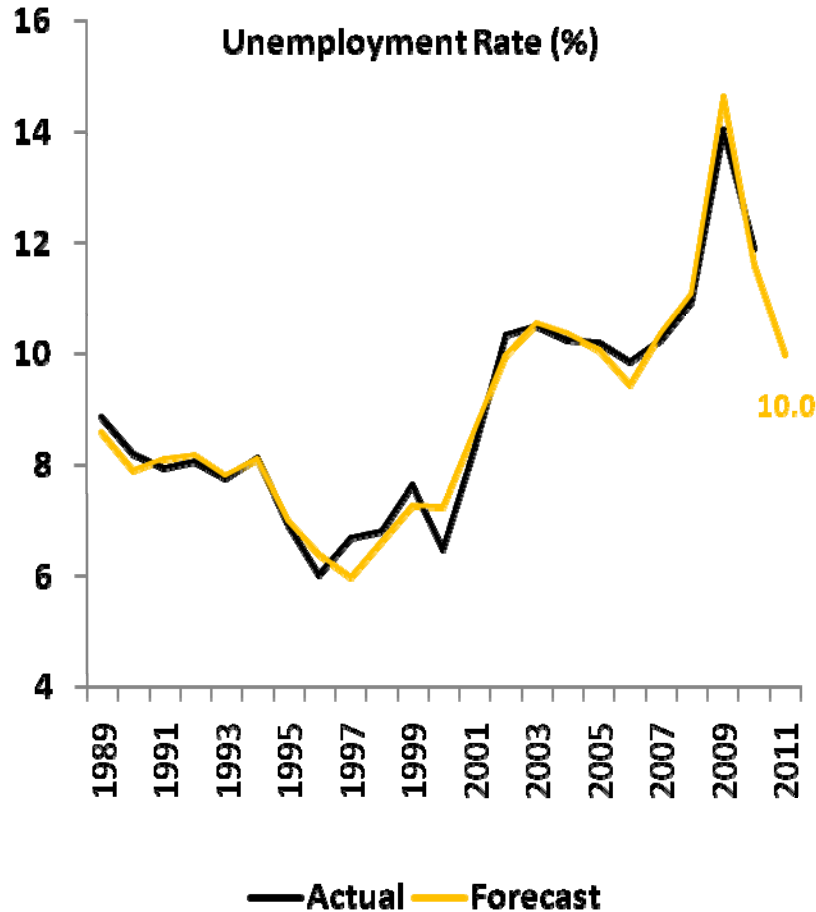
There is a significant improvement in employment conditions in April...



Source: TurkStat

- ▣ Unemployment rate has been on a recovery path since the second quarter of 2009 and the first four months downward trend except for 2009 and 2010 are quite similar to each other.
- ▣ Also there is a significant improvement in employment conditions in 2011, so unemployment rate has declined to the pre-crisis level.
- ▣ But with the end of the positive seasonal effects in the coming period, a slight upward movement in the unemployment rate will be seen.
- ▣ Thus, within the framework of the industrial production and the inflation expectations, we expect the unemployment rate is 10% in 2011.

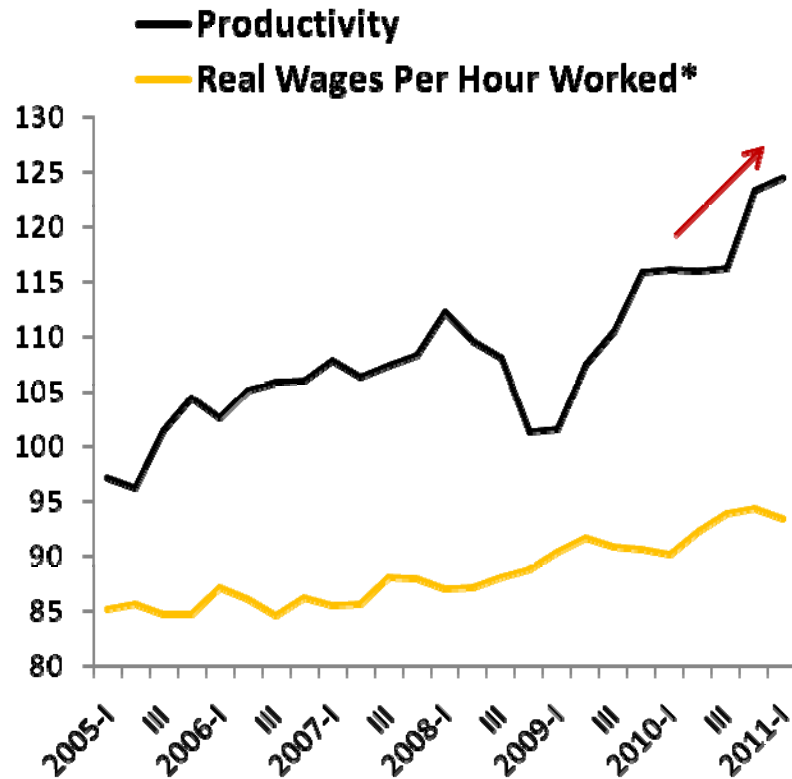
Our unemployment rate forecast for 2011 is 10.0%...



Source: TurkStat, VakifBank

- ✎ Unemployment rate which decreased to single digits in April 2011, is expected to continue to decline in the coming months thanks to the positive seasonal effects.
- ✎ However, with the contributions of agriculture and tourism sectors, it is possible to see a downward movement in unemployment rate which has decreased to pre-crisis level in April, unemployment rate may increase again after the summer. Therefore limited increases in unemployment rate are expected after the summer.
- ✎ Under our 6.1% real GDP growth forecast, our econometric model estimates the 2011 annual unemployment rate 10.0% which indicates the pre-crisis level in unemployment rate.
- ✎ Although other macroeconomic indicators recovered fastly after the crisis, the unemployment rate takes too long times to catch pre-crisis level. This is not a surprise since unemployment rate has a structural rigidity.
- ✎ Although the pace of deceleration in unemployment rate may lose momentum in 2011, our unemployment rate forecast reflects strong recovery in labour market.

Rise in productivity supports our 2011 yearly unemployment expectation which is 10%...



Source: TurkStat
*Deflated with SA CPI

- ✔ Productivity increased by 7.2% yoy, real wages increased by 3.6% and employment rose by 6.8% in the first quarter of 2011 in Turkey.
- ✔ The relationship between the productivity and real wages has been researched internationally and it was concluded that when the productivity increases, production and employment increases and profit provided by increasing production is returned to wages.
- ✔ Graph shows seosanally adjusted productivity and real wages indices. They have generally moved parallel except the crisis period. Government policies applied in the crisis period provided the rise in real wages while the productivity decreased.
- ✔ Productivity index has increased for the last two quarters and this rise is positive for the coming months.

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