

Macro: Outlook in manufacturing industry improved monthly

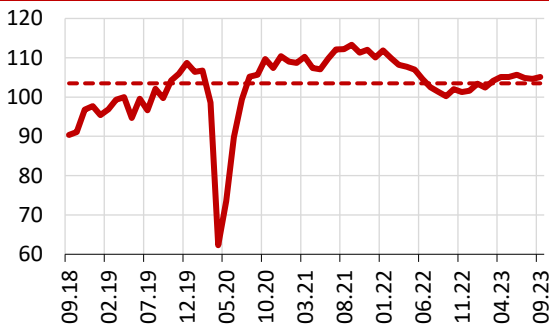
The September Business Tendency Survey and Sectoral Confidence Indices revealed a more favorable outlook compared to the previous month. The capacity utilization rate recovered to its July level (76.9%) after the temporary impact caused by the automotive industry subsided. Domestic demand is still driving growth. External demand slightly improved on a monthly basis but remains relatively weak due to the slowdown in the global manufacturing industry. On the other hand, employment and investment tendencies continue to be favorable. Although cost pressures have eased compared to the previous month, they remain significant.

Confidence Indices

Real Sector Confidence Index (RSCI): In September, the seasonally adjusted RSCI went up by 0.5 points to 105.1, but was 0.4 points lower than the last quarter (Chart 1). Nonetheless, optimism in the manufacturing sector remains as RSCI exceeded the historical average. While the current production and new orders contributed negatively to the index, the improvement in the general outlook and employment expectations contributed to the monthly increase.

Sectoral Confidence Indices (SCI): In September, the confidence indices for retail trade and construction rose, but the services confidence index continued to decrease (Chart 2). The **services confidence index** fell to 113.0, the lowest level since March 2022 and is nearly 5 points below its long-term average. The monthly decline spread across all subcomponents, with the deterioration in activity and employment expectations for the next 3 months standing out. **Construction confidence index** increased on a monthly basis to compensate for the decline in August. However, it is still below the long-term average. **Retail confidence index** increased due to the strong improvement in expectations for the next 3 months, to make up for the decline in the previous two months. On a quarterly basis, the index was 1.3 points below the previous quarter and 3 points lower than its historical average.

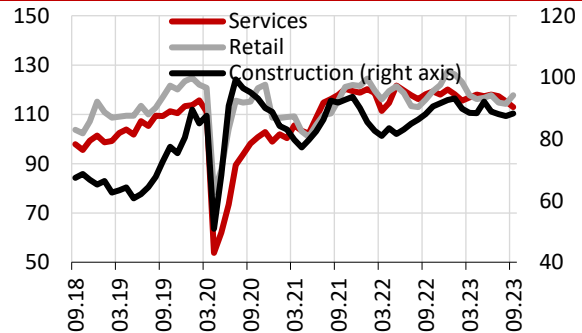
Chart 1. Real Sector Confidence Index (seasonally adjusted)*



* Dashed line shows 2007-2019 average.

Source: CBRT

Chart 2. Sectoral Confidence Indices (seasonally adjusted)



Source: TURKSTAT

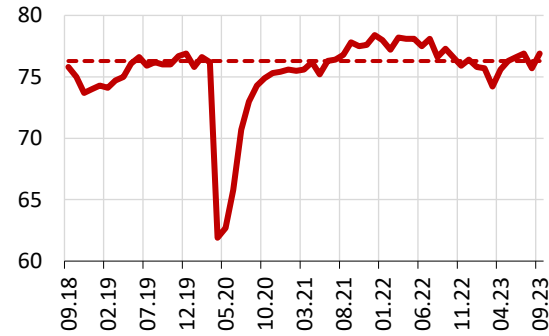
Capacity Utilization Rate (CUR)

Last month ([Macro: Manufacturing industry maintains flat outlook](#)), we mentioned that CUR decreased by 1.2 points because of planned maintenance and repair works in the automotive industry, causing a temporary situation. This decline did not reflect the underlying trend. In September, the CUR in the automotive industry rose by 10.7 points after the substantial decrease of 12.1 points in August. Thus, CUR rose back to 76.9%, offsetting the fall in August and confirming our past evaluations (Chart 3).

Based on firm scale, the monthly increase in CUR was driven by large-scale firms (1.5 points). Moreover, CUR of small-sized firms rose by 0.2 points, while medium-sized firms decreased by 0.3 points m-o-m (Chart 4). The increase in large-scale firms was also influenced by the automotive sector.

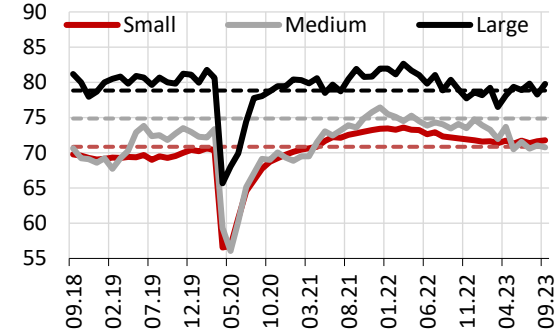
CUR is higher than the historical average in both large and small-scale firms, but lower than the historical average in medium-scale firms. In September, CUR increased in all **Main Industrial Grouping (MIGs)** sectors, except in durable consumer goods. Investment goods experienced the most significant increase in CUR, attributed to the correction in the automotive industry.

Chart 3. Capacity Utilization Rate (seasonally adjusted, %)*



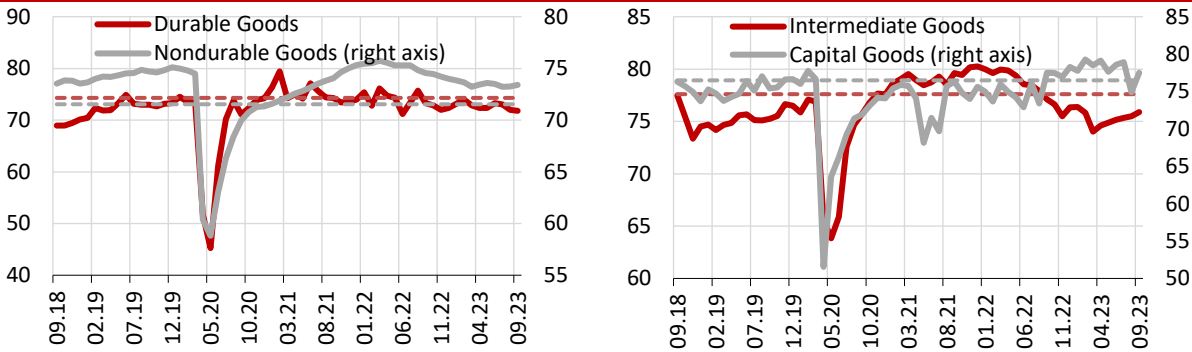
* Dashed line shows 2007-2019 average.
Source: CBRT

Chart 4. Capacity Utilization Rate (by firm-scale, seasonally adjusted, %)*



* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Chart 5. CUR (by main industrial groups, seasonally adjusted, %)*



* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

CUR have diverged across sectors recently. The **clothing** sector has had a more significant slowdown. Its CUR decreased by 0.6 points to 75.4% in September, the lowest level since the first half of 2021 and 2.7 points lower than its historical average (78.1%). The cumulative decline in the CUR amounted to 2.4 points in the two months following the wage hikes. These facts demonstrate that the clothing industry is under pressure due to decreased competitiveness. In July, clothing production went down significantly. The outlook in the **leather** sector is similar to that of clothing. On the other hand, in the **textile** sector, which is labor-intensive like clothing and suffered a significant capacity loss due to the earthquake, the CUR reached 71.4%, the highest value of this year. However, the outlook is still weak as it is still significantly below its historical average of 77%. In the **base metal** industry, CUR decreased by 1.5 points m-o-m and by 2.0 points cumulatively in the last two months. In fabricated metals, the monthly increase was not enough to cover up for the fall in August.

The CUR of **paper, recorded media, machinery-equipment** industries recorded increases of 2.8, 1.9 and 1.8 points, respectively. In addition, **mineral products, wood & cork products and chemical products** also each went up by 1 percentage point. CUR in wood&cork, paper, minerals and furniture sectors reached their highest values of the year. The increase in durable goods came from the **electrical equipment** sector.

In the third quarter, CUR increased by 0.3 points q-o-q and reached 76.5%, marking the highest level of the last four quarters. The increase in CUR was mainly driven by large-scale firms. CUR remained flat in small-scale firms, while decreased by 1.1 points in medium-scale firms for the third consecutive quarter. In terms of main industrial groupings, the main driver of the increase was intermediate goods.

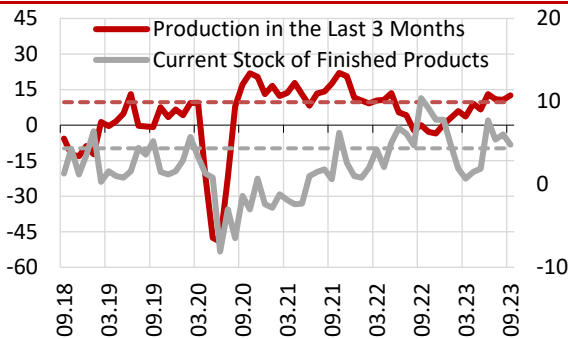
Business Tendency Survey

The monthly increase in the **production in the last 3-month** has made up for the most of the decline in the previous two months (Chart 7). On a monthly basis, it decreased significantly in durable goods and investment goods, while increased in nondurable consumer goods and intermediate goods. On a firm scale, it increased in large-scale firms, remained flat in small-scale firms and decreased in medium-scale firms.

Stocks of finished products decreased again this month (Chart 7). **This was particularly the case for investment and durable consumption goods, while stocks of non-durable goods increased.** On a firm-scale, stocks decreased in large-scale firms and increased in others.

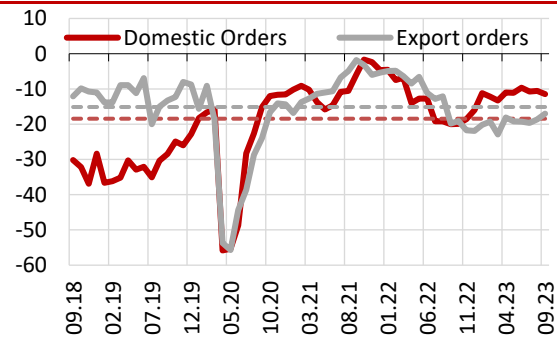
In September, **registered new orders** increased in exports but decreased slightly in domestic market (Chart 8). Nevertheless, domestic new orders are well above their historical averages indicating that domestic demand-driven growth continues. Domestic orders increased in investment and non-durable goods, but decreased in durable goods. The increase in export orders came from durable goods and large-scale firms.

Chart 7. Production in the Last 3 Months (seas. adj., increase-decrease) and Stocks of Finished Products (seas. adj., above-below normal)*



* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Chart 8. Registered Orders (seasonally adjusted, above-below normal, %)*

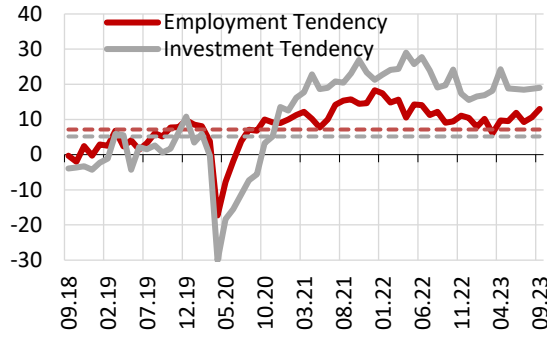


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Firms' **employment tendency** continued to increase. The **investment tendency** maintained its favorable course significantly above averages (Chart 9). Investment tendency increased in medium and large-scale firms and in consumption goods (Chart 10).

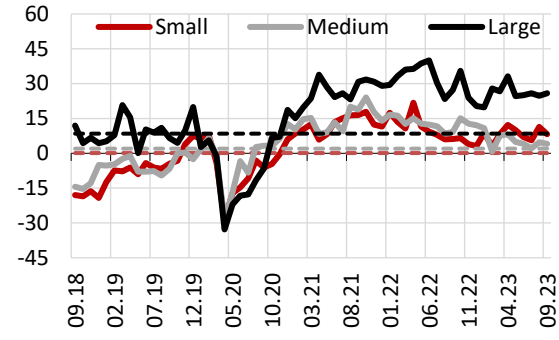
Manufacturing firms' expectations for **export orders continued to decline** (Chart 11). This is mainly due to the ongoing weakness in the global manufacturing industry, particularly in the Euro Area.

Chart 9. Employment and Investment Tendency (seas. adj., increase-decrease, %)



* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

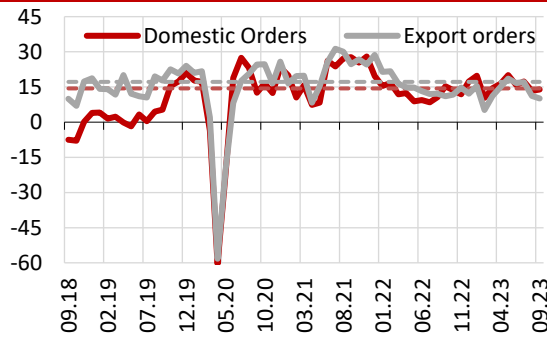
Chart 10. Investment Tendency (by firm-scale, seas.adj., increase-decrease, %)



Source: CBRT, Akbank

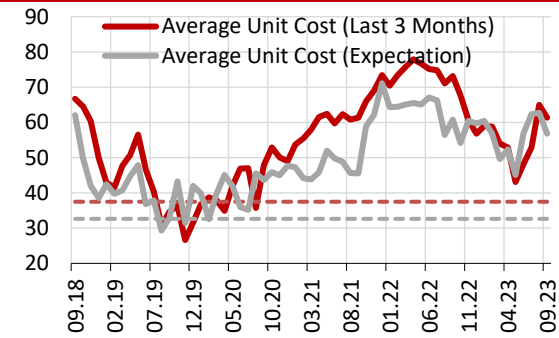
On the other hand, **unit costs for the last 3 months**, which had been on the rise since June, **decreased slightly in September** (Chart 12). The decline is widespread across sectors. This was due to the halt in the depreciation of the Turkish lira after the sharp interest rate hike. Nevertheless, the course above historical averages indicates that the lagged and cumulative effects of the previous exchange rate hike and wage increases persist.

Chart 11. Expectations for Orders in the next 3 Months (seas. adj., increase-decrease, %)*



* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Chart 12. Average Unit Cost (seas. adj., increase-decrease, %)*



* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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