

Macro: Stable outlook for the manufacturing industry

Istanbul Chamber of Industry's Turkey Manufacturing Purchasing Managers' Index (PMI) fell slightly to 50 in March, indicating that the outlook in the manufacturing industry remained similar to the previous month. Although the index remained below the historical average in the first quarter, its improvement compared to the previous quarter signalled a moderate recovery in the manufacturing industry on a quarterly basis. In fact, we had received signals in this direction in the IPI as of January. While the improvement in demand questions continued in the index, the fact that demand was partially met by inventories limited the reflection of the improvement in demand conditions on production. The weakening in the employment outlook lost momentum. Due to the problems in the Red Sea, delivery times of suppliers have been extending in the last three months. Input and product prices continued to rise. Although the depreciation of the Turkish lira and the rise in raw material prices were determinants of this development, total cost increases probably slowed down as the impact of the wage hikes at the beginning of the year started to weaken.

According to sectoral data, the favourable course in the food sector was maintained as in recent months, while the weak course in clothing and textiles continued. Mineral products, which are most closely linked to construction, have been on the rise for the last two months. However, basic metals, another construction-related sector, did not accompany this movement. Sectors such as vehicles, electrical and electronic products, machinery and metals have recently been volatile on a monthly basis. The general downward trend in the first two sectors may reflect the effects of monetary tightening.

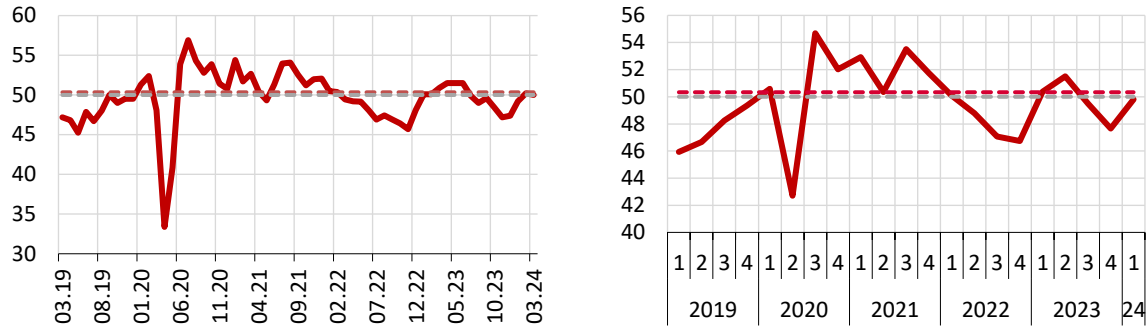
According to the sub-indices of the survey;

- Although **the production index has been on the rise for the last two months**, the increase slowed in March compared to the previous month. According to anecdotal information, some firms noted that difficult economic conditions persist, limiting their ability to increase production.
- The slowdown in **new orders** lost momentum, signalling a relative improvement in demand conditions.
- **Employment** has been in contraction territory for the last two months, but the severity of the contraction is weaker than last month. Some respondents attributed the decline in employment to resignations and retirements.
- Inflationary pressures remained high, albeit at a reduced pace. Input prices increased due to the depreciation in TRY and rising raw material prices. Final product prices also continued to rise. This outlook is consistent with the BTS data.

On a sectoral basis, in seasonally adjusted terms;

- **According to headline indices**, all sectors except food and machinery remained below the 50 threshold. Textiles and electrical and electronic products sectors hover significantly below their historical averages (Chart 2). **The production index** remained in contraction territory in sectors other than food, mineral products and machinery and metals (Chart 3). The most notable monthly increases were observed in mineral products and wood and paper sectors.
- The most notable monthly rise in **new orders** took place in the wood and paper sector (Chart 3). Textile and vehicle sectors recorded significant declines. The index level in the textile sector was the lowest since July 2023 and in the vehicle sector since May 2020. **In the employment index**, all sectors except food and machinery and metals contracted. The most significant monthly decline was recorded in the chemical products sector (Chart 3).
- **The input cost index** increased in wood and paper and mineral products, but decreased in all other sectors (Chart 3). However, the level remains high in all sectors. **Suppliers' delivery times** displayed a mixed outlook (Chart 3).

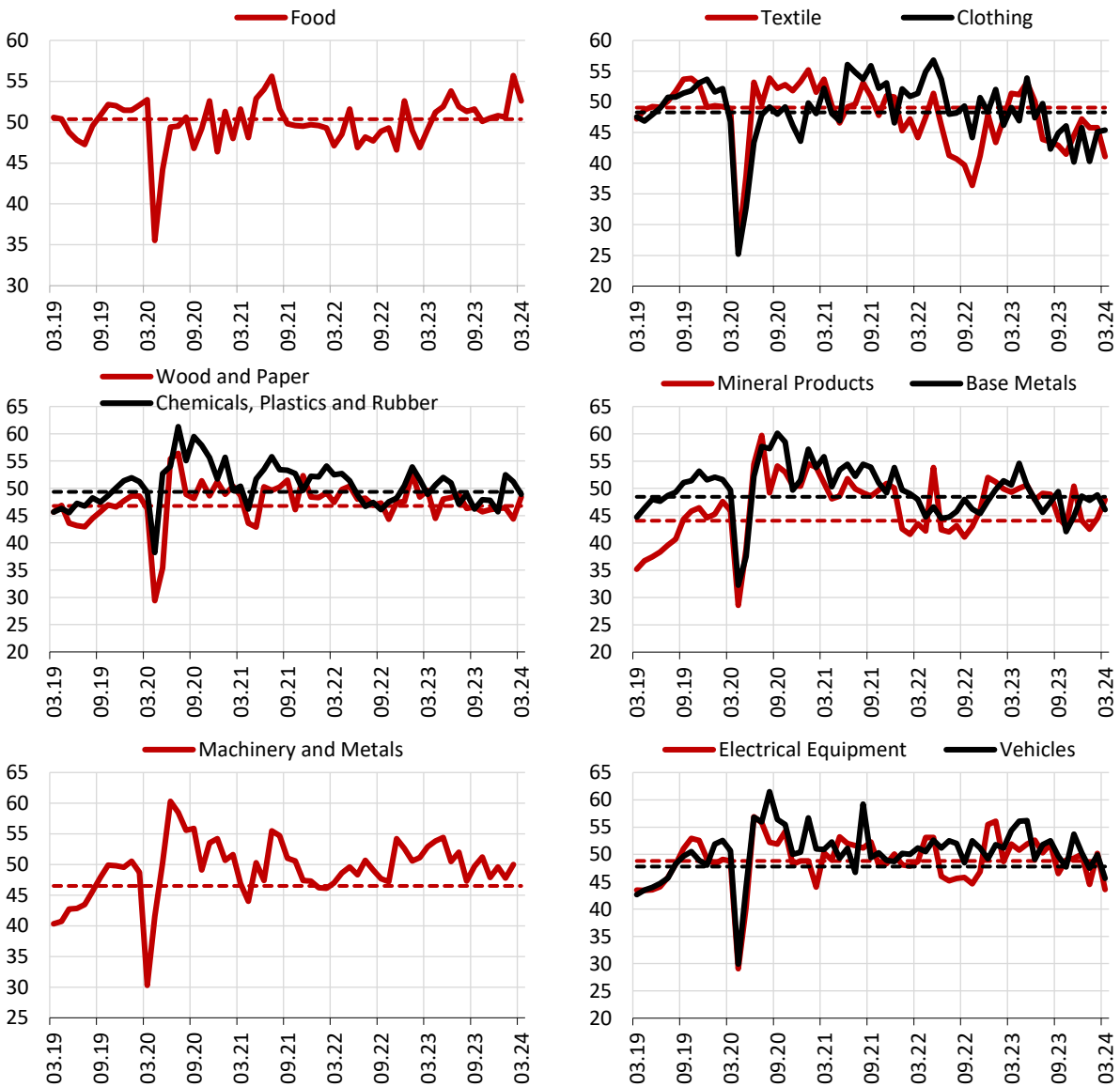
Chart 1. ICI Türkiye Manufacturing PMI (seasonally adjusted, level)



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

Source: S&P Global, ICI

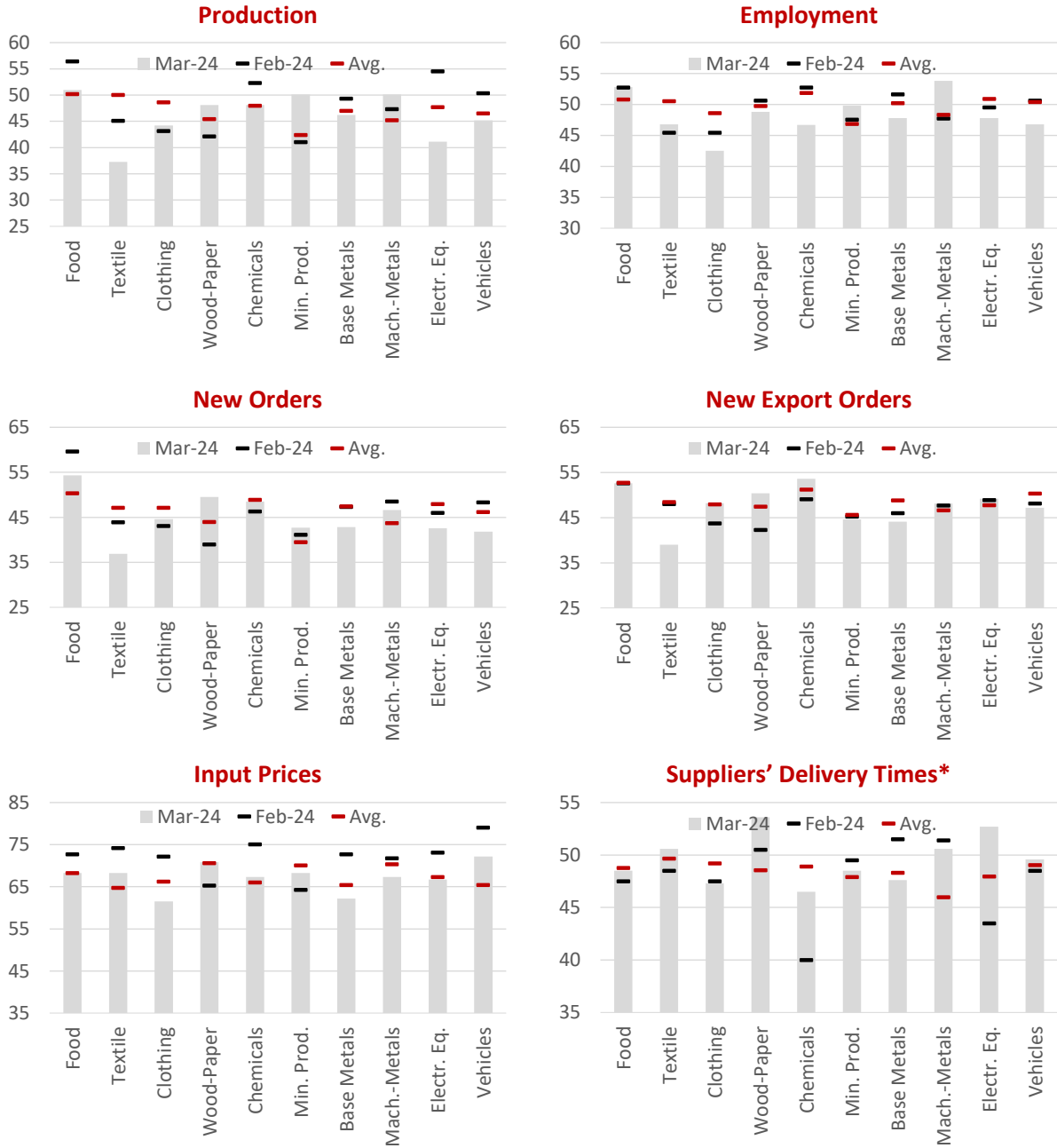
Chart 2. PMI by Sectors (seasonally adjusted, level)



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.

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağrı Sarıkaya– Chief Economist

Cagri.Sarikaya@akbank.com

Çağlar Yüncüler

Caglar.Yunculer@akbank.com

M. Sibel Yapıcı

Sibel.Yapici@akbank.com

Alp Nasır

Alp.Nasir@akbank.com

DISCLAIMER STATEMENT: The text, information and graphs in this report and comments has been prepared from the primary accessible systemic sources on a bona fide basis, and without consideration to establishing any guarantee and assurance for establishing a basis for any informed decision under any name or form, in terms of their accuracy, validity and effectiveness, and thus it has only been gathered for information purposes. Akbank TAŞ, Ak Yatırım AŞ and their employees will not be held responsible for any damages resulting from the comments included in this report such as lack of information and/or updates. Akbank TAŞ and Ak Yatırım AŞ may modify and/or remove the above information and recommendations at any time, without having to serve any prior notice and/or warning in any way, manner or form. Since this report and comments, the comprehensive information and recommendations which have been prepared in the form of general investment suggestions for the purpose of providing general information do not include any commitment by Akbank TAŞ and Ak Yatırım AŞ, the consequences of any decisions taken, conclusions reached, transactions made and any risks caused by any private and/or legal person based on such information will therefore rest with such persons. For this reason, Akbank T.A.Ş., Ak Yatırım A.Ş. and their employees shall not by any means or in any manner be liable for any material and moral damages, loss of profits, or any direct and/or indirect damages, whatsoever, incurred by the persons concerned or 3rd parties, as a result of the decisions taken, conclusions reached, or transactions performed by private and/or legal persons due to reliance on the information contained in this report, the comments and recommendations herein, and the persons concerned understand and accept that they are not entitled to claim any indemnity, whatsoever, from Akbank TAŞ, Ak Yatırım AŞ and their employees for any damages suffered/to be suffered. The information given in this report, and the comments and recommendations contained herein do not constitute an "investment consultancy" service and/or activity, but fall within the scope of a general investment consultancy activity, and individuals and entities willing to receive an investment consultancy service must contact entities and institutions that are authorized to provide such service and obtain such service under a service agreement pursuant to the legislations of CMB. Investment consultancy services are offered under an investment consultancy agreement to be signed between brokerage houses, portfolio management companies, banks that do not admit deposits and the clients. The comments and recommendations contained herein depend upon the personal opinions of the persons who make the comments and recommendations. Since such opinions have been arranged in the scope of a general investment consultancy activity they do not contain reports, comments and recommendations specific to a person, and may therefore not suit your financial status, risk and return preferences. Thus, making investment decisions solely based on the information contained herein might not bring an outcome that meets your expectations.

