

## Macro: Weakening trend in the manufacturing industry became more pronounced

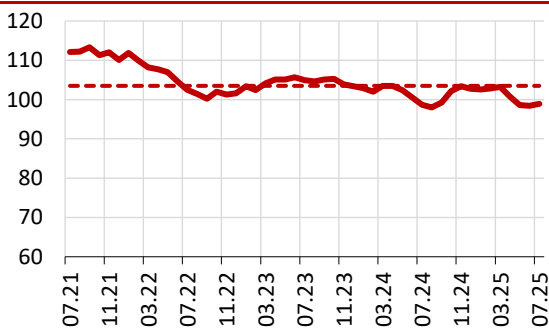
The Business Tendency Survey and the Capacity Utilization Rate for July point to a continued slowdown in production and demand in the manufacturing industry. Capacity Utilization Rate (s.a.) decreased by 0.3 points mom to 74.1% in July, 2.2 points below the long-term average. Confidence index increased in construction sector, while it decreased in retail trade and services sectors. All indices remained below their historical averages, pointing to widespread weakness. Looking at other questions regarding the manufacturing industry, employment and investment tendency increased. Cost and pricing expectations for the next 3 months increased slightly. Annual PPI inflation expectation for the next 12 months is 36.8%, the lowest level since December 2021. The data is in line with the negative output gap discourse expressed in the CBRT's decision text.

### Confidence Indices

**Real Sector Confidence Index (RSCI):** After a recent downtrend, RSCI (s.a.) increased by 0.5 points in July, but stood at 98.9, below its historical average and the threshold value (100) (Chart 1). The trend of the index indicates that the weakness in the manufacturing industry continues. The monthly increase was led by the rise in production volume for the next 3 months. Export order expectations continued to recover. On the other hand, registered orders and orders for the last three months decreased.

**Sectoral Confidence Indices (SCI):** In sectoral confidence indices, all sectors except construction declined in July (Chart 2). **Services** confidence index decreased by 0.9 points mom to 110.0. This was mainly driven by the decline in the sub-index of the expectation for the total number of employees in the next 3 months, while the decline in the expectation for the demand for services in the next 3 months continued. **Retail** confidence index has been declining for the last five months (excluding May); the index decreased by 0.6 points in July to the lowest level since August 2024. Among the sub-indices of the retail index, the decline in sales expectations for the next 3 months continued, albeit at a slower pace. **Construction** confidence index increased by 1.9 points in July and realized at 88.8, the highest level since March. Services, retail and construction confidence indices all remained below their historical averages. Leading indicators point to a continued slowdown in the sectors.

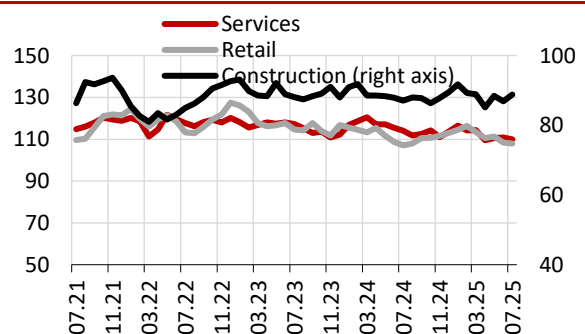
**Chart 1. Real Sector Confidence Index (seasonally adjusted)\***



\* Dashed line shows 2007-2019 average.

Source: CBRT

**Chart 2. Sectoral Confidence Indices (seasonally adjusted)**

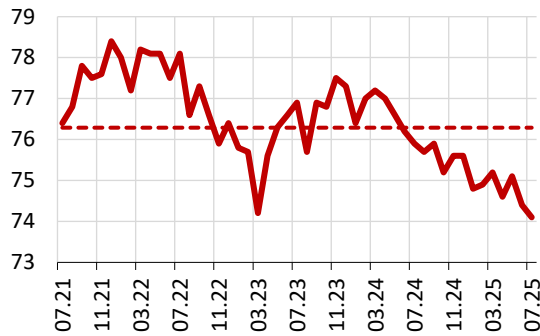


Source: TURKSTAT

### Capacity Utilization Rate (CUR)

The CUR (s.a.) fell by 0.3 points mom to 74.1% in July and remained 2.2 points below its historical average, indicating that the weakness in the underlying trend of the manufacturing industry continued to be more pronounced (Chart 3). **In terms of scale**, the most significant decline was observed in large-scale firms, while it increased slightly in medium-sized firms. The CUR for large-scale firms fell to the lowest level since September 2024, while that for small-scale firms fell to the lowest level since October 2020 (Chart 4). According to historical averages, it remains significantly below the average for medium-sized firms, while it is slightly below the average for small and large-sized firms. **Across goods groups**, capital goods have been declining for the last three months; at 70.7%, it has been at its lowest level since July 2021. While the CUR increased in durable goods, it remained flat in intermediate goods. It decreased slightly in non-durable consumption goods.

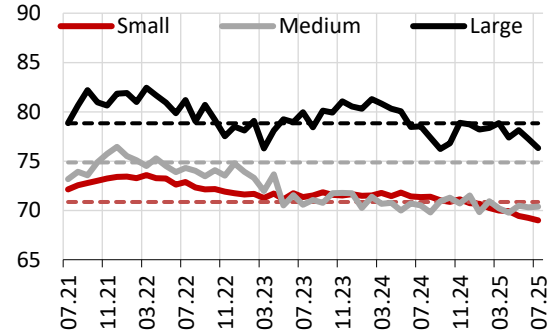
**Chart 3. Capacity Utilization Rate (seasonally adjusted, %)\***



\* Dashed line shows 2007-2019 average.

Source: CBRT

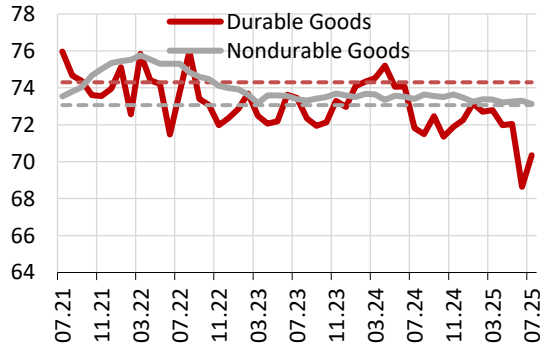
**Chart 4. Capacity Utilization Rate (by firm-scale, seasonally adjusted, %)\***



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

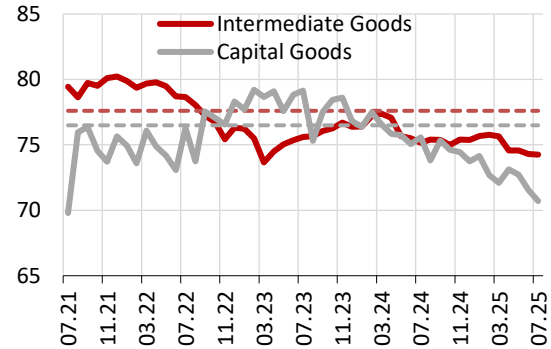
Source: CBRT, Akbank

**Chart 5 and 6. CUR (by main industrial groups, seasonally adjusted, %)\***



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

Source: CBRT, Akbank



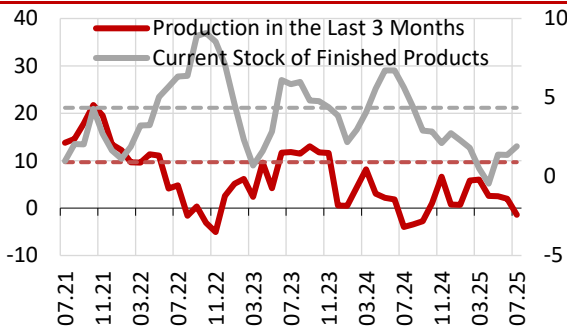
In sectoral detail, the most significant monthly decline in the manufacturing industry CUR was observed in the **pharmaceuticals** sector with 4.3 points. Notably, the **beverage** sector declined by 2.9 points, while **machinery and equipment** declined by 2.0 points. In the machinery and equipment sector, CUR decreased in 10 of the last 11 months, while the cumulative decline in the last 11 months reached 12 points (%77→%65; historical average: 73.5%). Among the sectors with a high share in industrial production, CUR in **food** and **clothing** sectors decreased by 0.2 and 1.3 points mom, respectively. The CUR in clothing is at 74.1%, the lowest level since April 2021. The CUR in **other transportation vehicles**, which fluctuates from month to month, decreased by 0.7 points to 77.7% in July after two months of increase, but remained 2.3 points above its historical average. CUR in **textile** sector remained flat at 69.1%.

### Business Tendency Survey

The **last 3-month production volume** question has been on a downtrend for the last four months; it turned negative at -1.4 in July, 11 points below the long-term average and in line with the course of the CUR (Chart 7). While the decline spread across all product groups, the most significant decrease was seen in investment goods in July, following June. In terms of scale, large-scale firms have posted a sharp decline for the last two months. **Stocks of finished goods** increased in July after remaining flat in June. In terms of goods groups, the increase in capital goods after the significant decline in June could not compensate for the fall. Inventories decreased in nondurable goods and intermediate goods, but increased in durable goods (Chart 7).

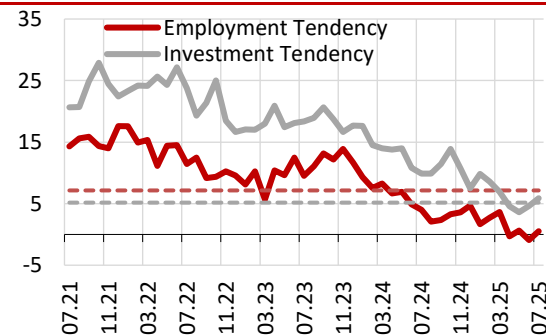
Although **registered orders in the domestic market** edged down in July, they signaled that domestic demand continued to lose momentum. After remaining flat in June, **export orders** declined in July and remained weak compared to historical averages (Chart 8). Across goods groups, domestic orders increased only in capital goods. They decreased significantly in durable consumption goods. Export orders in capital goods have declined significantly for the last three months.

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



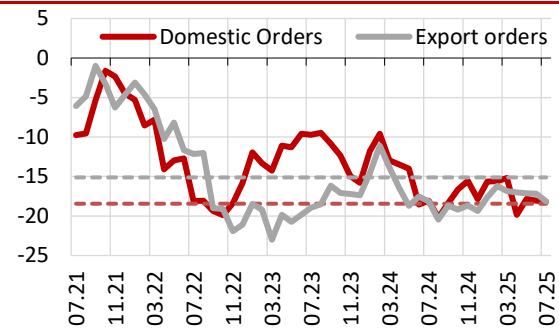
\* Dashed lines show 2007-2019 average of each series.  
Source: CBRT, Akbank

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



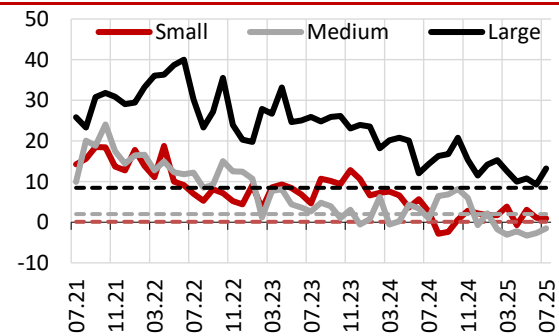
\* Dashed lines show 2007-2019 average of each series.  
Source: CBRT, Akbank

**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, %)**



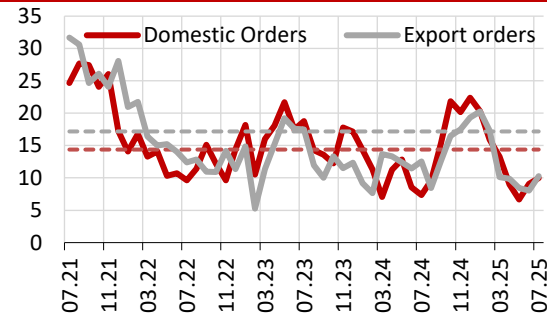
Source: CBRT, Akbank

**Employment tendency** rose again in July after declining on a monthly basis in June. The investment tendency has been on the rise for the last two months after four months of decline (Chart 9). On a scale basis, the employment tendency increased across all scales, while across goods groups, it increased in all goods groups except non-durable consumption goods and capital goods. The most significant increase was observed in durable consumption goods. On a scale basis, **investment tendency** increased in all scales except small-scale firms. The decline was limited in small-scale firms. Across goods groups, it increased in all goods groups except non-durable consumption goods (Chart 10).

Manufacturing firms' expectations for **export orders** have been on the decline since the beginning of the year (excluding January). Although there was an increase in July, this increase is far from compensating the decline in the previous month. **Domestic order** expectations, on the other hand, have increased in the last two months (Chart 11). Both export and domestic orders continue to be below their long-term averages.

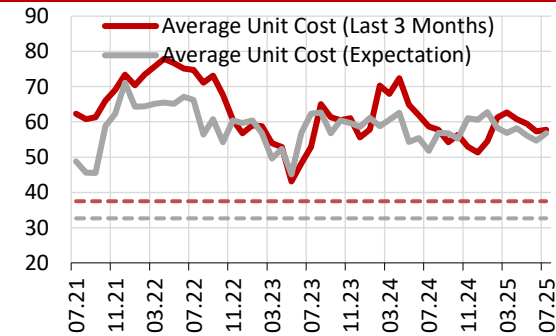
Among the questions on **costs and pricing**, expectations for the next 3 months increased slightly in July (Chart 12). Annual PPI inflation expectations of the manufacturing industry for the next 12 months decreased by 0.4 points mom to 36.8%. The expectation continues to hover well above the current PPI annual inflation (24.45%).

**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

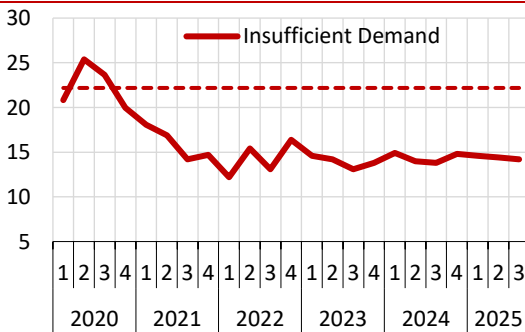
**Chart 12. Average Unit Labor Cost (seas. adj., increase-decrease, %)\***



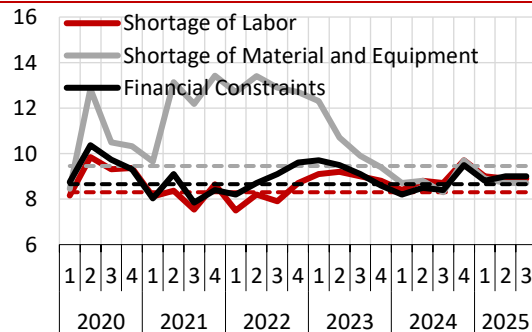
\* Dashed lines show 2007-2019 average of each series.  
Source: CBRT, Akbank

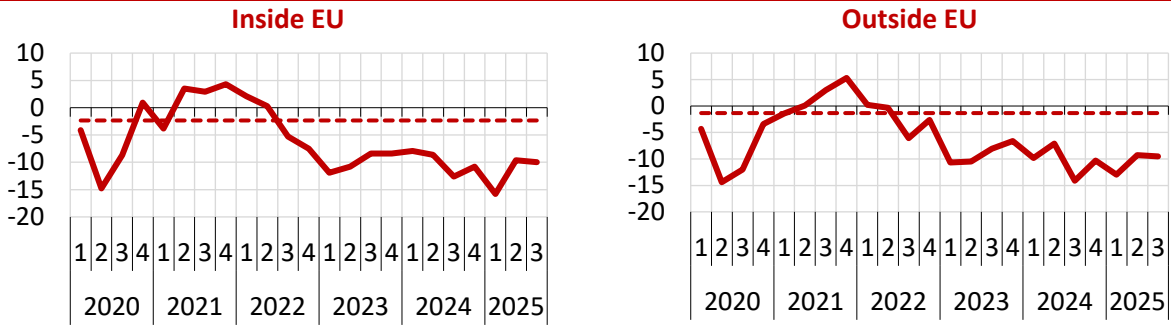
Finally, the quarterly values of the quarterly questions in the BTS were released in the July survey. Among factors limiting production, insufficient demand posted a limited decline (Chart 13). The shortage of raw materials and equipment continues to hover below historical averages. Labor shortages are still above their historical averages.

**Chart 13. Factors Limiting Production\* (%)**



\* Dashed line shows 2007-2019 average.  
Source: CBRT



**Chart 14. Competitiveness in Foreign Markets in the Last 3 Months\* (Increased-decreased, %)**

\* Dashed line shows 2007-2019 average.

Source: CBRT

Another important quarterly question is the **change in competitiveness**. Following an increase in competitiveness in the previous three months due to the developments in the euro-dollar parity, competitiveness has recently decreased slightly (Chart 14).

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