

Macro: Partial improvement in expectations despite the current weak outlook

The recent weakness in the manufacturing industry continued in August, while domestic interest rate cuts and reduced uncertainty regarding trade policies abroad appear to have led to an improvement in domestic and foreign market order expectations.

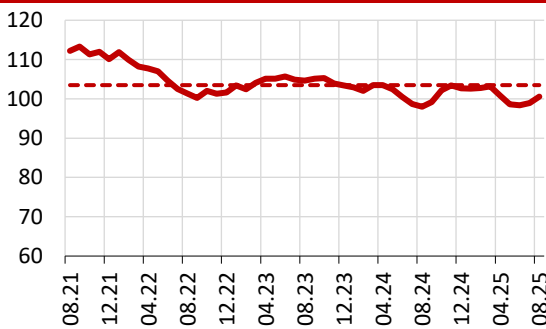
The seasonally adjusted capacity utilization rate fell by 0.5 percentage points month-on-month to 73.6% in August, reaching its lowest level in the last five years. The monthly decline was largely due to a planned temporary halt in production in the automotive sector. Excluding this temporary effect, the capacity utilization rate remained almost flat. In August, there was a decline in employment and investment tendencies. Expectations for the next three months regarding costs and pricing increased.

Confidence Indices

Real Sector Confidence Index (RSCI): RSCI (s.a.) rose by 1.7 points in August, reaching 100.6, back above the threshold level three months later (Chart 1). However, the index remained below its historical average, indicating continued weakness in the manufacturing industry. The monthly increase was driven by improved expectations regarding the general trend and an increase in export order expectations for the next three months.

Sectoral Confidence Indices (SCI): In August, confidence indices rose in sectors other than construction (Chart 2). The **services sector** confidence index rose by 1.2 points month-on-month (mom), reaching its highest level since March. This was mainly due to an increase in demand expectations for the next three months. The increase in the **retail sector** confidence index, however, failed to offset the declines of the previous two months. The increase was driven by expectations for sales over the next three months. The **construction sector** confidence index, meanwhile, fell by a significant 3.6 points in August, reaching its lowest level since April. The confidence indices for services, retail, and construction remained below their historical averages.

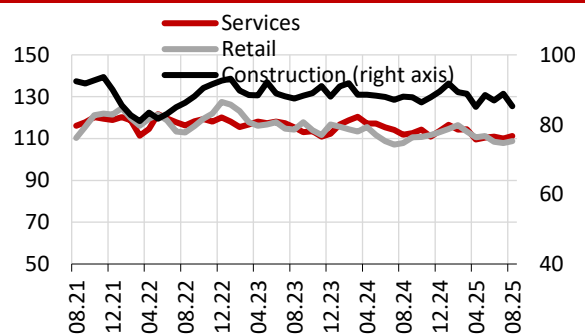
Chart 1. Real Sector Confidence Index (seasonally adjusted)*



* Dashed line shows 2007-2019 average.

Source: CBRT

Chart 2. Sectoral Confidence Indices (seasonally adjusted)



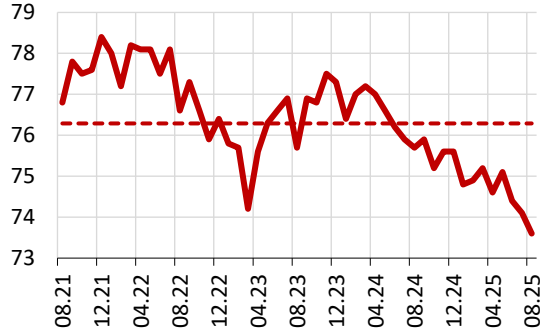
Source: TURKSTAT

Capacity Utilization Rate (CUR)

The downward trend in the CUR (s.a.) continues. The CUR fell by 0.5 points mom in August to 73.6%, reaching its lowest level since August 2020. The CUR remained 2.9 points below its historical average, indicating that the weakening trend in the manufacturing industry is continuing (Chart 3). **In terms of scale**, the most significant decline was observed in large and medium-sized companies. The CUR fell to its lowest level since July 2020 for large-scale firms and since March 2021 for medium-scale firms (Chart 4). Compared to historical averages, medium-scale firms continued to remain significantly below the

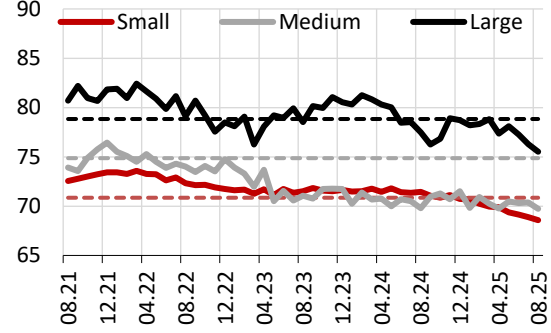
average. **Across goods groups**, capital goods have seen a decline over the past four months, reaching the lowest level since July 2021 at 70.2%. While the CUR increased slightly for intermediate goods, it decreased for durable and non-durable consumer goods.

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



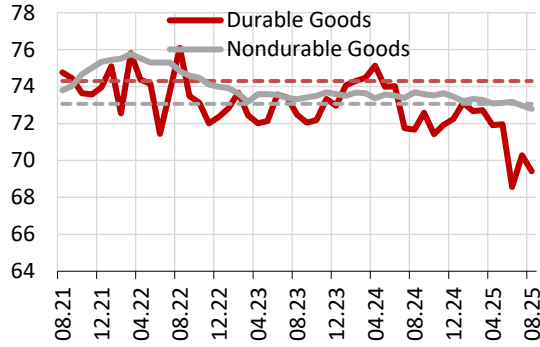
* Dashed line shows 2007-2019 average.
Source: CBRT

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

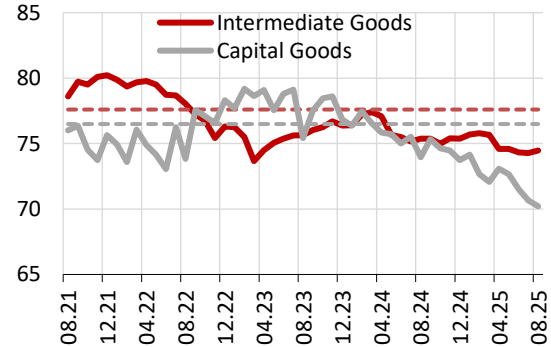


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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 CUR was in the manufacture of **motor vehicles** at 7.8 points. This decline was influenced by the suspension of production in TOFAŞ's Bursa plant between July 28 and August 17, 2025, for planned maintenance, repairs, and annual leave. We estimate that this decline reduced the monthly CUR by approximately 0.4 points. Therefore, excluding this temporary effect, the CUR remained almost flat mom. With the end of the factory holiday, we will see an increase in the sector's CUR in September that will offset the decline in August.

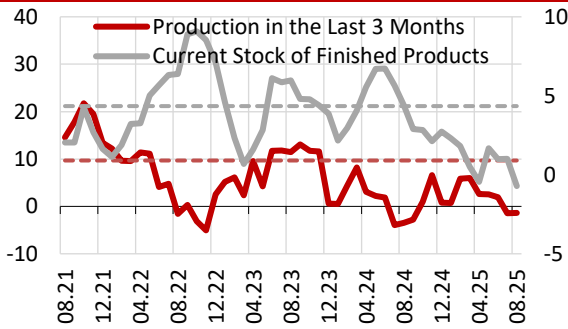
Looking at the remaining sectors, the most significant increase on a monthly basis was observed in the **registered media** sector with 4.9 points. The registered media was followed by **wood and mushrooms** with an increase of 3.4 points, **basic pharmaceuticals** with an increase of 1.8 points, **machinery and equipment** with 1.6 points, and **electrical equipment** with 1.3 points. On the other hand, among the sectors with a high share in industrial production, the CUR increased by 0.2 points in **food**, while the downward trend continued in **clothing** with a 0.3-point decrease. The CUR in the clothing sector is at its lowest level since March 2021, at 73.7%. The CUR in the **textile** sector decreased by 0.6 points to 68.4%. The 1.1-point decline in the **chemical** sector also affected the manufacturing industry CUR. In **other transportation vehicles**, which fluctuate from month to month, the CUR has been declining for the past two months; in August, it decreased by 1.2 points to 76.6%, but remained 1.1 points above its historical average.

Business Tendency Survey

The **production volume over the last three months** increased slightly in August after four months of decline; however, it continued to take on negative values and remained 11 points below the long-term average, showing a consistent trend with the CUR (Chart 7). In terms of scale, a decline has been observed in large-scale companies over the last three months. The most significant decline was observed in durable consumer goods. While intermediate goods and non-durable consumer goods increased, the decline in capital goods extended to third month. **Stocks of finished goods** decreased in August. While the decline was widespread over the scales, it was particularly pronounced in capital goods in terms of product groups. Stocks increased in durable consumer goods but decreased in intermediate goods (Chart 7).

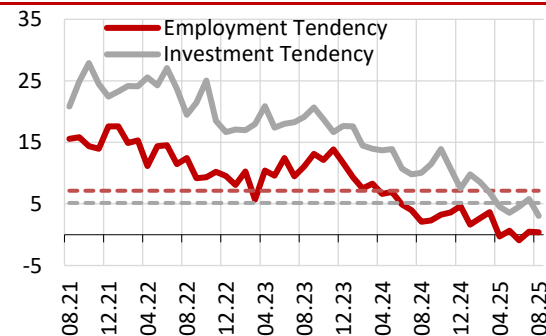
Registered orders in the domestic market increased slightly in August. **Export orders** have been declining for the past two months and continue to be weak compared to historical averages (Chart 8). Domestic market orders increased only in medium-sized firms in terms of scale and only in intermediate goods in terms of product groups. They decreased significantly in non-durable consumer goods. The decline in export orders is widespread in terms of scale. In terms of product groups, the most significant decline was observed in non-durable consumer goods, while a decline has been observed in capital goods over the past four months.

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



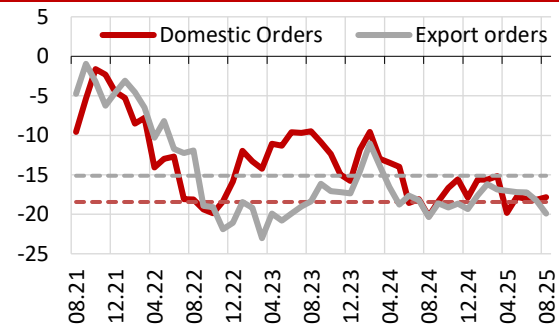
Source: CBRT, Akbank

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



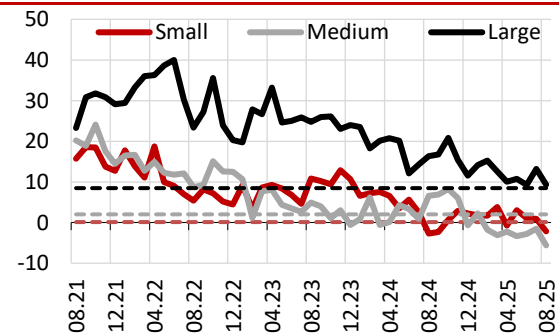
Source: CBRT, Akbank

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



Source: CBRT, Akbank

Chart 10. Investment Tendency (by firm-scale, seas.adj., increase-decrease, %)



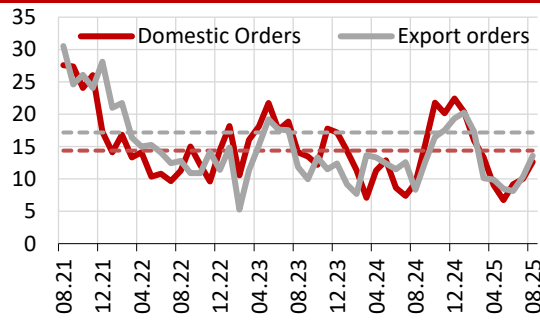
Source: CBRT, Akbank

Employment tendency declined slightly in August. **Investment tendency** fell again after two months of increase (Chart 9). The former declined in all scales except medium-sized companies, while the trend declined in all product groups except durable and non-durable consumer goods. The most significant increase was observed in durable consumer goods. The decline in investment tendency spread across all scales and product groups (Chart 10).

Manufacturing firms' expectations for **export orders** have recovered over the past two months. **Domestic order** expectations have been on the rise for the past three months (Chart 11). In terms of product groups, the most significant increase in export order expectations was observed in non-durable consumer goods, while in domestic orders, the increase was seen in non-durable consumer goods and capital goods. Both foreign and domestic orders remain below their long-term averages.

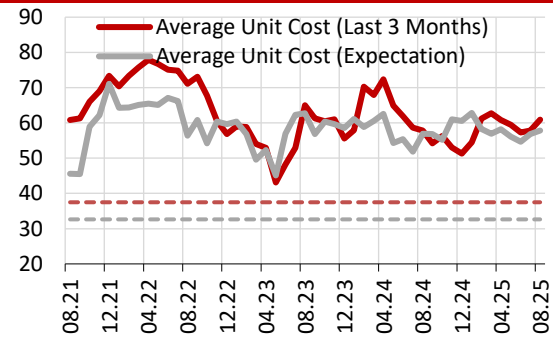
The questions on **costs and pricing** expectations for the next three months increased in August (Chart 12). Annual PPI inflation expectations of the manufacturing industry for the next 12 months decreased by 1.4 percentage points on a monthly basis to 35.4%, the lowest level since December 2021. Expectations continue to exceed the current annual PPI inflation rate (24.2%).

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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