

Macro: Demand conditions limited production in manufacturing industry *According*

Istanbul Chamber of Industry's Turkey Manufacturing Purchasing Managers' Index (PMI) decreased by 0.7 points to 49.3 in April, returning back to contraction zone after two months. According to anecdotal information, this was mainly driven by the negative impact of weakening orders on production due to price hikes and tight financial conditions. The slowdown in new export orders, which were also affected by price hikes, remained relatively more limited. On the other hand, the current momentum loss has yet to affect expectations in the same way. In fact, firms increased their purchases of goods and input stocks, while the employment outlook did not deteriorate. Cost pressures due to the depreciation of the Turkish lira, raw material and logistics prices continue, but at a slower rate. Suppliers' delivery times also improved slightly.

According to sectoral data, food continues to be the best performing sector. The most unexpected development is the strong recovery in clothing-leather and textile sectors driven by production and orders. April CUR data did not have a similar signal. Moreover, there has been no change in macroeconomic conditions that would lead to such an increase in demand for these sectors. Therefore, it is early to interpret this as a positive and permanent signal. Among construction-related sectors, increases in mineral products and wood and cork are in line with the BTS data. On the other hand, electrical and electronic products, machinery-metal and vehicle sectors weakened.

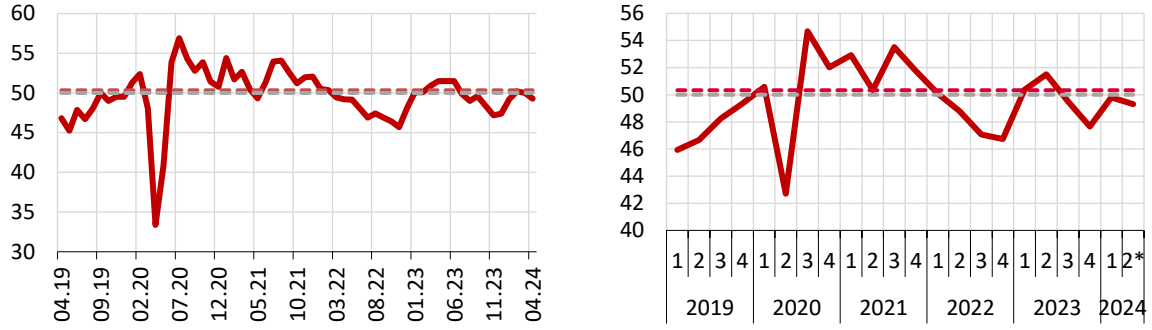
to the sub-indices of the survey;

- After a two-month rise, the **production** index fell back into contraction zone in April. According to anecdotal information, weakening demand was effective in the moderate decline in production.
- **New orders** have been slowing down for the last ten months, which is attributed to the weakening demand due to rising prices and interest rates. This month, the weakening in export orders was more limited than the weakening in total orders, implying that the decline in domestic orders was stronger.
- The **employment** index indicates that there is no significant change in the employment outlook compared to last month. It was noted that Some respondents mentioned the need for extra staff, but others reported that finding suitable workers had proved challenging.
- Inflationary pressures persist. **Input prices** continued to rise due to the depreciation in the Turkish lira and higher raw material and logistics prices. **Final product prices** also continued to rise. However, it was stated that the increases lost momentum compared to the previous months.

On a sectoral basis, in seasonally adjusted terms;

- **According to headline indices**, all sectors except food, clothing, wood and paper and mineral products remained below the 50 threshold. In clothing, the index rose above the 50 threshold level after 10 months (Chart 2). Despite being below the threshold, the strong monthly increase in the textile sector is noteworthy. The **production** index increased in textiles, clothing and wood and paper, but remained below the threshold level (Chart 3). The most significant monthly increase was observed in the food sector.
- The most notable monthly increases in **new orders** were recorded in clothing and textiles (Chart 3). In clothing, the index moved into expansion territory and stood at 52.9, the highest level since May. The most notable decline was in the machinery and metal sector, with the index at its lowest level since April 2022. The highest increase in the **employment** index was also in the clothing sector. The most notable monthly decline was in the machinery and metal sector (Chart 3).
- The **input cost** index increased significantly in the chemicals sector, but declined in the textiles, wood and machinery sectors (Chart 3). However, the level remained high in all sectors. Suppliers' delivery times shortened in many sectors (Chart 3).

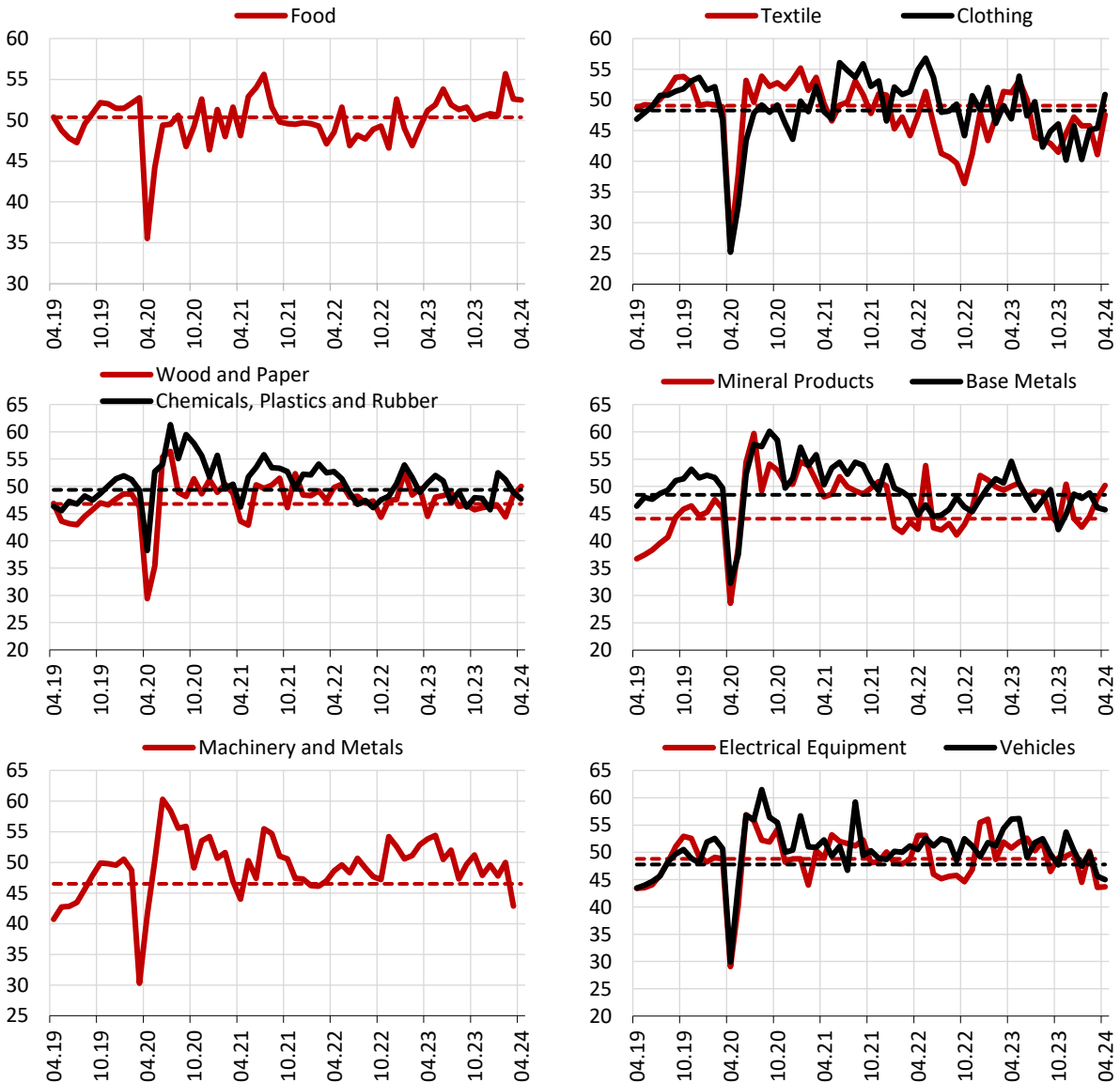
Chart 1. ICI Türkiye Manufacturing PMI (seasonally adjusted, level)



Note: Red and grey dashed lines show the 2006-2019 average and the notr (50) level, respectively.

Source: S&P Global, ICI

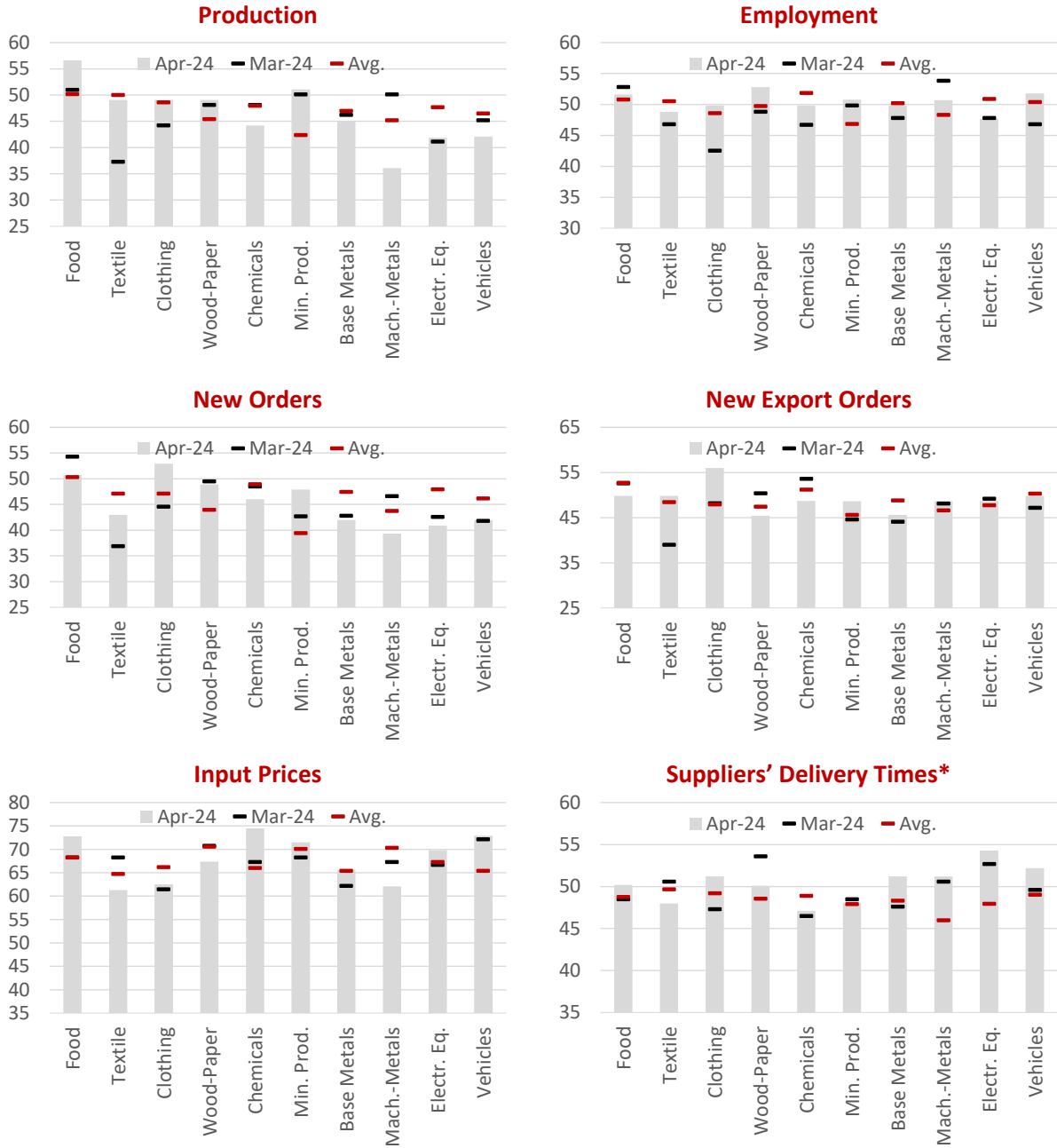
Chart 2. PMI by Sectors (seasonally adjusted, level)



Note: Dashed lines show 2016-2019 average of the same-coloured series.

Source: S&P Global, ICI

Chart 3. PMI Sub-Indices by Sectors (seasonally adjusted, level)



Source: S&P Global, ICI

* A lower value of the question indicates a longer delivery time.

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