Macro: Demand conditions limit production, while exchange rate increases production costs

The Istanbul Chamber of Industry Turkey Manufacturing Purchasing Managers' Index (PMI) was 47.2, close to the level of the previous two months, indicating that the weakness in the manufacturing industry has continued due to both domestic and external demand conditions. Weak demand has a negative impact on production, employment and purchase of goods, while suppliers continue to shorten delivery times. On the other hand, the course of the exchange rate continued to have a cost-side impact on prices, albeit with less severity compared to the previous month. According to sectoral data, clothing and construction-related basic metals and mineral products sectors painted a relatively more positive picture in May, while the food sector, which has recently diverged positively, recorded a slowdown.

According to the sub-indices of the survey;

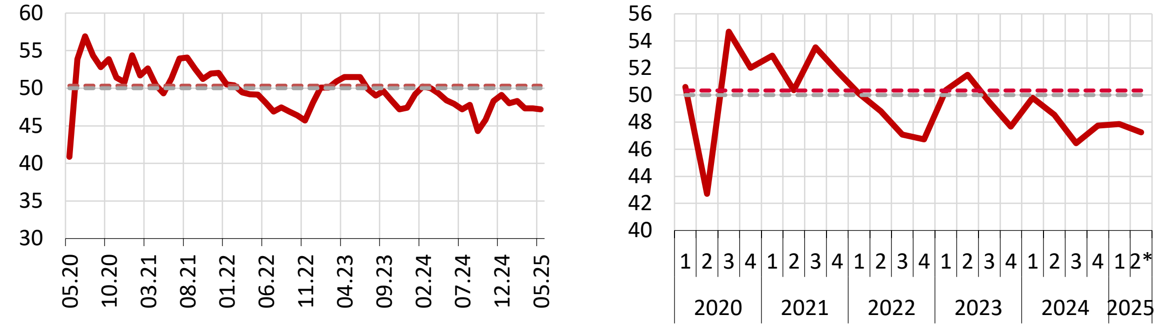
- **The slowdown in production due to domestic and external demand conditions extended to the 14th month.** The decline in May was at the highest rate since October. Although the sharp decline in new orders slowed down in the second quarter, the downward trend reached the 23rd month.
- **The employment index** has been decreasing for the last 6 months and the purchasing index declining for the last 13 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 stated that input prices continued to increase due to the depreciation in TRY. On the other hand, final product inflation decelerated in this month to the lowest level of 2025. Some survey participants stated that pricing power was limited due to weak demand conditions.
- **Suppliers' delivery times** improved for the third month in a row amid weaker production, new orders and input demand.

Looking at the sectoral data, in seasonally adjusted terms;

- The **headline index** remained below the threshold level in all sectors except clothing and minerals, signalling a deterioration in operating conditions. According to the average of 2-month index values, the index values in all manufacturing sectors remained below 50 in the second quarter, indicating that the deterioration in activity spread across all sectors. The sharpest monthly decline was observed in the food sector, while the deterioration in the base metal sector decelerated markedly (Chart 2).
- **Production growth** was realised only in clothing and minerals sectors. After 9 months of uninterrupted contraction, the production increase in the clothing sector was recorded at the highest level of the last 2 years. On the other hand, in the textile sector, which has a high forward linkage with clothing, the contraction in production in the last 1 year continues at a similar pace. Food, vehicles and chemicals were the other sectors with the largest production declines, while the fall in production in these sectors eased slightly compared to the previous month (Chart 3).
- The **new orders** index remained below the 50 threshold in all sectors except clothing and minerals. New orders in the clothing sector increased for the first time in a year thanks to the strong recovery in new export orders. The most significant monthly decline in new orders was recorded in the electrical and electronic products sector due to the sharp weakening in external demand, while the new order index in textiles was at its lowest level since November 2022. In other sectors, the decline in new orders lost some pace compared to the previous month (Chart 3).
- Due to the decline in production, sectors generally tended to reduce employment in this month. In 7 sectors, the volume of employment decreased, while the number of employees increased in food, basic metal and electronics sectors (Chart 3).

- After rising sharply in the previous month due to the depreciation in the Turkish lira and the rise in raw material costs, **input costs** fell across the board in this month. Input prices decreased in 7 out of 10 sectors (Chart 3).

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

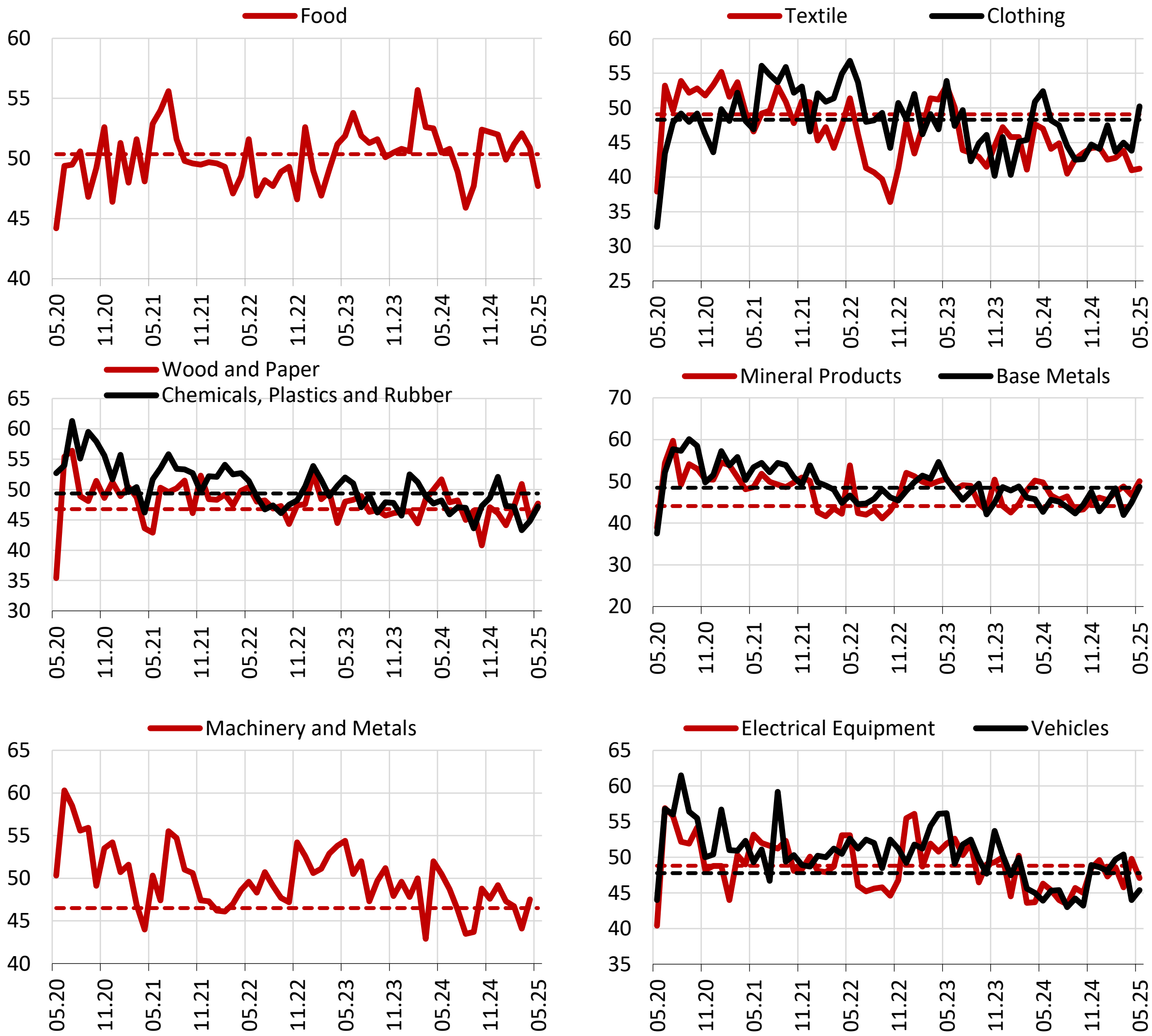


* April-May average

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

Source: S&P Global, ICI

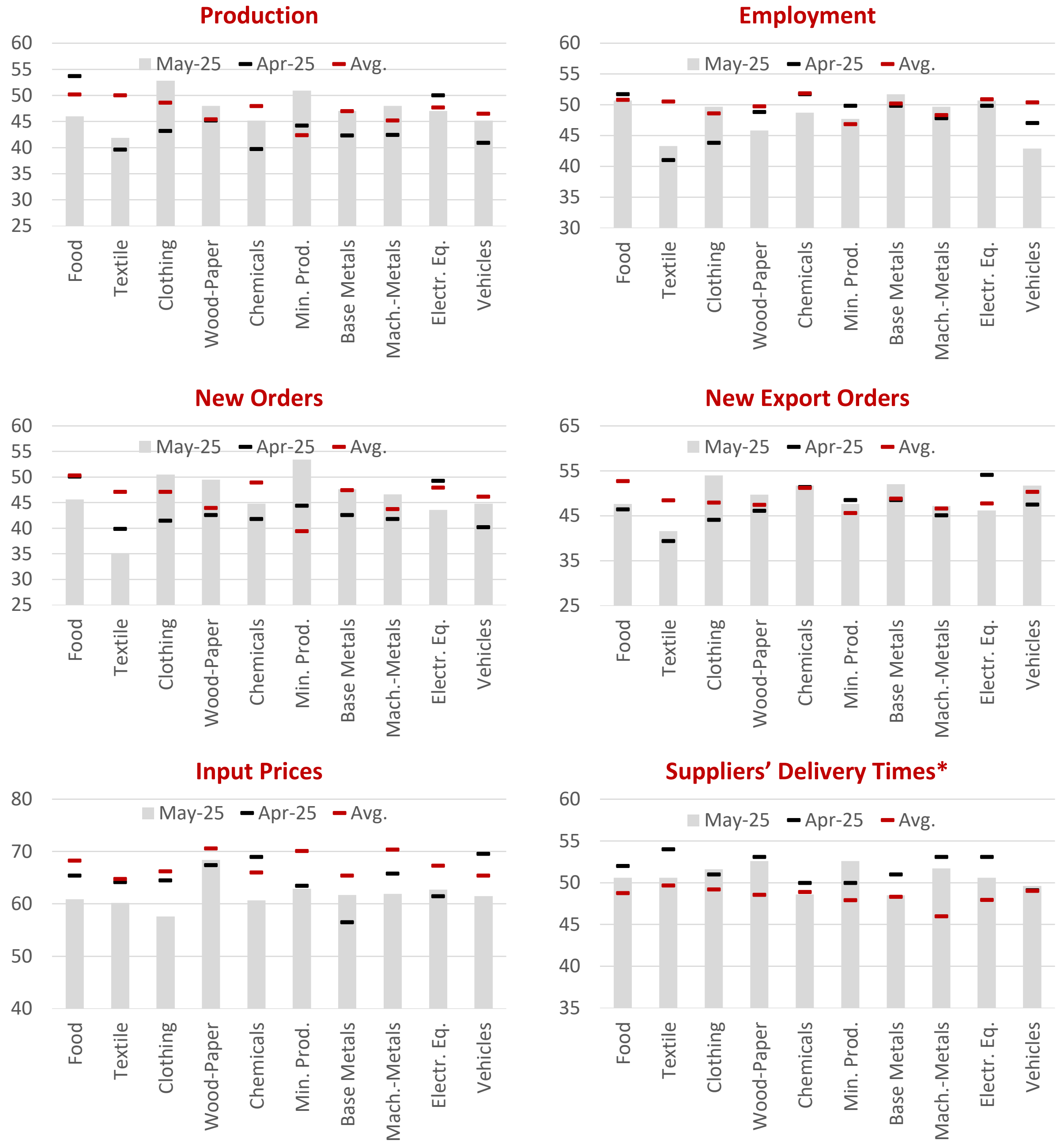
Chart 2. PMI by Sectors (seasonally adjusted, level)



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&P Global, ICI

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

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