

Macro: Current outlook for manufacturing is weaker than 2024 year-end

The Istanbul Chamber of Industry's Purchasing Managers' Index (PMI) rose slightly by 0.3 points mom to 48.3 in February. The January and February data thus pointed to a weaker outlook for the manufacturing sector in the first quarter than at the end of last year. Industrial production (IPI) rose sharply in November and December, in line with the marked acceleration in PMI. Therefore, PMI data as of February confirmed our earlier predictions that the recovery in IPI would not be permanent. According to the survey participants, the slowdown was mainly driven by a weakening in total orders, which was more pronounced on the export side. While this slowdown had a negative impact on firms' production and employment decisions, it also reduced purchases and inventories. In addition, inflationary pressures on the cost side accelerated slightly due to increases in exchange rates, raw materials and wages, while suppliers' delivery times also lengthened.

According to the sub-indices of the survey;

- **The slowdown in production continued, albeit at a slower pace than in the previous month.** Anecdotal information suggests that the decline in production was due to the challenging market conditions and the consequent weakening in new orders. Indeed, new export orders and total new orders continued to slow down. As a result, inventory levels also decreased.
- **The employment index** has been falling over the past three months. Anecdotal evidence suggests that the stagnation in new orders has contributed to the decrease in employment.
- **Inflationary pressures** continued to build. Survey participants assessed that input prices increased due to the rise in raw material and personnel costs as well as the depreciation of the Turkish lira. Accordingly, final product price inflation also increased.
- **Suppliers' delivery times** increased moderately, with respondents citing price increases and geopolitical developments as the main factors.

Looking at the sectoral data, in seasonally adjusted terms;

- **According to the headline indices**, all sectors except food remained below the threshold level. The largest increases were recorded for base metals and wood and paper (Chart 2).
- **The production index** for all non-food sectors was below the threshold level. Decreases were recorded for machinery and equipment, transport equipment, clothing and food (Chart 3). The largest increases were recorded for basemetals and wood and paper.
- **The new orders** index fell sharply in the clothing sector, but rose strongly in the transport equipment sector (Chart 3). The slowdown in the clothing sector was due to domestic orders.
- **- The employment index** rose strongly in transport equipment, but fell markedly in textiles (Chart 3). It is below the threshold in all sectors except food, transport equipment and electrical machinery and electronics.
- The largest increases in the **input cost** index were recorded for base metals and wood and paper. There was a sharp decline in the manufacture of non-metallic mineral products (Graph 3).

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

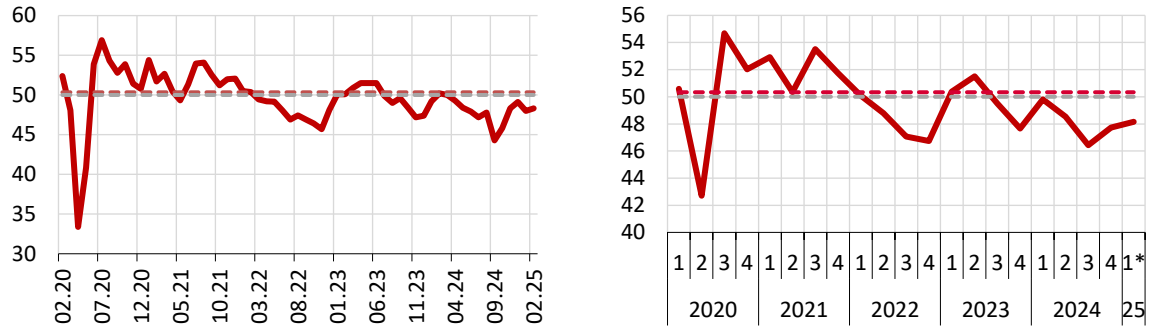


Chart 2. PMI by Sectors (seasonally adjusted, level)

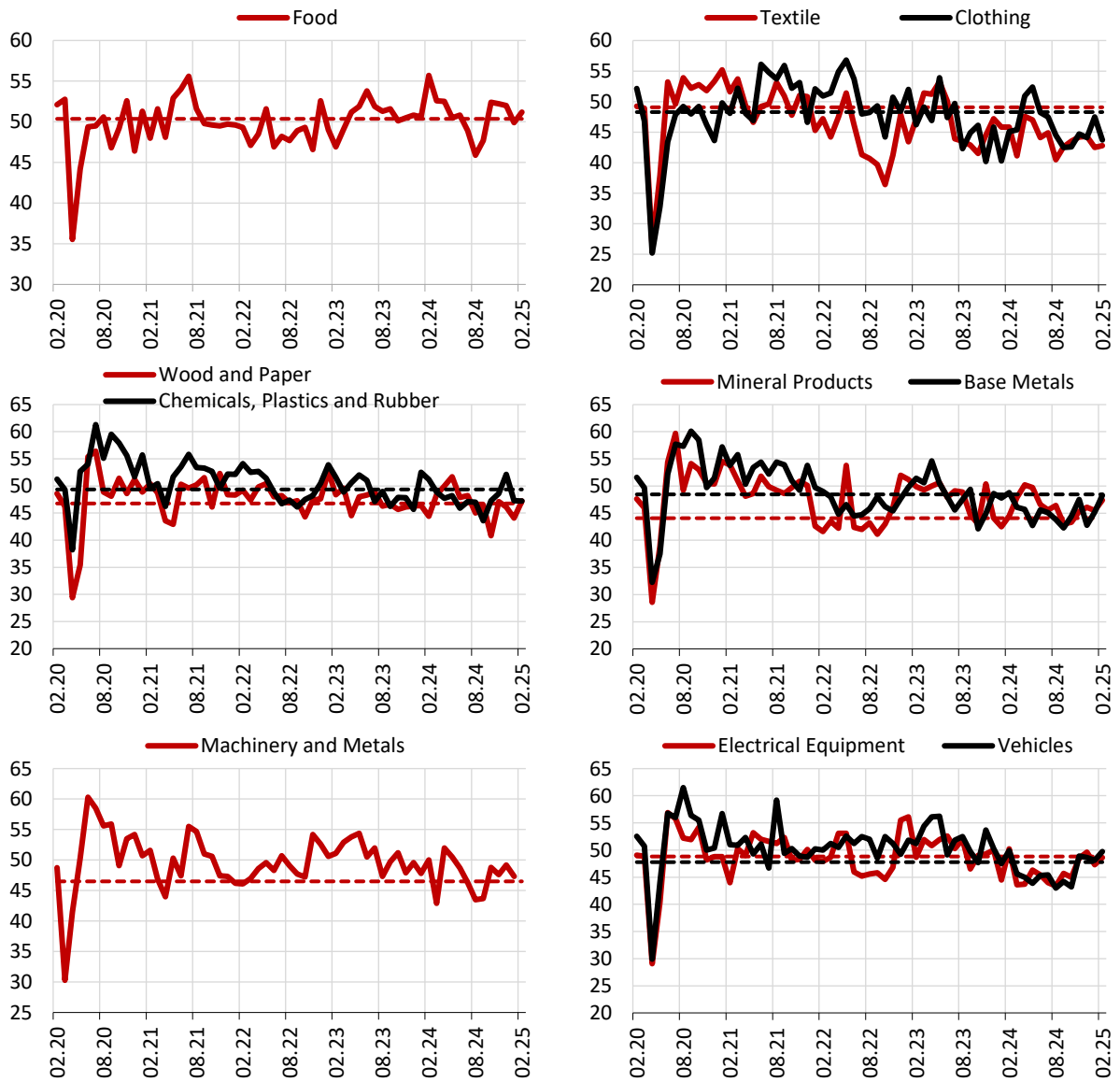
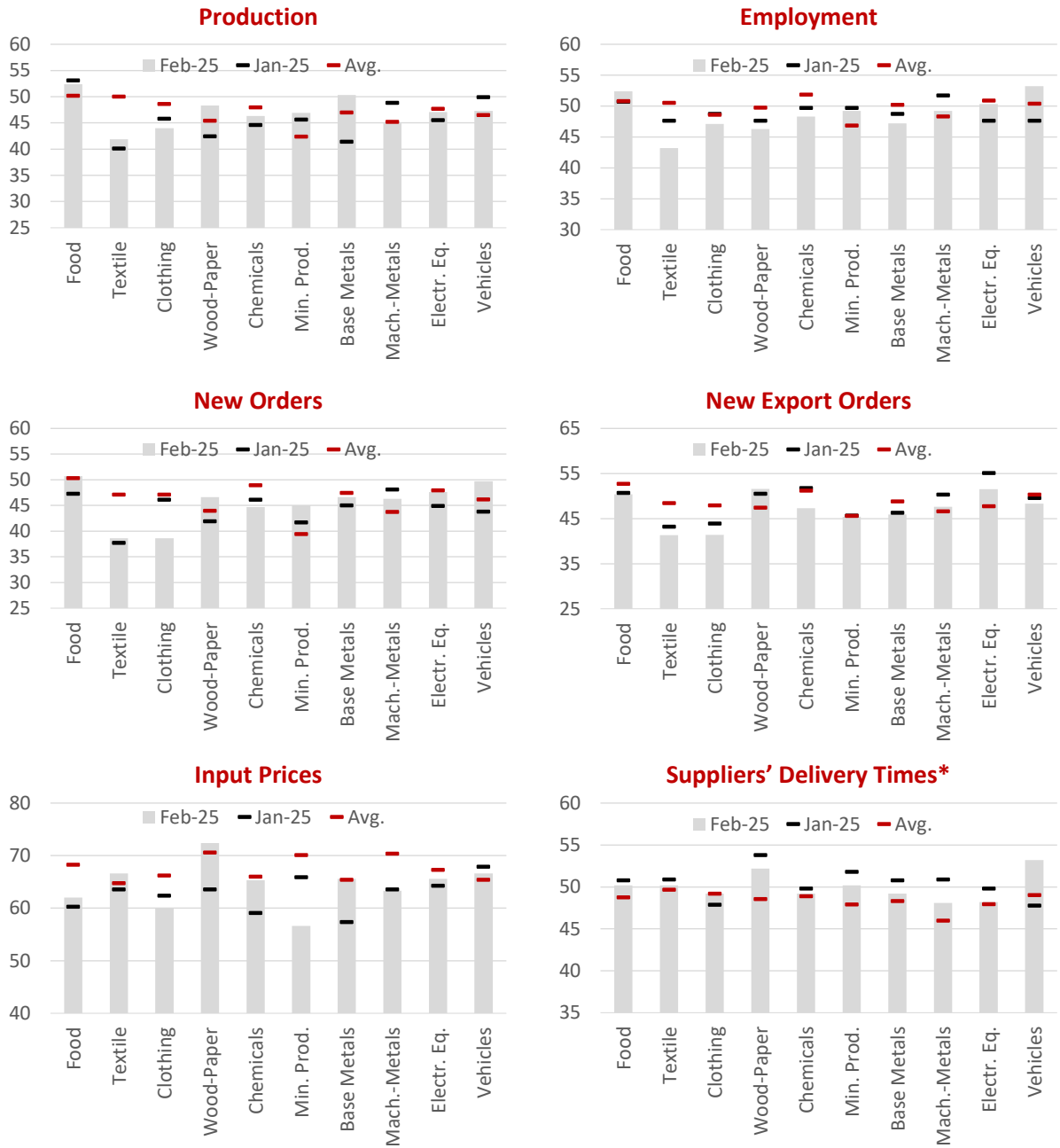


Chart 3. PMI Sub-Indices by Sectors (seasonally adjusted, level)



Source: S&P Global, ICI

* A lower value of the question indicates a longer delivery time.

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