

Macro: Slowdown signals intensify as second quarter begins

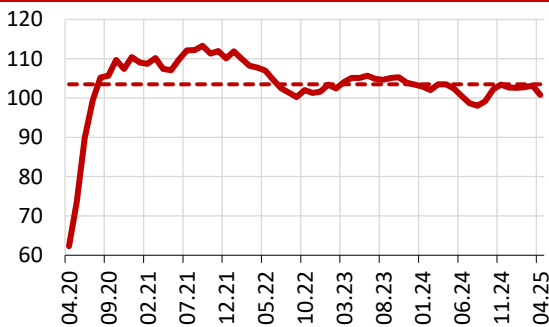
The Business Tendency Survey, the Real Sector Confidence Index and the Capacity Utilization Rate for April suggest that the weak trend in output and demand in the manufacturing sector continued in the second quarter of the year. Recent market volatility/uncertainty, stemming from both domestic and external developments, has had a negative impact on expectations. The sharp decline in the general outlook question, the deterioration in domestic and export demand expectations, and the increase in questions on costs and prices confirm this assessment. The same outlook also applies to non-manufacturing sectors. In this respect, the data signal a slowdown in all sectors at the beginning of the second quarter.

Confidence Indices

Real Sector Confidence Index (RSCI): After rising in February and March, the seasonally adjusted (s.a.) RSCI fell by 2.4 points month-on-month to 100.8, remaining below its historical average (Chart 1). This was mainly due to declines in the general outlook and the production and employment tendency questions. In our view, this outlook was the result of volatility caused by domestic developments in the second half of March and global developments in early April.

Sectoral Confidence Indices (SCI): Sectoral confidence indices, which had been rising on a quarterly basis in the first quarter, fell sharply in April (Chart 2). The services confidence index fell by 4.9 points month-on-month in April, to its lowest level since June 2021. Although the deterioration in the sector's expectations for the next three months also contributed to this decline, the deterioration in the business situation and the demand outlook for the past three months was particularly significant. Following a significant decline in March, the retail trade confidence index fell by a further 2.8 points in April, returning to the level of September 20-24. The deterioration in retail trade confidence was driven by declines in both the volume of transactions over the past three months and the expected volume of transactions over the next three months. In the construction sector, while the decline in the question on expectations continued, there was also a deterioration in the question on the current period. As a result, the confidence indices for the services, retail trade and construction sectors remained below their historical averages. Declines in the questions concerning the volume of business/sales across all sectors signaled a generalized weakening in demand conditions.

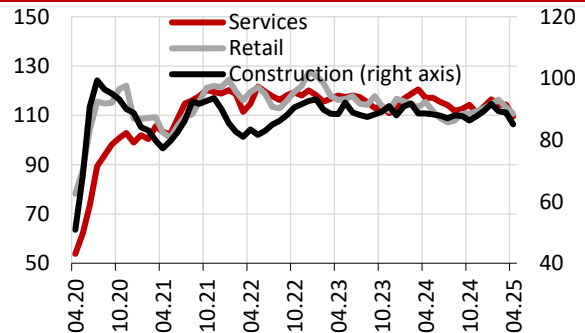
Chart 1. Real Sector Confidence Index (seasonally adjusted)*



* Dashed line shows 2007-2019 average.

Source: CBRT

Chart 2. Sectoral Confidence Indices (seasonally adjusted)

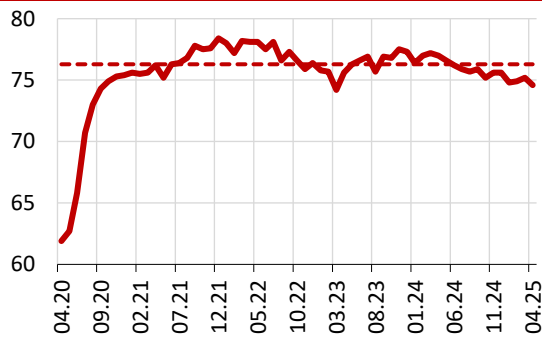


Source: TURKSTAT

Capacity Utilization Rate (CUR)

The CUR (s.a.) fell by 0.6 points month-on-month to 74.6% in April and remained 1.7 points below its historical average, suggesting that the underlying trend in manufacturing continued to weaken (Chart 3). The CUR decreased for large and medium-sized firms, while it remained stable for small firms (Chart 4). Compared with their historical averages, CURs remain significantly low for medium-sized firms, while they are slightly below average for small and large firms. Across product groups, the decline was driven by industries other than capital goods. While the decrease in the CUR for intermediate goods was more pronounced, by 1.1 points on a monthly basis, the decrease for consumer durables was more pronounced. On the other hand, the CUR for capital goods increased by 1.1 points in April, following the fall in previous two months. This means that the CUR, which has been on a downward trend since the first quarter of this year, has continued this trend into the second quarter.

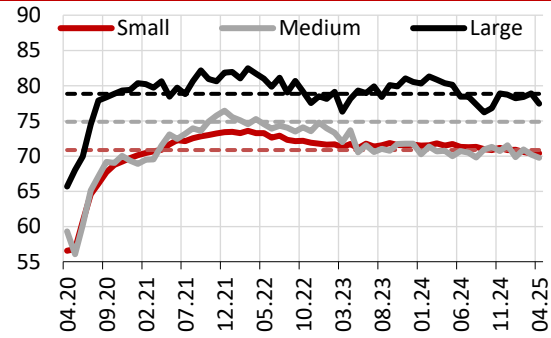
Chart 3. Capacity Utilization Rate (seasonally adjusted, %)*



* Dashed line shows 2007-2019 average.

Source: CBRT

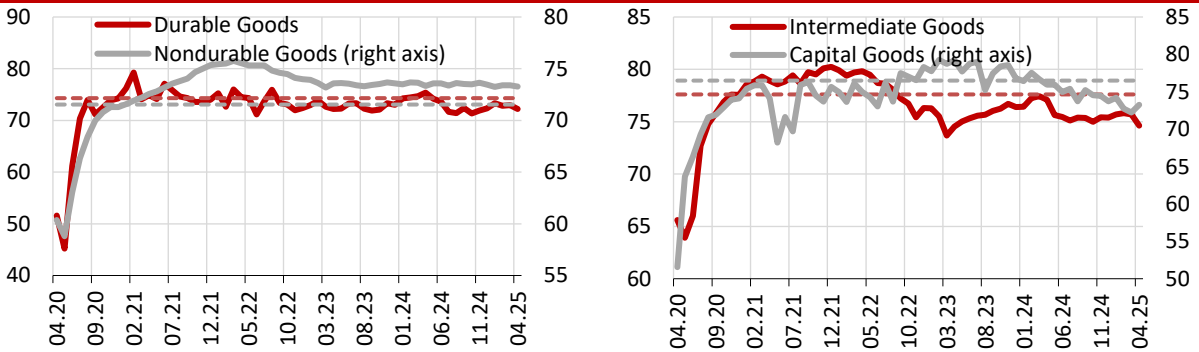
Chart 4. Capacity Utilization Rate (by firm-scale, seasonally adjusted, %)*



* 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

At the sectoral level, the decline in CURs for **pharmaceuticals**, **chemicals**, **clothing** and **textiles** stood out in the overall decline in CURs. The **pharmaceuticals** CUR fell by 3 points to its lowest level in the last 9 months. While the **chemicals** sector's CUR decreased by 1.4 points mom, the apparel sector's CUR decreased by 1.4 points mom to its lowest level since April 2021. The CUR of the **textile** sector, which is the main supplier to the apparel sector, followed a similar trend and decreased by 1.3 points mom to the lowest level since July 2023. Among the construction-related **intermediate goods** sectors, the CUR for **basic metals** has been falling for the last three months. In contrast, the CUR for the **mineral products** sector, which includes **cement** and **ready-mixed concrete**, has been unchanged for two months. In the **fabricated metal** sector, the upward trend in the CUR accelerated for the third month in a row. The increase in this sector, which is closely linked to the **transport equipment** sector as well as to construction, may have been vehicle-related. Indeed, the 2.2-point increase in the CUR for

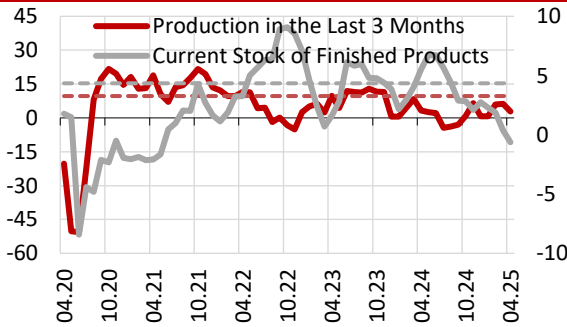
transport equipment is remarkable. Apart from transport equipment, the 1.6-point increase in **wood and cork products** limited the fall in the overall manufacturing CUR. Finally, the **food** sector's CUR decreased by 0.5 points in April, after having increased by 1.3 points in the previous two months.

Business Tendency Survey

The **last 3-month production volume** question declined in April after three months of increase and was 6.8 points below the long-term average (Chart 7). Production volume posted a sharp decline across all firm-scales. Across goods groups, all goods except capital goods posted a decline. **Stocks of finished goods** continued to decline and decreased across all goods groups, with the most significant decline in capital goods. Stocks remained significantly below historical averages in all sectors (Chart 7).

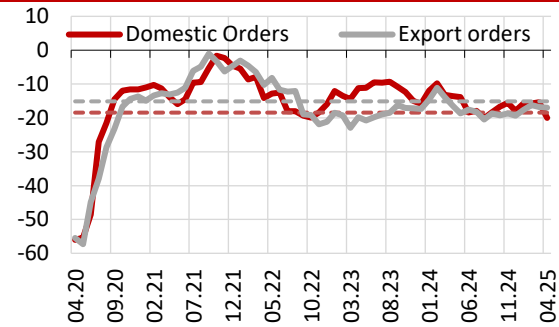
Registered orders decreased on a monthly basis in April and remained below historical average, pointing to a slowdown in domestic demand. **Export orders**, also declined in April after two months of increase and remained weak compared to historical averages (Chart 8). **Domestic orders** increased significantly in durable goods, but decreased in other goods groups. In the export market, orders increased in intermediate goods and capital goods. The decline was more pronounced in durable consumption goods.

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



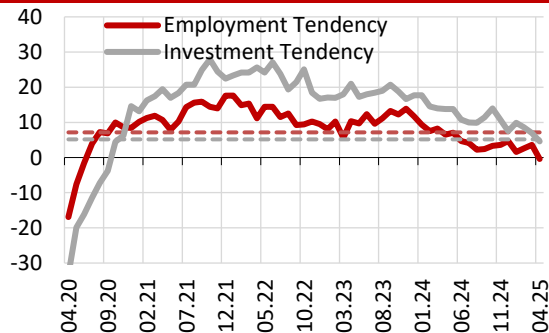
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



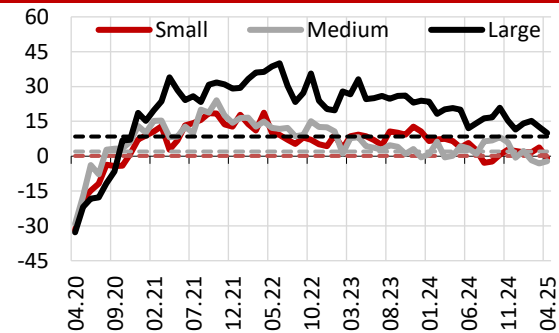
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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, %)



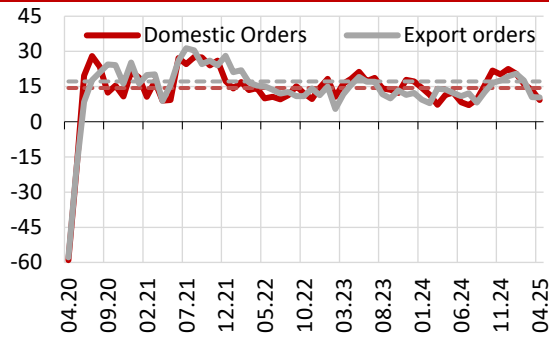
Source: CBRT, Akbank

The **employment tendency** decreased in April after the increase in the previous two-months, while the **investment tendency** has been declining for the last three months (Chart 9). Employment trends show a decline in all sectors, with the exception of durable goods, which remained relatively stable. Investment tendency has decreased across all firms-scales, with the exception of medium-sized firms.

Capital goods and durable goods have shown an increase, while other groups have posted a decrease (Chart 10).

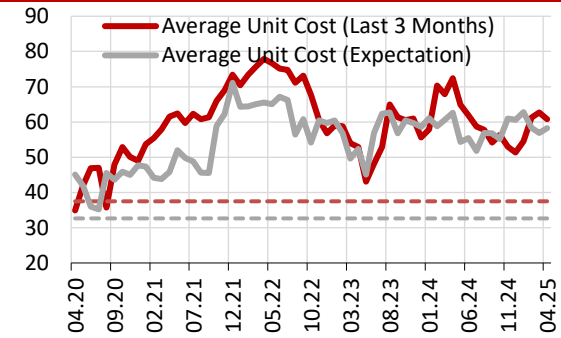
Following the significant decline in manufacturing firms' expectations for **export orders** in March, the decline was more limited in April. **Domestic order** expectations have been decreasing for the last four months (Chart 11). Among the questions on **costs and pricing**, expectations for the next 3 months increased in April due to the depreciation in the Turkish lira after two months of decline (Chart 12). Annual PPI inflation expectations of the manufacturing industry for the next 12 months increased by 0.3 points to 38.9%.

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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