Macro: Weak trend in capacity utilization; improving expectations for domestic market

September data indicate that manufacturing industry production continued to have a weak underlying trend. Although the capacity utilization rate (CUR) increased by 0.2 percentage points month-on-month (mom) due to the end of factory holidays in the automotive sector, it continued to decline excluding this effect. The CUR stands at 73.8%, which is 2.5 percentage points below its historical average. As we noted in our comment on the July IPI data, the divergence across manufacturing sectors is also evident in CUR data: while clothing, food and textiles are weakening non-durable consumption, the decline in capital goods continues, driven by the sharp contraction in machinery and equipment manufacturing, despite the positive trend in other transport sectors. Intermediate goods are showing a relatively positive trend on the back of construction-related sectors.

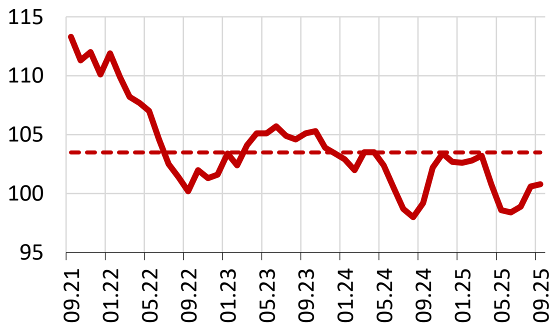
Despite weak signals regarding production, expectations continue to improve, particularly regarding domestic market orders. A similar outlook is evident in the services and retail confidence indices considering business volume and expectations. Easing financial conditions, which are expected to continue, appear to have improved expectations for the domestic market. Similarly, there is a widespread improvement in investment tendencies.

Confidence Indices

Real Sector Confidence Index (RSCI): RSCI (s.a.) rose by a limited 0.2 points to 100.8, returning to its April level (Chart 1). However, despite the increase over the last two months, RSCI remains below its historical average, indicating continued weakness in the manufacturing industry. In the third quarter, the RKGE rose by 0.8 points quarter-on-quarter, reaching a value of 100.1.

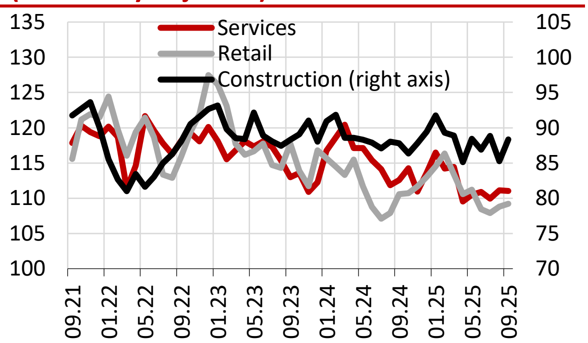
Sectoral Confidence Indices (SCI): In September, confidence indices rose in sectors other than services (Chart 2). The **services** sector confidence index declined slightly on a monthly basis. The **retail** sector confidence index has been rising for the past two months, reaching its highest level since May. Sales expectations for the next three months are improving in the sector. On the other hand, assessments of current business volume are declining moderately. The **construction** sector confidence index rose by 3.1 points in September, largely offsetting the decline in August.

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



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

Chart 2. Sectoral Confidence Indices (seasonally adjusted)

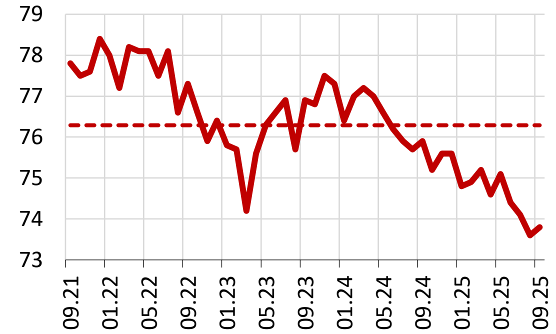


Source: TURKSTAT

Capacity Utilization Rate (CUR)

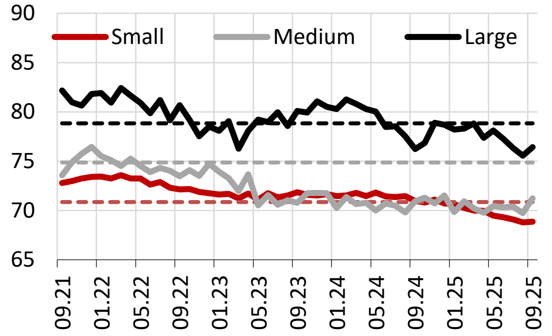
The ongoing downward trend in the CUR (s.a.) paused in September with a 0.2-point increase (Chart 3). In our previous note, we stated that automotive factory closures due to maintenance works had contributed to the decline in August and that this effect would be offset in September. Indeed, after falling by 7.8 points in August, the CUR for **motor vehicles** rose by 6.6 points to 71.4% in September, largely offsetting the August decline. When comparing the CUR values for July (74.1%) and September (73.8%), which excludes volatility caused by the vehicle sector, we can infer that the weakening in the main trend continues. Therefore, the monthly increase in the CUR in September should not be considered as the beginning of a recovery in the main trend or a real increase.

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



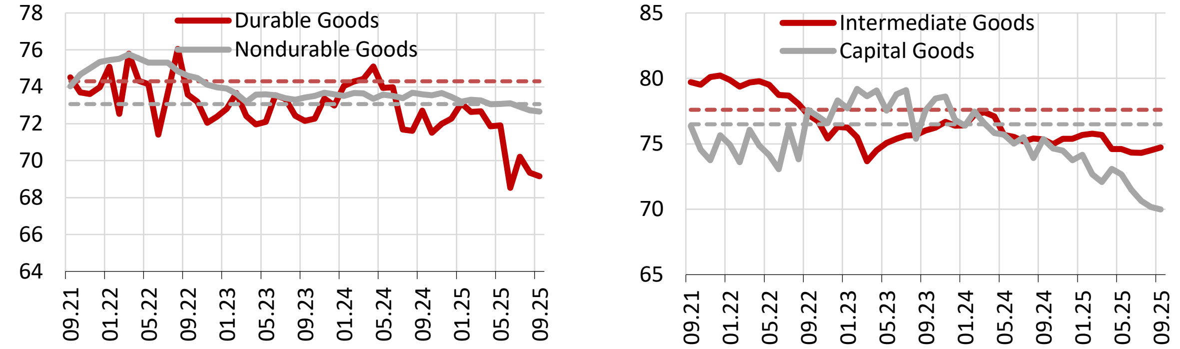
* Dashed line shows 2007-2019 average.
Source: CBRT

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



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

Chart 5 CUR (by main industrial groups, seasonally adjusted, %)*



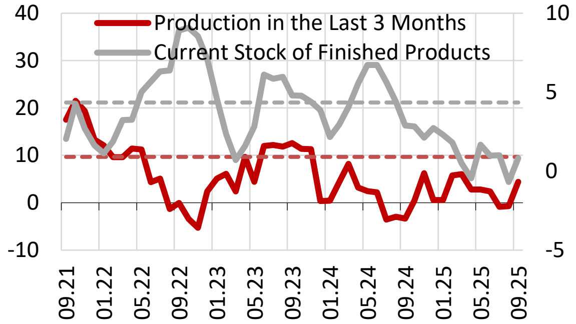
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Business Tendency Survey

The **production volume over the last three months** showed a marked increase in September, but remained 5.3 points below the long-term average, maintaining a weak outlook similar to that of the CUR (Chart 6). The increase was most pronounced among large-scale firms and durable consumer goods. Stocks of finished goods also increased on a monthly basis in September. The increase was most pronounced among large-scale firms and among capital goods. Stocks decreased for durable goods but increased for intermediate goods.

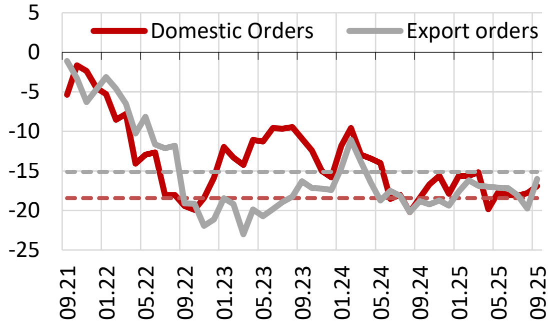
Registered orders in the domestic market have been increasing over the past two months. A recovery also took place in export orders; however, the weak trend continued vis-à-vis historical averages (Chart 7). While the recovery in export orders spread across the board in terms of firms-scale, it was particularly pronounced in capital goods considering the main groups. Domestic market orders increased in medium and large-scale firms. Among main goods groups, orders decreased in durable and non-durable goods, while increased in capital goods and intermediate goods.

Chart 6. Production in the Last 3 Months (s.a., increase-decrease) and Stocks of Finished Products (s. a., above-below normal)*



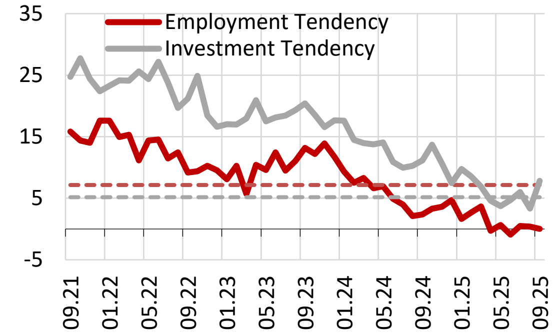
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Chart 7. Registered Orders (seasonally adjusted, above-below normal, %)*



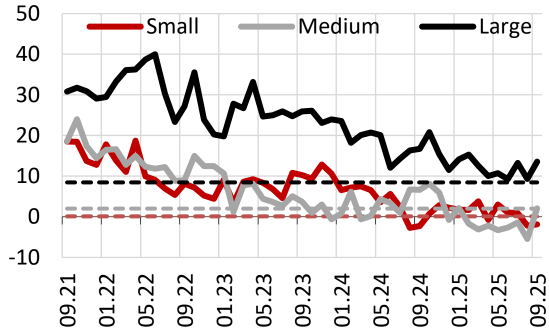
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Chart 8. Employment and Investment Tendency (seas. adj., increase-decrease, %)



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

Chart 9. Investment Tendency (by firm-scale, seas. adj., increase-decrease, %)

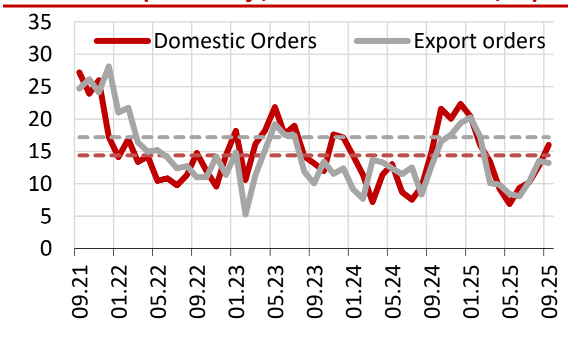


Source: CBRT, Akbank

There has been no improvement in **employment** tendencies yet (Chart 8). **Investment** tendencies, however, showed a marked increase in September. While investment tendencies increased across all firm-scales, they also spread across most sectors except durable consumer goods (Chart 9).

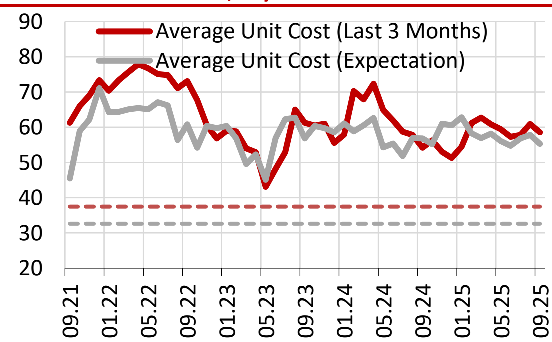
Manufacturing firms' expectations for **export orders** declined slightly in September after two months of increases. **Domestic order expectations**, however, have been rising for the past four months (Chart 10). By product group, external order expectations declined for all product groups except capital goods. Domestic orders, on the other hand, have seen a marked increase in durable consumer goods over the past two months.

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

The questions on **costs and pricing** expectations for the next three months declined in September (Chart 11). The manufacturing industry's annual inflation expectation for the next 12 months continued to decline, falling by 0.9 percentage points to 34.5%. Expectations remain above the current annual PPI inflation rate (25.2%).

This report is prepared by Akbank Economic Research

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