

## Macro: Manufacturing continues to weaken in the second quarter

According to anecdotal information, the Istanbul Chamber of Industry Turkey Manufacturing Purchasing Managers' Index (PMI) signaled that the slowdown in production due to domestic and external demand conditions continued for the thirteenth month. Although the index value was unchanged from the previous month (47.3), it remained 0.6 points below the first quarter average and 2 points below the April 2024 level. The new orders sub-index remained below the threshold in all sectors except food, while the decline in orders in five out of ten sectors was led by the weakening external demand. Other leading indicators such as the Business Tendency Survey, the Real Sector Confidence Index and the capacity utilization rate also confirmed the slowdown indicated by the PMI.

### *According to the sub-indices of the survey;*

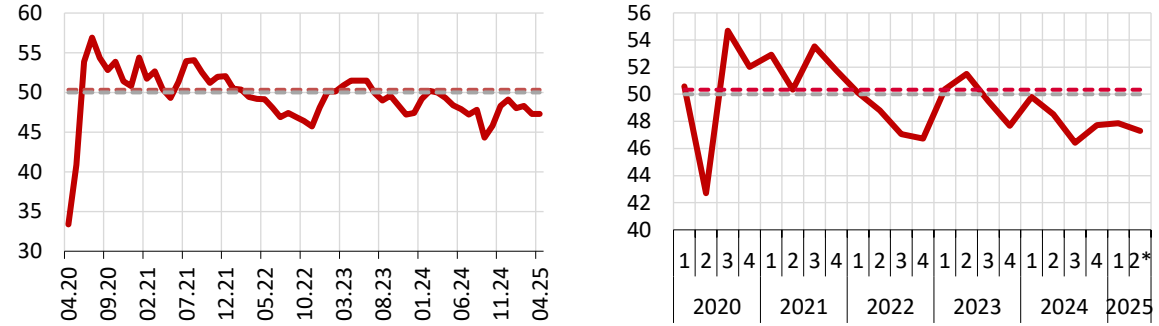
- **The slowdown in production due to domestic and external demand conditions continued for the thirteenth month.** According to anecdotal information, the decline was more moderate in April than in March. The sharp declines in new export orders and total new orders also lost pace at the beginning of the second quarter. However, in terms of levels, the stagnation in domestic and external demand conditions continues.
- **The employment index** has been decreasing for the last 5 months and the purchasing index declining for the last 12 months. According to anecdotal information, the slowdown in new orders continues to be effective in the decline in employment and purchasing activity.
- **Inflationary pressures:** Survey participants assessed that input price inflation reached the highest level of the last year due to the depreciation in TL and the rise in raw material costs. Thus, since the survey was conducted between 9 and 23 April, the exchange rate movements in the last week of March and electricity hikes were reflected in the index. In line with the rise in input costs, final product inflation accelerated and reached the highest level of the last 7 months.
- **Suppliers' delivery times** recorded the most significant improvement since December 2022, with survey respondents citing weak demand as the main driver.

### *Looking at the sectoral data, in seasonally adjusted terms;*

- **The headline index** indicates that all sectors except food started the second quarter with a deceleration. The sharpest month-on-month decline was observed in the vehicles sector, while the deterioration in the electrical and electronic products group decelerated markedly (Chart 2).
- Food was the only sector that recorded an increase in **production**, which was the fastest pace since October 2024. On the other hand, textiles, clothing and vehicles sectors recorded the highest decline in production (Chart 3).
- **The new orders** index remained below the threshold value of 50 in all sectors except the food sector. The increase in new orders in the food sector was moderate due to the slowdown in new export orders. In the textile sector, where new orders decreased most significantly, the decline in new export orders came to the fore. Domestic demand was more influential in the decline in new orders in the clothing and vehicle sectors (Chart 3).
- Due to the decline in production, sectors generally tended to reduce employment in this month. The volume of employment decreased in eight sectors, while the number of employees increased in the chemical and food sectors (Chart 3).
- **Input costs** increased in eight out of ten sectors due to the depreciation in TL and the rise in raw material costs. While the sector with the fastest increase in input costs was vehicles, the sector with the fastest increase in final product prices was wood and paper products due to cost

pressures. Despite facing similar cost pressures, the textile sector, which wanted to increase new orders, cut its final prices for the second consecutive month (Chart 3).

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

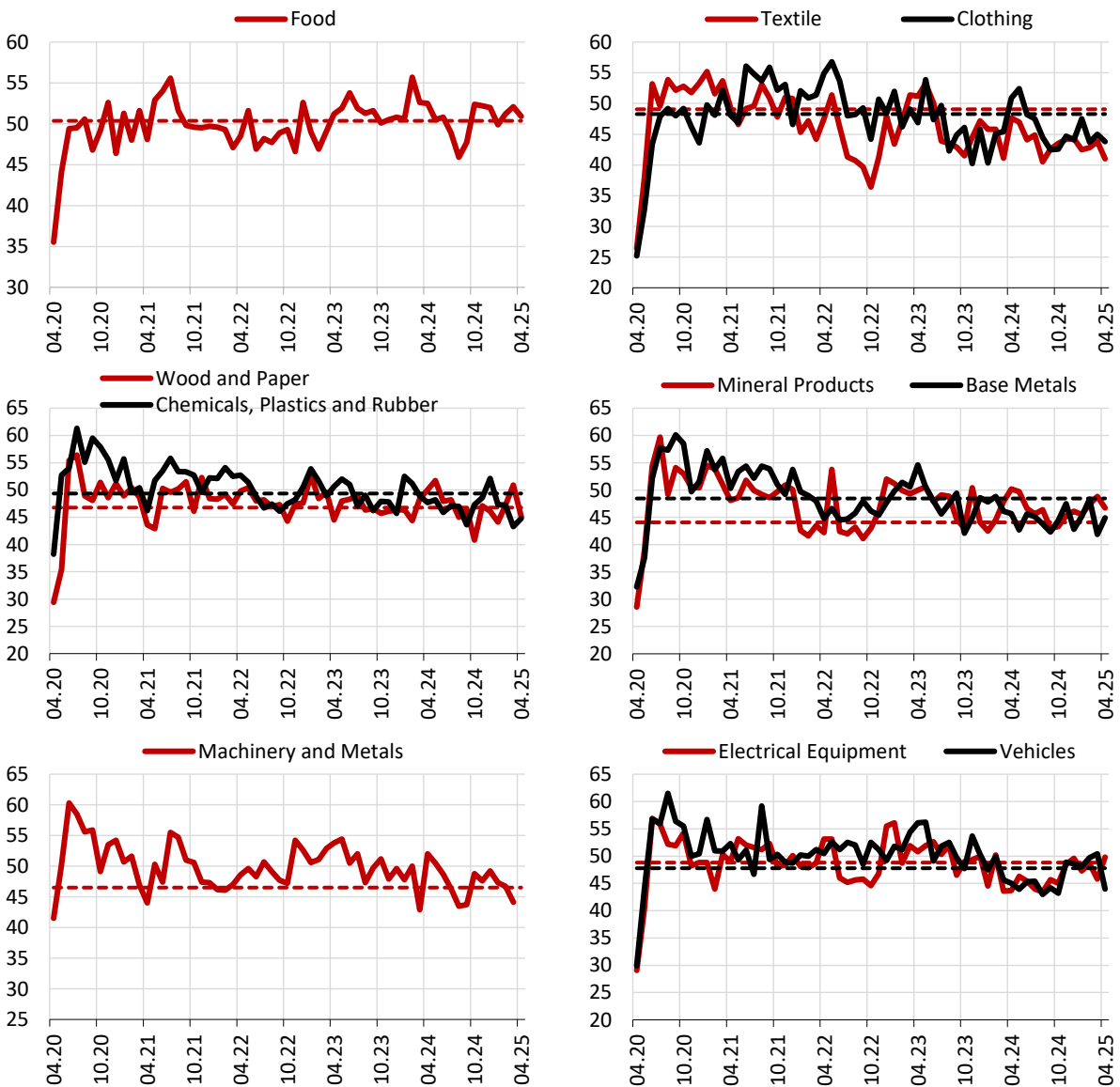


\* as of April

Note: Red and grey dashed lines show the 2006-2019 average and the neutral (50) level, respectively.

Source: S&P Global, ICI

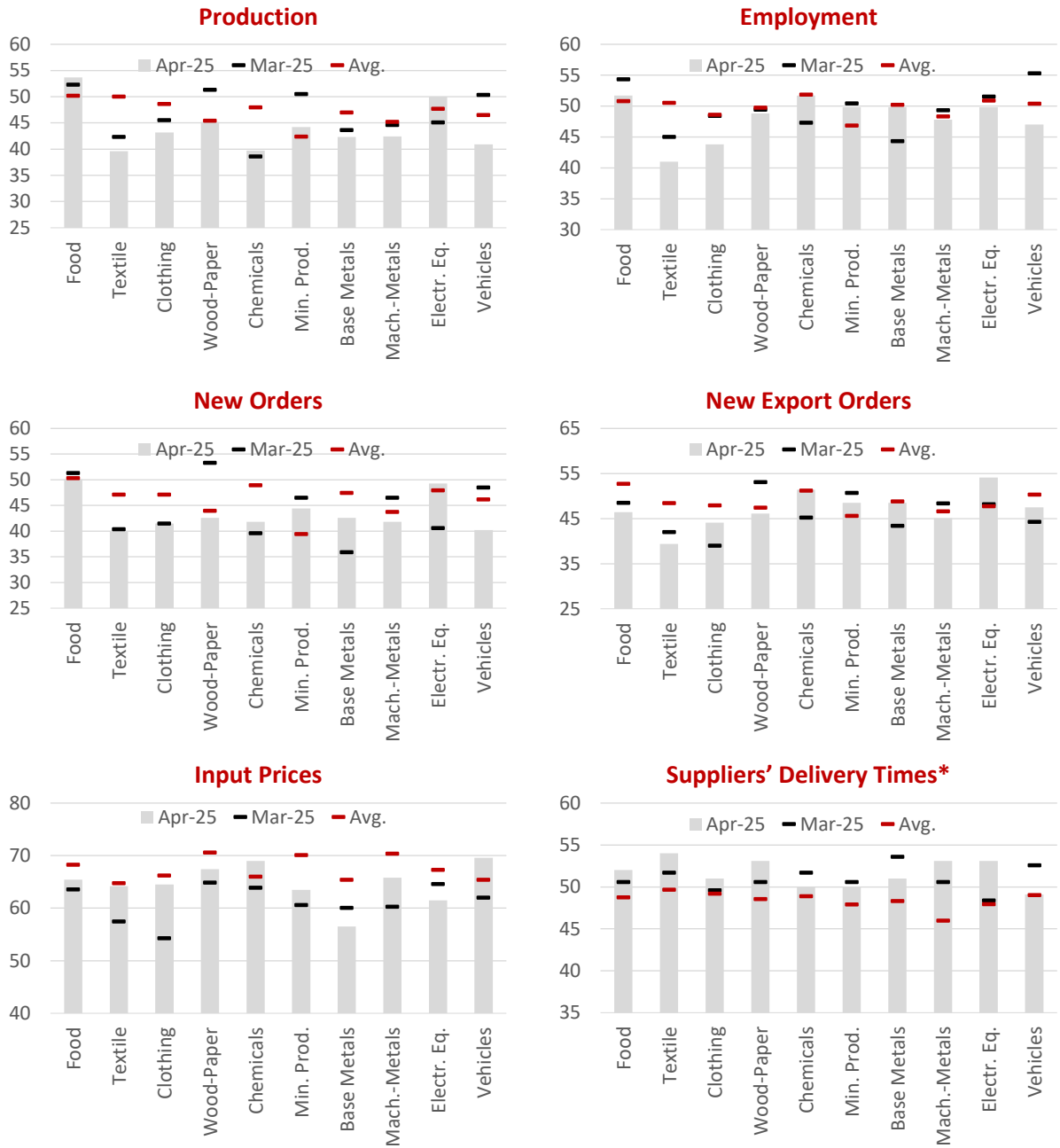
**Chart 2. PMI by Sectors (seasonally adjusted, level)**



Note: Dashed lines show 2016-2019 average of the same-colored series.

Source: S&P Global, ICI

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



Source: S&amp;P Global, ICI

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

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