

Macro: Stable outlook in manufacturing industry

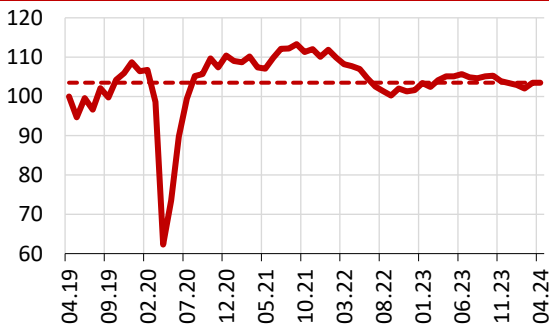
April Business Tendency Survey data indicated that the manufacturing industry did not record a significant change compared to last month's course, while investment goods-driven movements were particularly prominent this month. Capacity Utilization Rate decreased by 0.2 points mom to 77.0% in seasonally adjusted terms. This decline was driven by investment goods and large-scale firms, led by the vehicle sector. Despite the partial decline in demand questions, the course of the domestic orders question indicated that domestic demand remained strong in April. This conclusion is supported by the fact that the share of insufficient demand among the factors limiting production did not increase. Firms' investment tendency have remained above historical averages, while employment tendency fell below averages after a long time. Firms' PPI expectations for the next 12 months increased by 1.0 point mom to 55.5%, while questions on costs and pricing pointed to ongoing cost pressures on inflation.

Confidence Indices

Real Sector Confidence Index (RSCI): The seasonally adjusted RSCI remained unchanged at 103.5 in April, indicating that optimism in the manufacturing industry remained close to historical averages (Chart 1). Looking at the subcategories of the index, the effects of the decline in employment and orders for the next 3 months were offset by the rise in questions on production volume and outlook for the next 3 months.

Sectoral Confidence Indices (SCI): The course of sectoral confidence indices diverged in April. Index declined in services, increased in retail and remained flat in construction sector (Chart 2). After four months of consecutive increase and having reached the highest value since May 2022 in March, the **Services Confidence Index** decreased by 3.3 points in April to 1.1 points below its historical average, driven by decline in questions on business volume and demand. On the other hand, recovery continued in employment. **Retail Confidence Index** increased in April, but remained below its historical average by 5.5 points. The business volume question for the last three months, on the other hand, has a more positive outlook compared to the overall index and continues to hover above its historical average. Despite the tightening steps, the sector's expectations on the demand side have not deteriorated and on employment growth continues to improve. **Construction Sector Confidence Index** remained flat in April and 2.4 points below its long-term average.

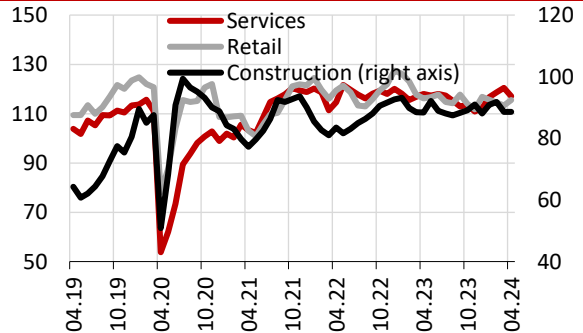
Chart 1. Real Sector Confidence Index (seasonally adjusted)*



* Dashed line shows 2007-2019 average.

Source: CBRT

Chart 2. Sectoral Confidence Indices (seasonally adjusted)



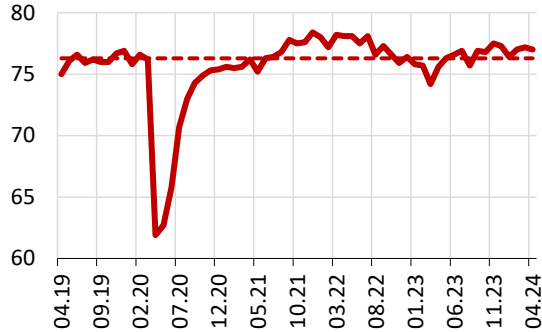
Source: TURKSTAT

Capacity Utilization Rate

The seasonally adjusted Capacity Utilization Ratio (CUR) decreased by 0.2 points m-o-m to 77.0%, but is 0.7 points above its historical average (Chart 3). The most significant decline in CUR was observed in large-scale firms; it has been on a downtrend for the last five months (except February). It increased slightly in medium-sized firms (Chart 4). Nevertheless, the CUR remained above the historical average

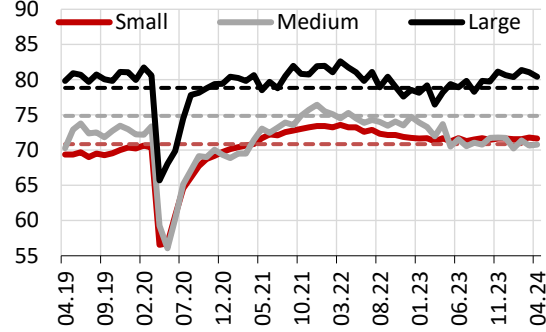
for large-scale firms and below the historical average for medium-sized firms. According to **Main Industrial Groupings (MIGs)**, CUR continued to decline in investment goods. CUR also decreased in intermediate goods and nondurable goods, while increased in durable goods (Charts 5 and 6).

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



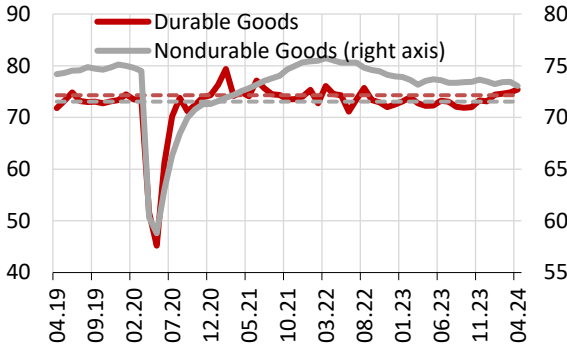
* Dashed line shows 2007-2019 average.
Source: CBRT

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

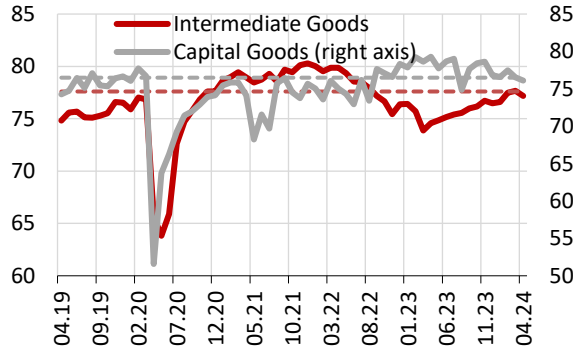


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Chart 5 and 6. CUR (by main industrial groups, seasonally adjusted, %)*



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



The mixed outlook in CUR continued across sub-sectors. CUR in the **food** sector, which has been following a strong course recently, has been declining for the last two months, yet it remains 0.6 points above the average and maintains its positive outlook. Although there has been an increase in the **textile** sector for the last three months, it is still not possible to talk about a serious recovery in the sector. In **clothing**, the CUR decreased by 1.1 points on a monthly basis. February industrial production data also pointed to weakness in the clothing sector. CUR in these sectors are 4.1 and 2.7 points below their historical averages, respectively. CUR increased in **basic metals** and **mineral products**, which are among the construction-related intermediate goods. On the other hand, CUR increased by 0.3 points in **fabricated metal** and 1.2 points in **chemical products**, while it decreased by 1.0 points in **rubber and plastics**. There was a limited increase in CUR in **wood and cork products**. The CUR in **paper products** has been on the rise for the last two months. The decline in the **vehicle** sector for the last two months seems to be the main reason for the fall in investment goods.

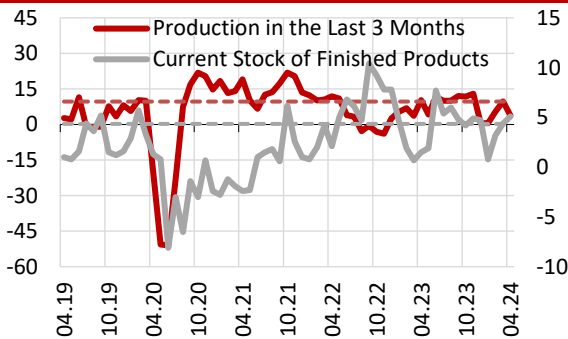
Business Tendency Survey

The **production volume** question over the last 3 months decreased on a monthly basis and fell below the long-term average, but this movement is not widespread across sectors and scales (Chart 7). Across goods groups, production volume fell sharply in investment goods and durable goods, but increased in non-durable goods. In terms of scale, it decreased significantly in large-scale firms (probably due to investment goods), but increased in medium-sized firms. **Stocks of finished goods** have been on the

rise for the last three months (Chart 7). While the increase was widespread across all scales, stocks increased significantly in investment goods, but decreased in intermediate goods across goods groups. Given the demand conditions, the movements of production and inventory questions in investment goods seem to be inconsistent with each other.

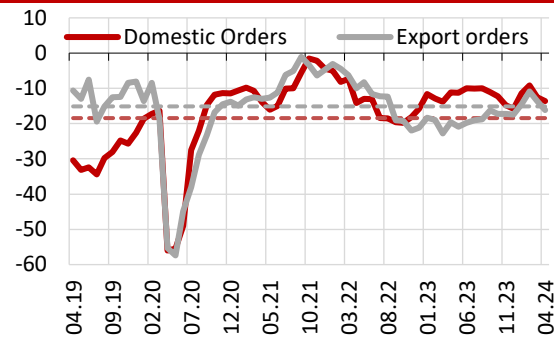
Both **domestic and export registered orders** have been declining for the last two months. Domestic orders remained above their historical averages, indicating that domestic demand remained strong. Domestic orders continued to decline especially in investment goods. While domestic orders increased in intermediate goods and nondurable goods, export orders increased only in investment goods. Domestic orders decreased among large-scale firms, while export orders decreased across all size groups (Chart 8).

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



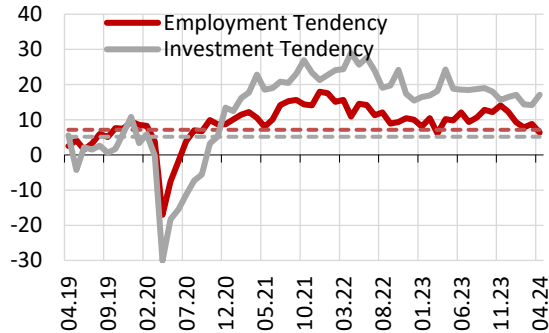
* Dashed lines show 2007-2019 average of each series. Source: CBRT, Akbank

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



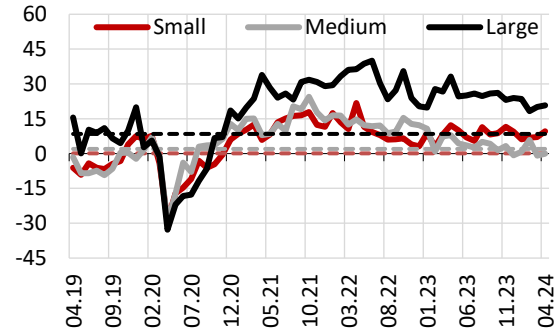
* Dashed lines show 2007-2019 average of each series. Source: CBRT, Akbank

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, %)



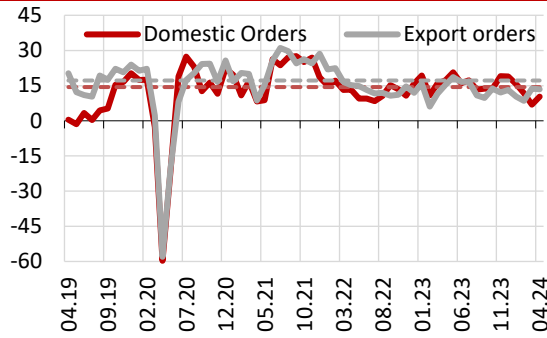
Source: CBRT, Akbank

The **employment tendency** has been on a gradual downtrend since end-2023 and fell below its historical average in April (Chart 9). In terms of scale, it increased in small-scale firms, while decreased in all goods groups except investment goods. The **investment tendency**, on the other hand, increased in April, compensating for the decline in the previous two months. The rise in the investment tendency was widespread across all scales (Chart 10).

Manufacturing firms' **expectations for export orders** deteriorated slightly, while **expectations for domestic orders** increased slightly after four months of decline, despite the tightening steps (Chart 11). Questions on costs and pricing point to ongoing inflationary effects. While unit costs remained elevated over the last 3 months, expectations for the future indicate that these cost increases remain strong (Chart 12). Due to the recent rise in commodities due to geopolitical tensions, manufacturing

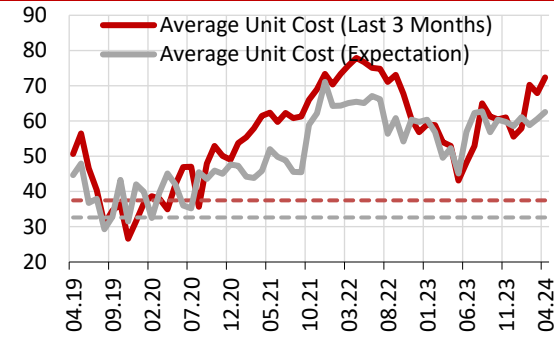
firms' PPI expectations for the next 12 months increased by 1.0 point m-o-m to 55.5%, indicating that cost increases continue to be an upside risk factor on inflation.

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

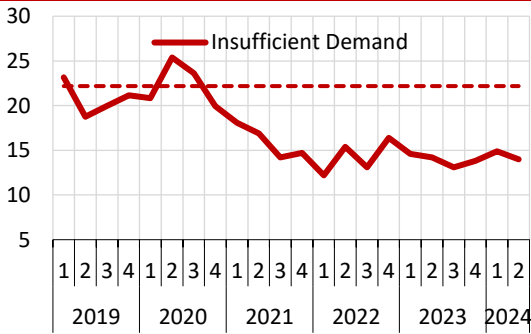
Chart 12. Average Unit Labor Cost (seas. adj., increase-decrease, %)*



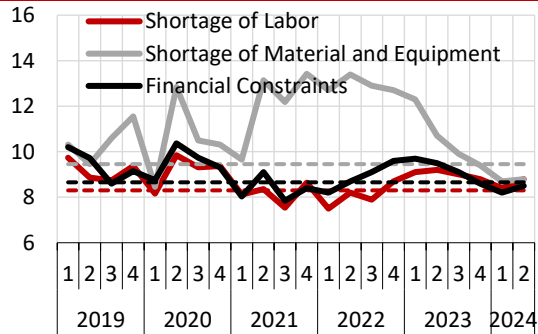
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Finally, the values of the quarterly questions were released in the April survey. Among the **factors limiting production, insufficient demand** slightly decreased, yet remained significantly below historical averages (Chart 13). Inadequate demand continued to increase in investment goods on a quarterly basis.

Chart 13. Factors Limiting Production* (%)

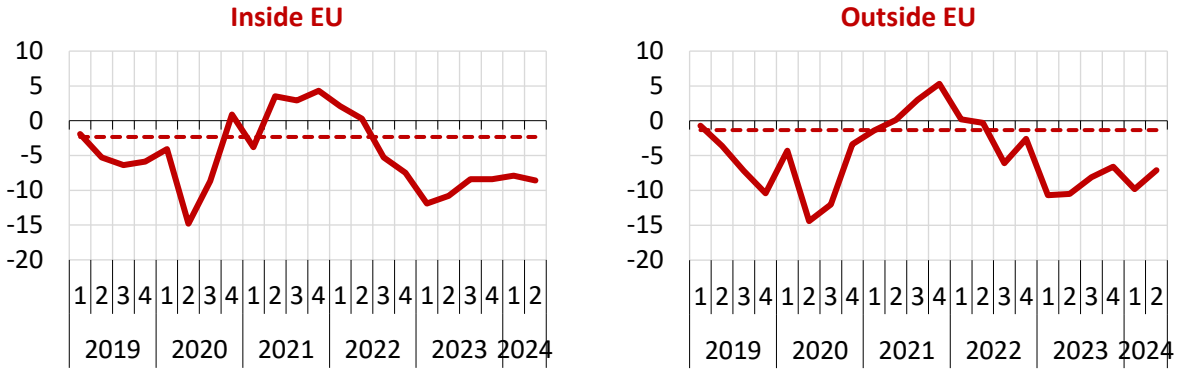


* Dashed line shows 2007-2019 average.
Source: CBRT



The restrictive role of **financial constraints** has increased slightly due to rising interest rates, but not at an undesirable level compared to the historical average. Across subcategories, the question of financial constraints decreased only in investment goods. The restrictive role of **labor shortages** and **raw material-equipment shortages** increased slightly (Chart 13). While labor shortages decreased in durable consumption goods and investment goods, they remained above historical averages in investment goods. The latter continues to be a problem in investment and durable goods. Another quarterly question is on the **changes in competitiveness**. It is observed that the competitiveness of manufacturing industry in foreign markets has slightly decreased within the EU, while increased outside the EU (Chart 14).

Chart 14. Competitiveness in Foreign Markets in the Last 3 Months* (Increased-decreased, %)



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

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

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