

VAKIFBANK TURKISH ECONOMY WEEKLY

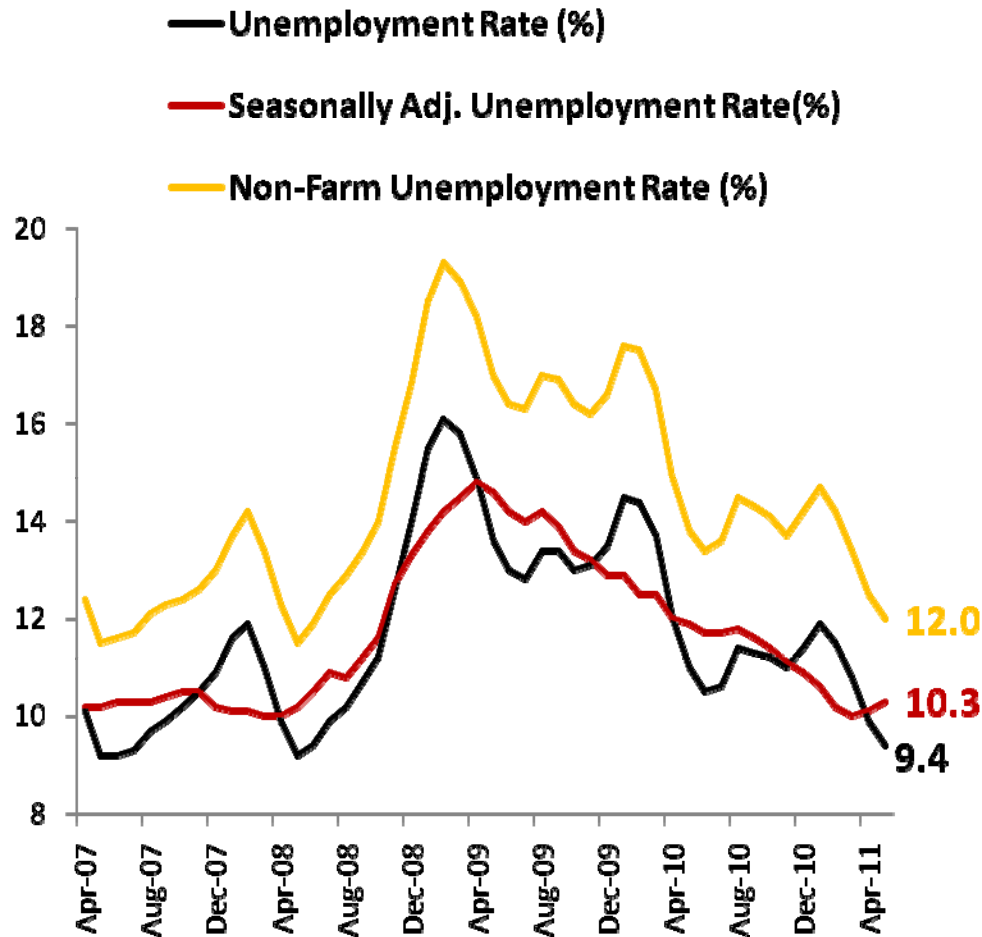
What does unemployment data
tell in between the lines?



T. Vakıflar Bankası T.A.O



In May unemployment fell to its lowest level since June 2008...



Unemployment rate fell to 9.4% from 9.9% in April – May – June 2011 period: the lowest level since June 2008.

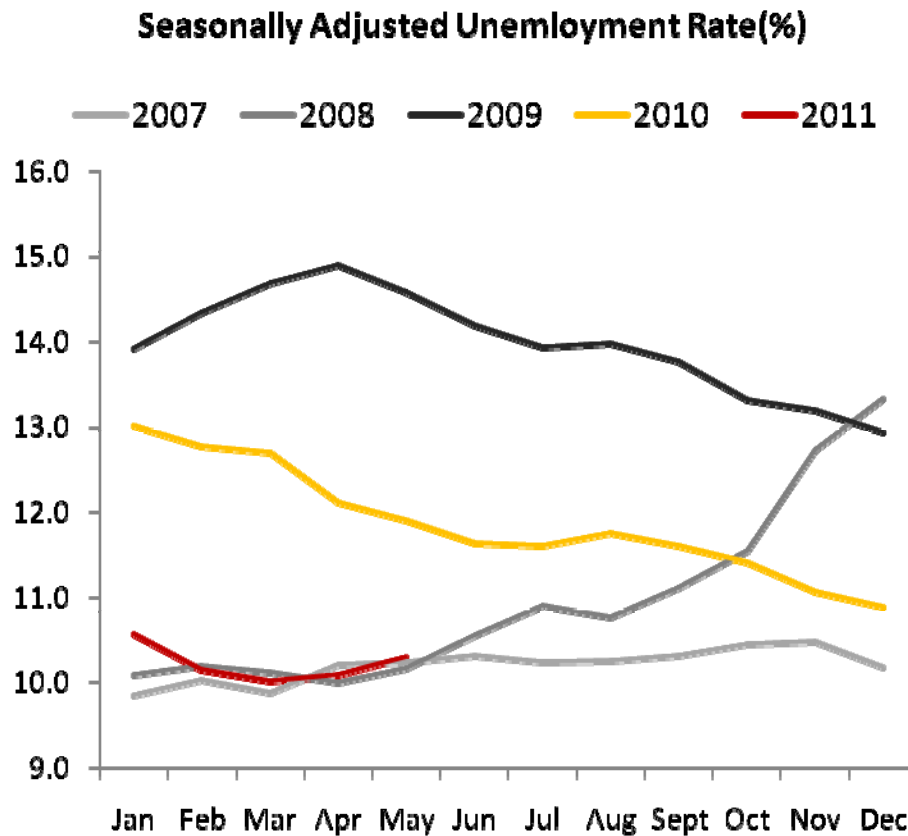
Non-farm unemployment rate decreased by 0.5 points to 12%.

The fall in non-farm unemployment may imply that the downward trend of unemployment is not temporary.

However, the seasonally adjusted unemployment rate rose to 10.3% in May 2011 from 10.1%, heading upwards from its lowest level of March 2011 since April 2008.

Source: TurkStat

Conversely, unemployment is increasing in seasonally adjusted terms ...

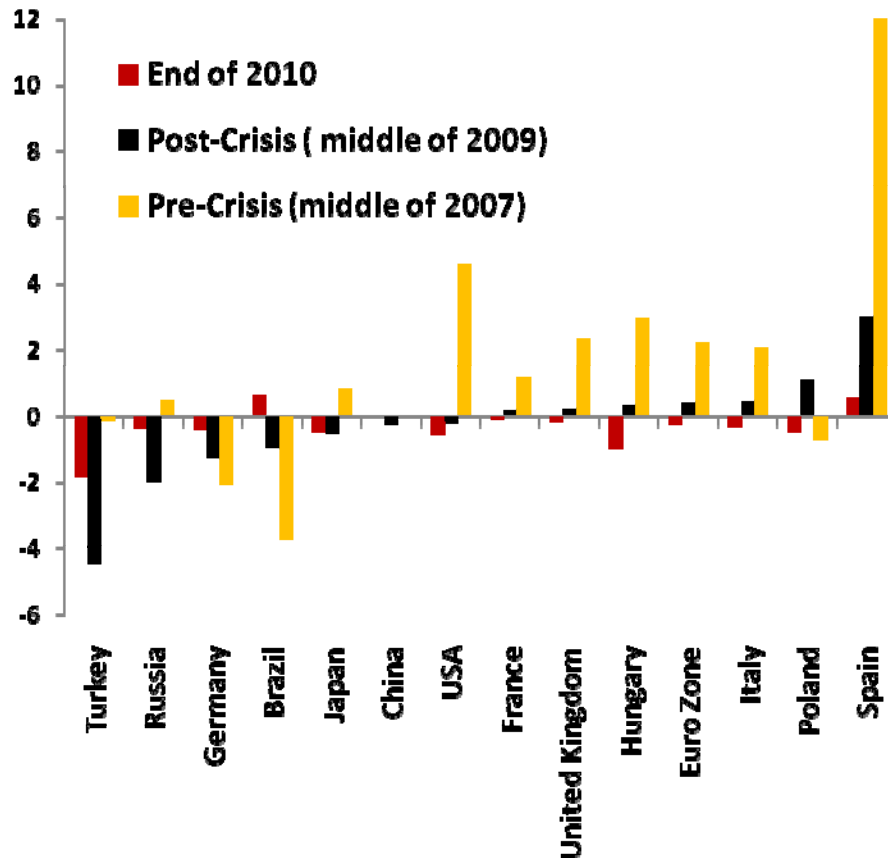


Source: TurkStat

- Yearly comparison of seasonally adjusted unemployment figures indicates that the 2011 trend is resembling its 2008 pathway.
- This picture implies that the contraction in labor market is mainly seasonal and may slow down in the coming periods.
- The unadjusted sectoral data also indicate the influence of seasonal factors.
- The yoy change in construction and agricultural employment is strong in May, while service sector employment increase is moderate and industrial employment increase is in its lowest level in 2011.
- These figures support our expectation of gradual slowdown in growth performance after Q1 2011 in accordance with the other activity data such as industrial production and capacity utilization.

The unemployment rates of Euro Zone and US are still above the pre-crisis level...

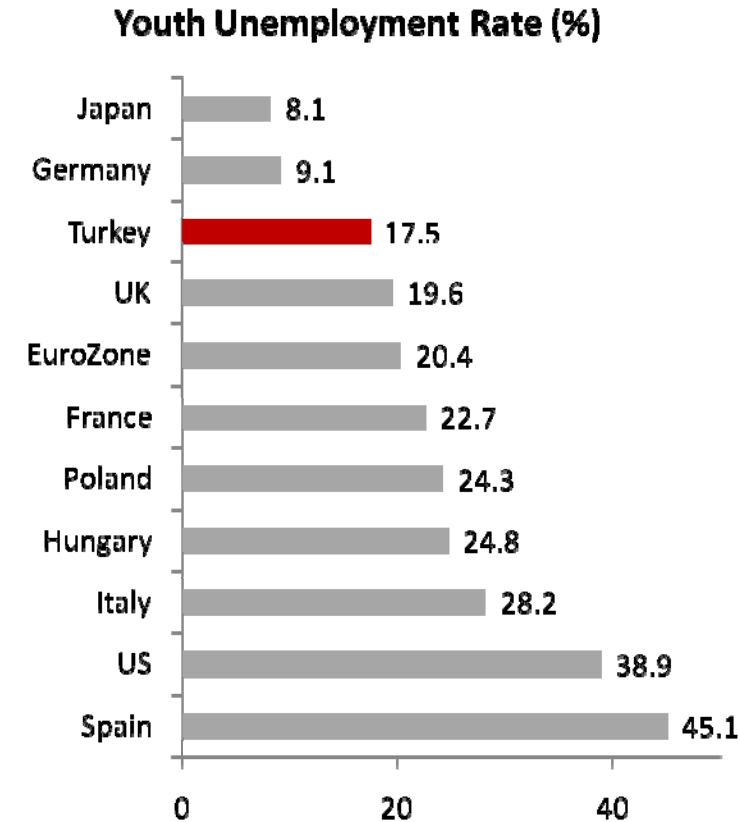
Change in unemployment rates of selected countries



Source: Bloomberg

- In order to show the comparative recovery in the global employment market, changes in unemployment rates of selected developed and developing countries from the pre-crisis, post-crisis and end of 2010 are calculated.
- According to the latest figures, unemployment rates of developing countries have declined compared to the pre-crisis levels. However the unemployment rates of Eurozone and US are still above the pre-crisis levels.
- In the post crisis period, Turkish unemployment has decreased by 4.4 points. Therefore Turkey experienced the fastest recovery among selected countries. On the other hand unemployment rate of Spain and Poland have increased by 3.0 and 1.1 points respectively.

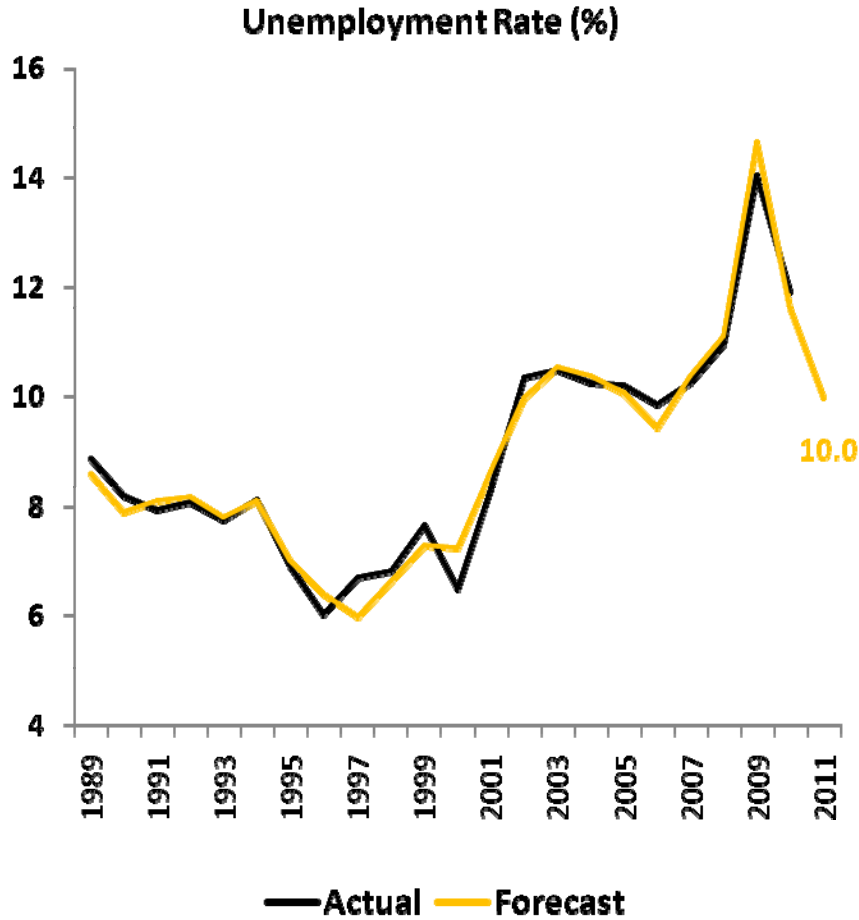
The unemployment rate in 15-24 age group decreased to 17.5% in May...



Source: Bloomberg

- ✔ While the youth unemployment was 73.5 million in 2007, it increased to 75 million in 2010. Moreover, global unemployment in 15-24 age group was 12.6% in 2010, 2.6 times higher than the adult unemployment rate.
- ✔ This shows that, young population was more affected from the economic crisis than the adult population.
- ✔ Although youth unemployment rate in Turkey is lower than many developed and developing countries, it is higher than global youth unemployment rate of 12.6%.
- ✔ However, youth unemployment rate has declined since January 2011. This declining trend is positive for the coming period.

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



Source: TurkStat, VakifBank

- ✔ The single digit unemployment rate of May 2011, is expected to continue to decline in the coming months thanks to the positive seasonal effects.
- ✔ However, the unemployment rate may increase again after the summer months to a limited extent.
- ✔ Under our 6.1% real GDP growth forecast, our econometric model estimates the 2011 annual unemployment rate as 10.0%.
- ✔ Although other macroeconomic indicators recovered fastly after the crisis, it takes too long for the unemployment rate to catch the pre-crisis levels. 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.

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