

## Macro: Manufacturing industry slightly improved

*Istanbul Chamber of Industry Türkiye Manufacturing Purchasing Managers' Index (PMI) rose by 0.6 points to 49.6 in September. The outlook in the manufacturing industry improved slightly compared to the previous month. Yet, the index does not point to a significant recovery for the underlying trend. Manufacturing industry slowed down in the third quarter compared to the first half of the year. This was mainly driven by the price hikes in inputs and final products caused by the rapid depreciation of the Turkish lira and customer demand restrained by these price increases. Following the strong tightening steps, the relatively flat course of the TRY alleviated inflationary pressures in September, but the lagged effects of the exchange rate hike on prices continue to restrain new orders. Accordingly, production remains subdued while employment growth remains weak. The course of TRY will be one of the factors that will determine the course of the manufacturing industry in the upcoming period. On the other hand, the real appreciation of the TL caused by the stabilization of the exchange rate may reduce competitiveness and adversely affect foreign demand for the manufacturing industry.*

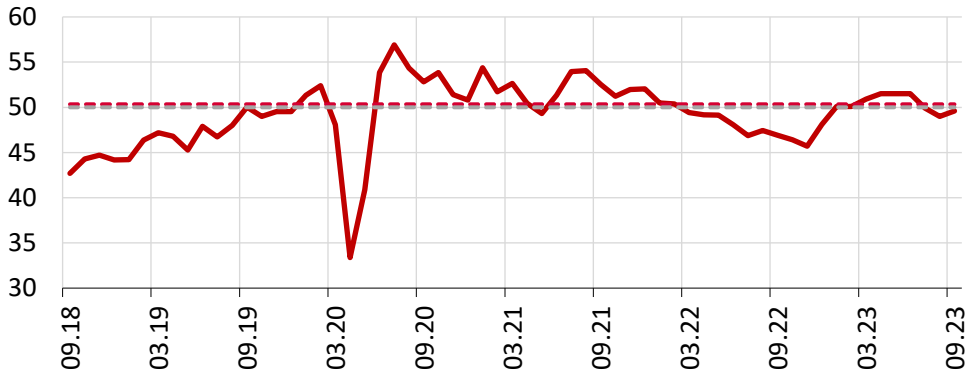
### **According to the sub-indices of the survey;**

- **The production index has been below the 50 threshold level for the last three months.** However, the slowdown seems to have lost momentum compared to the previous month. Survey participants stated that the decline in production stemmed from the weakening in market conditions and the decline in new orders.
- **Employment has increased for the past five months,** albeit at a decelerating rate. Some firms indicated that they still needed to hire additional staff. Some respondents indicated that they preferred to reduce their staff numbers due to the slowdown in new orders.
- **Inflationary pressures eased.** Input costs continued to rise due to the lagged effects of the June-August depreciation in the Turkish lira. The flat course of the exchange rate on average in September led cost increases to slow down. Final product prices followed a similar course. On the other hand, the 20% increase in natural gas and electricity tariffs for industrial subscribers, which will be effective from October, will increase input costs.

### **On a sectoral basis, in seasonally adjusted terms;**

- The headline index remained above the 50 threshold only in the food sector. The textile sector was the weakest on a monthly basis.
- The sharpest monthly decline in **the production index** was recorded in machinery, minerals and electrical-electronic products. Only clothing and wood and paper increased.
- The sharpest monthly decline in **new orders** was recorded in the electrical-electronic and mineral products sectors. Despite the recovery in the clothing sector, the index remained below the threshold level.
- The sharpest monthly decline in **employment** was observed in electrical-electronic products, machinery and minerals.
- **Input costs** decreased in all sectors.

Chart 1. Manufacturing PMI Index\* (seasonally adjusted, level)



\* The red and grey dotted lines show historical average (2006-2019) of the index and the threshold level (50), respectively.

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