

Macro: Domestic demand slows down; price increases decelerate

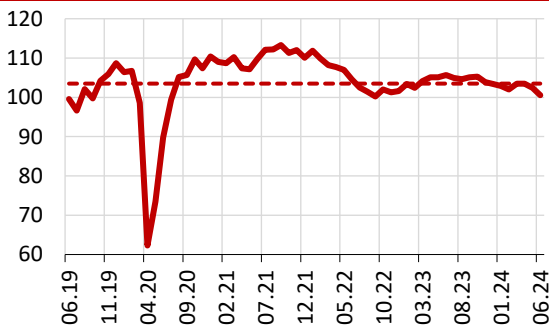
The recent slowdown in the manufacturing sector continued in June. The seasonally adjusted capacity utilisation rate fell by 0.4 points mom to 76.2%, as the impact of weakening domestic demand conditions became apparent. Together with the sectoral confidence indices, this points to a sector-wide slowdown in economic activity in the second quarter. The weakening of demand conditions is also reflected in firms' production, investment and employment decisions. On the other hand, the decline in questions on costs and prices suggests that the pace of price increases has slowed.

Confidence Indices

Real Sector Confidence Index (RSCI): The decline in the RSCI continued at an accelerated pace in June. In seasonally adjusted terms, the index fell by 1.9 points to 100.5, its lowest level since September 2022. Moreover, the index was also 3.0 points below its historical average, indicating that pessimism in the manufacturing industry strengthened slightly (Chart 1).

Sectoral Confidence Indices (SCI): Sectoral confidence indices also continued to weaken (Chart 2). The **Services Confidence Index** fell to its lowest level this year, as expectations for demand and employment deteriorated. The weakening in the **Retail Confidence Index** is more pronounced than in the services sector. The index fell 12 points below its historical average to its lowest level since June 2021. Both current and future assessments of the sector worsened. The decline in the **Construction Confidence Index** was less pronounced than in services and retail trade. The index is 3.1 points below its long-term average. All sectoral confidence indices show a weaker outlook in the second quarter compared to the first quarter. This situation signals a slowdown in economic activity across all sectors in the second quarter.

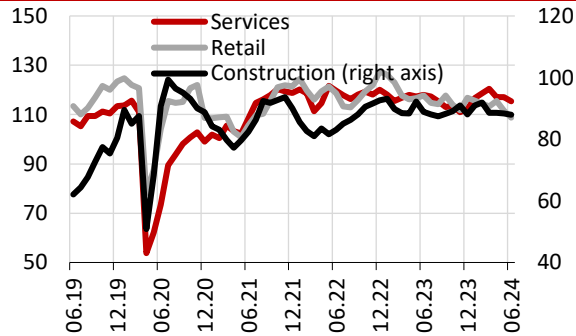
Chart 1. Real Sector Confidence Index (seasonally adjusted)*



* Dashed line shows 2007-2019 average.

Source: CBRT

Chart 2. Sectoral Confidence Indices (seasonally adjusted)



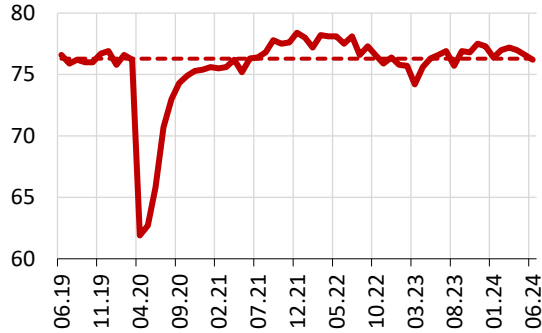
Source: TURKSTAT

Capacity Utilization Rate

Capacity Utilization Ratio (CUR) decreased over the second quarter, suggesting that the underlying trend in manufacturing activity has gradually weakened. In seasonally adjusted terms, the CUR fell to 76.2% in June, the lowest level since August 2023. This level is also slightly below the historical average (Chart 3). The monthly decline in **CUR** was led by large-scale firms, which have also been the main driver of the recent downward trend (Chart 4). Compared to historical averages, the CUR remains above the historical average for small-sized firms, while it is well below the historical average for medium-sized firms. It is also slightly below the average for large-scale firms. Looking at the **Main Industrial Groupings (MIGs)**, CUR decreased in all groups except non-durable consumer goods (Charts 5 and 6). In line with the scaled-based information, we observe that the slowdown in the second

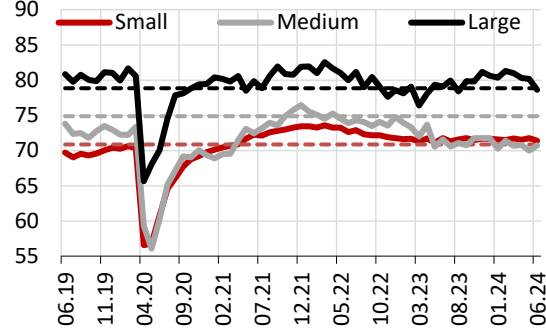
quarter was mainly driven by durable consumption goods and capital goods. Nondurable goods, on the other hand, remained almost flat in the second quarter.

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



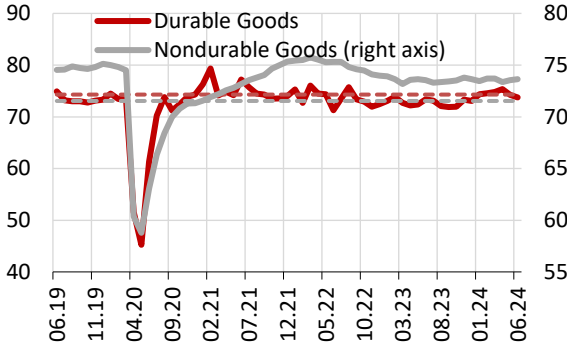
* Dashed line shows 2007-2019 average.
Source: CBRT

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

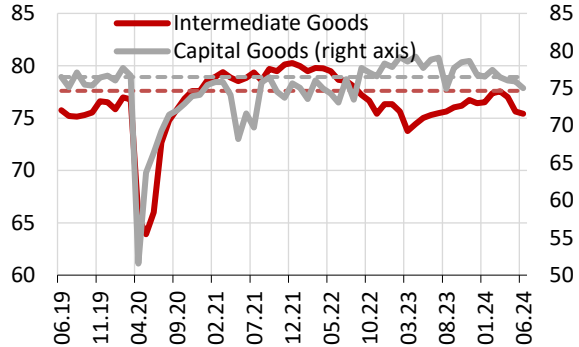


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



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



Among the subsectors, the CUR in the **food** sector increased in June after three months of decrease, but could not compensate for the decrease in the previous months. Nevertheless, the food sector's CUR is 1.0 point above the average. While the CUR for **textiles** remained unchanged, the CUR for **clothing** decreased by 1.0 point on a monthly basis. The decline in intermediate goods was driven by the construction-related sectors; the CUR decreased by 0.1 points for **basic metals**, 0.3 points for **fabricated metals** and 0.3 points for **mineral products**. The CUR of the **vehicles** sector decreased by 3.6 points month-on-month in June and remained below the long-term average.

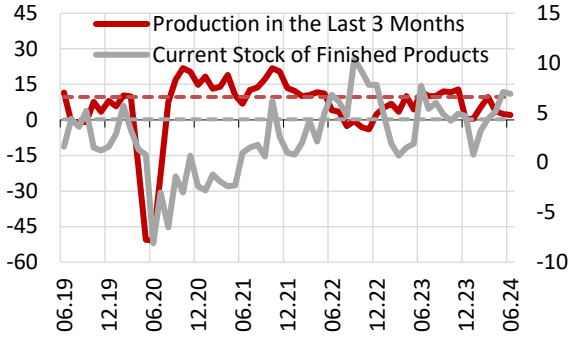
Business Tendency Survey

Similarly to the movement in the CUR, the question on **production volumes** over the past three months has been on a downward trend for the past three months and is below its long-term average, indicating a weakening in the underlying trend in manufacturing (Chart 7). Production volumes fell in large and medium-sized enterprises, but rose in small ones. Across product groups, only intermediate goods increased. **Stocks of finished goods**, on the other hand, fell slightly after a four-month upward trend, but remained above their long-term average (Chart 7). In terms of size, large companies saw a decrease, while across product groups, capital goods and durable consumer goods saw a decrease.

The decline in **new domestic orders** reached its fourth month and accelerated in June (Chart 8). Domestic orders fell below their historical average for the first time since the second half of 2022, signaling a more pronounced slowdown in domestic demand. The slowdown in new domestic orders was spread across all product and size groups. New export orders rose in June after three months of

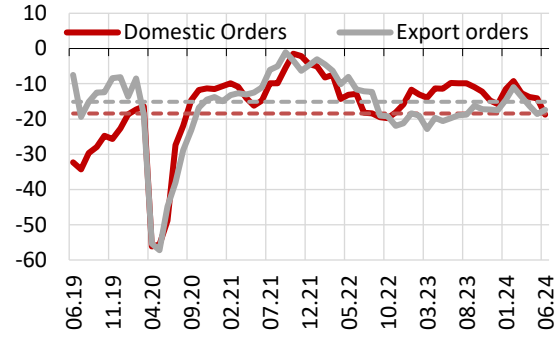
decline, but remain below their long-term average. Export orders increased in all product groups except capital goods, but only in the medium-size groups (Chart 8).

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



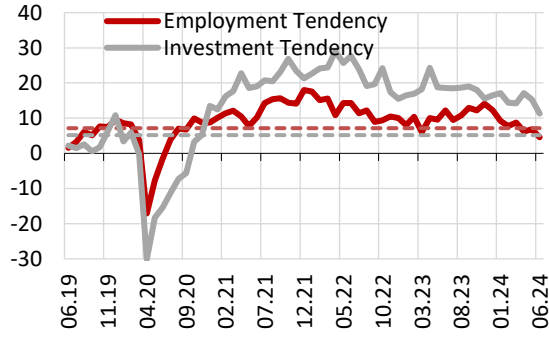
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



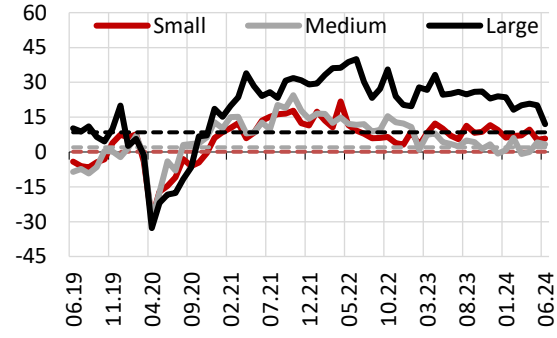
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



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

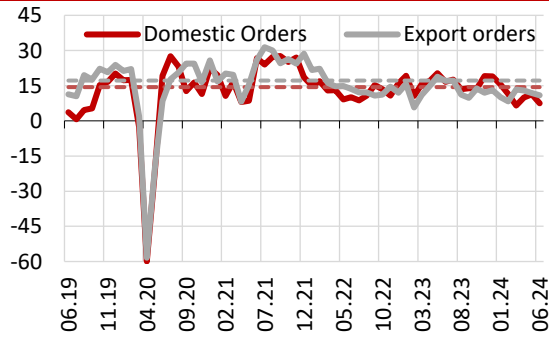
Chart 10. Investment Tendency (by firm-scale, seas.adj., increase-decrease, %)



Source: CBRT, Akbank

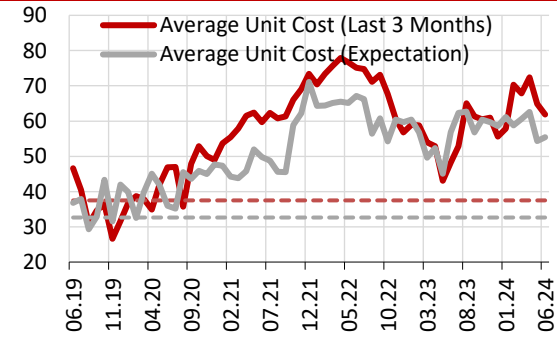
The weakening in production and demand conditions is also reflected in employment and investment tendencies (Chart 9). In terms of scale, the employment trend increased in medium-sized firms, but decreased in all goods groups except capital and nondurable consumption goods. Although the **investment tendency** remained above its long-term average, it fell to the lowest level since the end of 2020. The investment tendency increased in small-scale firms on a scale basis and in nondurable consumption goods on a goods group basis (Chart 10). Large-scale firms seem to have stood out in the decline in June.

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



* Dashed lines show 2007-2019 average of each series.

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



* Dashed lines show 2007-2019 average of each series.

Source: CBRT, Akbank

Source: CBRT, Akbank

Manufacturing firms' expectations for **future export orders** continued to deteriorate. Domestic order expectations also weakened (Chart 11). **Questions on costs and pricing pointed to a slowdown in the pace of price increases** (Chart 12). PPI expectations for the next 12 months decreased by 1.0 point mom to 53.6%.

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.

