

Macro: Manufacturing outlook maintained; limited monthly improvement

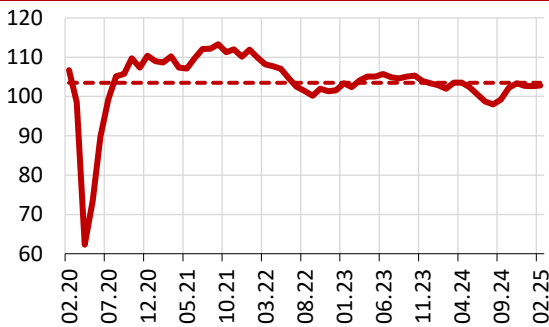
The February BTS data showed that the outlook for the manufacturing sector was broadly unchanged from January, while indicators of production and demand improved slightly. Seasonally adjusted capacity utilization rose by 0.1 pp to 74.9% in February, remaining below its long-term average. The outlook for the nonmanufacturing sector was mixed. The confidence index rose in retail trade, but fell in both services and construction. All indices remained below their long-term averages. The employment and investment tendencies were almost unchanged, while the cost and price expectations declined. Annual PPI inflation expectations for the next 12 months fell to 36.9%, the lowest level since December 2021.

Confidence Indices

Real Sector Confidence Index (RSCI): The seasonally adjusted (s.a.) RSCI rose by 0.2 points month-on-month to 102.8 in February, but remained below its historical average (Chart 1). Expectations for the output volume in the next three months fell sharply, while total registered orders rose sharply on the back of domestic orders. Employment expectations for the next 3 months and the general outlook also improved.

Sectoral Confidence Indices (SCI): The retail trade confidence index rose in February, while the confidence indices for the services and construction sectors fell (Chart 2). The services index fell by 2.3 points, reflecting a deterioration in the demand expectations for the past three months and the next three months. The increase in the retail trade sector was led by an improvement in the expected volume of business in the next three months. In the construction sector, decreases were observed for all questions except the current level of activity. All confidence indices for the services, retail trade and construction sectors remained below their historical averages.

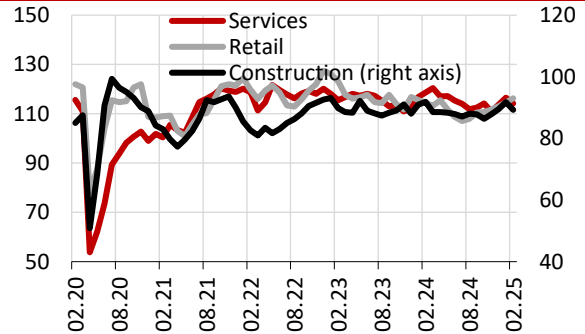
Chart 1. Real Sector Confidence Index (seasonally adjusted)*



* Dashed line shows 2007-2019 average.

Source: CBRT

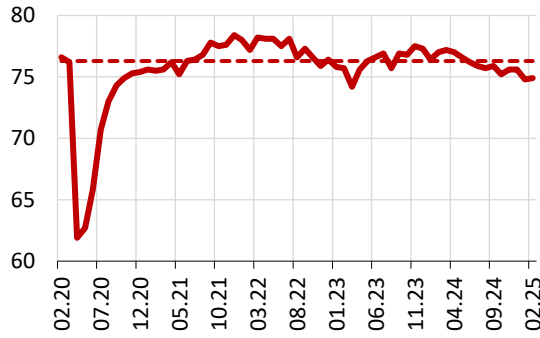
Chart 2. Sectoral Confidence Indices (seasonally adjusted)



Source: TURKSTAT

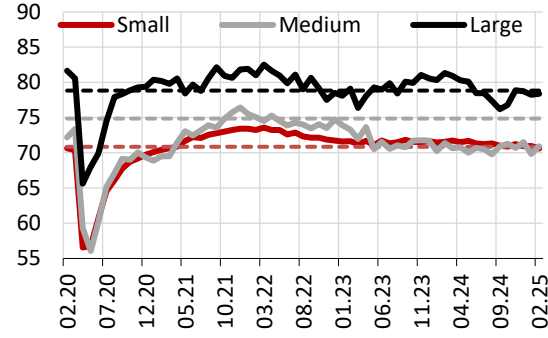
Capacity Utilization Rate (CUR)

The CUR (s.a.) rose by 0.1 points month-on-month to 74.9% in February. The CUR remained 1.4 points below its historical average, signaling that the weak underlying trend in manufacturing continued (Chart 3). The CUR rose for medium and large companies, while it fell for small companies (Chart 4). Compared with the long-term average, CUR is well below the average for medium-sized enterprises and slightly below the average for small and large enterprises. Across product groups, CUR decreased for capital goods and durable consumer goods, but increased slightly for intermediate consumer goods and non-durable consumer goods.

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

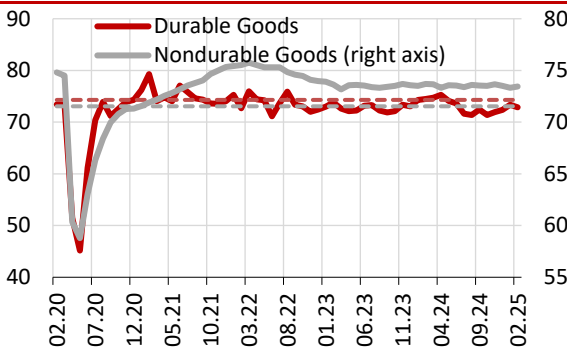
* Dashed line shows 2007-2019 average.

Source: CBRT

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

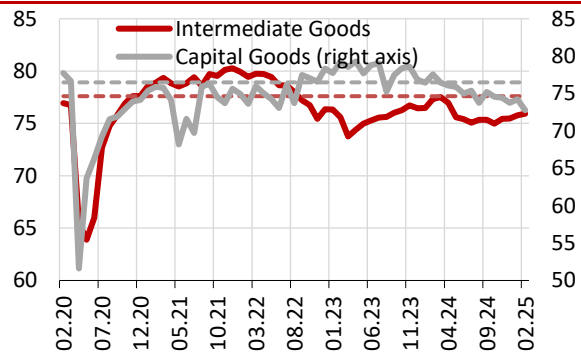
* Dashed lines show 2007-2019 average of each series.

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 largest monthly decrease in the CUR was 4.3 points in the **vehicles** sector. The total decline in the sector over the last three months was 7.2 points, which is 7.6 points below the historical average. The CUR for **other transport equipment** also fell by 1.0 point. The CUR for **clothing** and **textile** products decreased by 0.6 and 0.3 points respectively on a monthly basis. Both remained below their historical averages. The CUR for **food** rose by 1.0 point. Among the construction intermediate goods sectors, the **rubber and plastic** products and the **metal products** sectors increased by 2.5 and 0.1 points respectively, while the **mineral products** sector saw a decrease of 0.6 points. The CUR for electrical equipment decreased by a total of 1.9 points over the past three months. In the manufacture of **computer, electronic and optical equipment** the total decrease was 3.0 points.

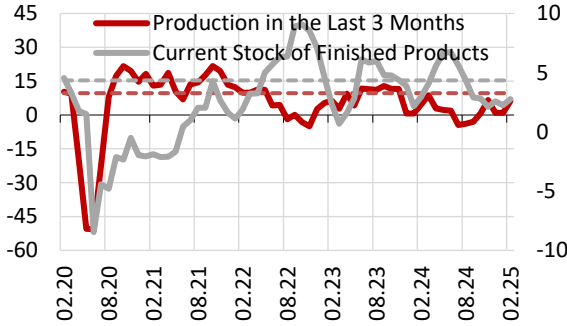
Business Tendency Survey

The **production volume** question for the latest three months increased significantly in February, but remains 3.5 points below its long-term average (Chart 7). The largest increase in production volumes was registered by large and medium-sized enterprises. Small enterprises also recorded an increase. Among the different product groups, intermediate goods recorded the largest monthly increase, while durable consumer goods fell. **Stocks of finished products** decreased for all product groups except intermediate goods, with the largest decrease being recorded for non-durable consumer goods. There was a general increase in the size of stocks. According to long-term averages, inventories are below historical averages in all sectors (Figure 7).

After two months of decline in the domestic market, **new orders** rose in February, making up for the decline in previous months. It was above its historical average, suggesting a recovery in domestic demand conditions. **New export orders** have been rising for the past two months. However, they remained weak by historical standards (Chart 8). **Domestic orders** increased in all product groups

except for consumer non-durables. In the export market, however, orders increased in all product groups except for consumer durables and capital goods.

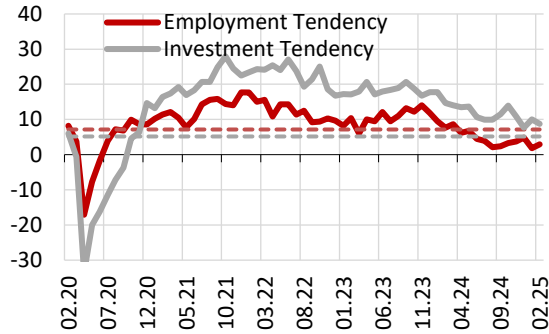
Chart 7. Production in the Last 3 Months (s.a., increase-decrease) and Stocks of Finished Products (s. a., above-below normal)*



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

Source: CBRT, Akbank

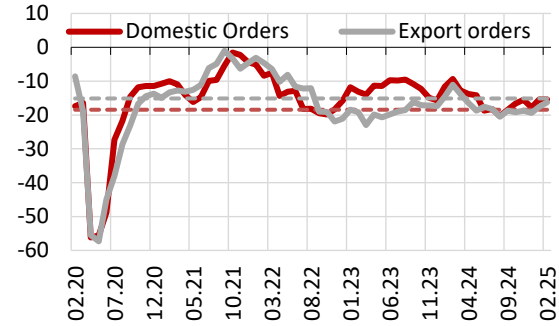
Chart 9. Employment and Investment Tendency (seas. adj., increase-decrease, %)



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

Source: CBRT, Akbank

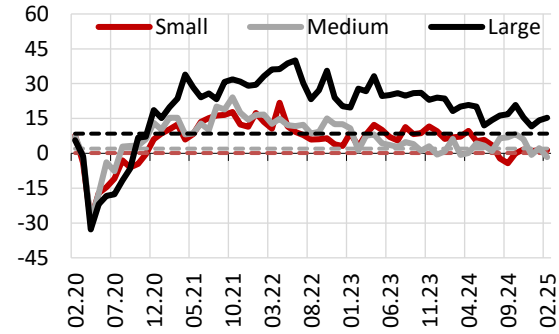
Chart 8. Registered Orders (seasonally adjusted, above-below normal, %)*



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

Source: CBRT, Akbank

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

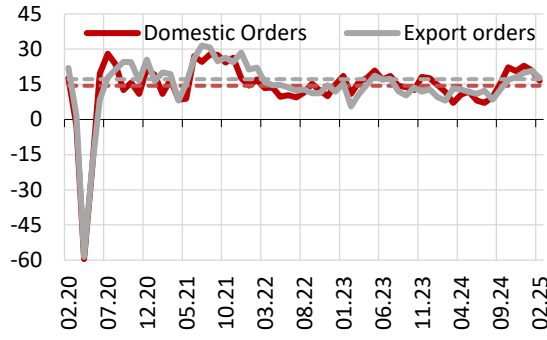


Source: CBRT, Akbank

The **employment** trend increased in February, while the **investment** trend decreased (Chart 9). The employment tendency increased across all scales, but decreased in durable and non-durable consumption goods across goods groups. A significant increase was observed in capital goods. On a scale basis, investment tendency increased in all scales except medium-sized firms. Across goods groups, it decreased in goods groups other than capital goods (Chart 10).

After a five-month uptrend, manufacturing firms' expectations for **export orders** declined in February. The decline in **domestic order expectations** became more pronounced (Chart 11). Among **questions on costs and pricing**, expectations for the next 3 months decreased (Chart 12). Annual PPI inflation expectations of the manufacturing industry for the next 12 months decreased by 1.6 points mom to 36.9%, the lowest level since December 2021.

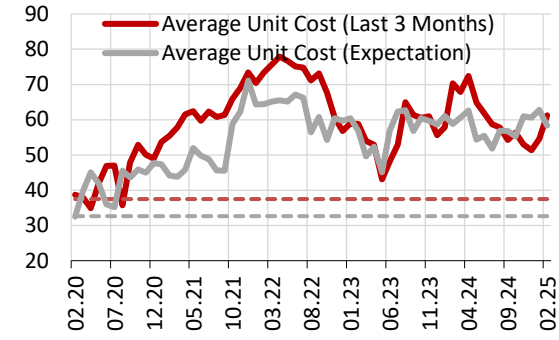
Chart 11. Expectations for Orders in the next 3 Months (seas. adj., increase-decrease, %)*



* 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

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