Macro: Signals for demand remain strong, while being relative weak for production

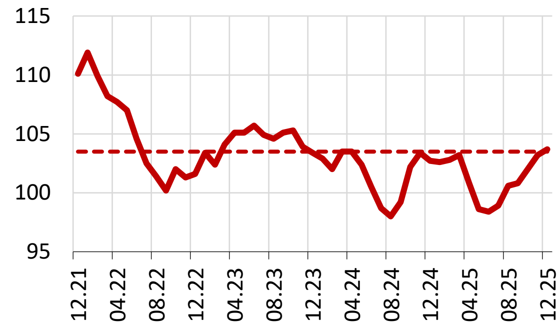
While December data did not alter our previous assessments of the weak performance across sectors, indicators of demand conditions (orders, business volume, sales, etc.) indicated that the improving outlook that began last month was maintained. Apart from this, capacity utilization continued to fluctuate within its recent narrow range, maintaining its weak performance throughout the year. For the whole of 2025, it averaged 74.3%, the lowest level since 2010 (excluding 2020, which was affected by the pandemic). While assessments of cost realizations indicated a slight decrease in inflationary pressure, the expectation of cost increases for the next three months maintained its upward trend from last month. Although employment trends continued to improve, they have not yet reached their historical average. In summary, while the manufacturing industry is expected to experience a weak performance in 2025, the sector's expectations for 2026 points to a more positive outlook.

Confidence Indices

Real Sector Confidence Index (RSCI): The recovery trend continued in the RSCI (s.a.). The seasonally adjusted index rose by 0.5 points in December to 103.7, reaching its highest level since November 2023 and once again exceeding its long-term average, indicating an improving outlook in the manufacturing sector (Chart 1). Improvements in expectations regarding production volume, employment, and the overall outlook for the next three months were key factors in the monthly increase.

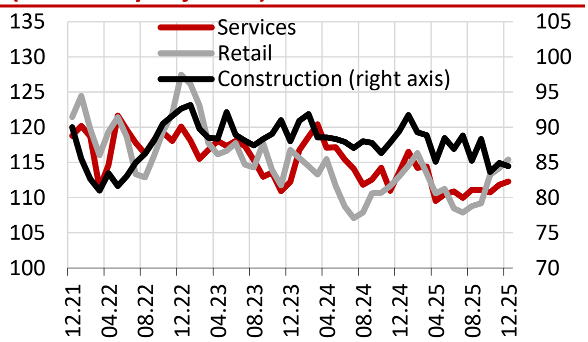
The index averaged 103.0 in Q4, a 2.9-point increase compared to the third quarter, reaching its highest value in the last two years. The quarterly improvement was widespread across almost all components. For the year as a whole, there was a limited deterioration compared to 2024, reaching its lowest value since 2020. The 2025 average (101.3) remained 2.2 points below the long-term average (103.5).

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

Sectoral Confidence Indices (SCI): Confidence indices increased on both monthly and quarterly bases in all sectors except the construction sector. However, all indices remained below their historical averages. The **services** sector confidence index increased by a total of 1.6 points in the last two months, reaching its highest level since March (Chart 2). In December, the improvement in demand expectations for the upcoming period was noteworthy. Overall, in the last quarter, the improvement in business conditions over the last three months did not signal a weakening in demand conditions.

A similar trend is observed in the retail sector. The **retail sector** confidence index has increased by a total of 7.5 points in the last five months, reaching its highest level since February, with the significant increase in business volume in the last 3 months being a key factor in this trend.

Construction sector confidence, after increasing in November, fell by 0.5 points in December. On a quarterly basis, it was 3.1 points below the third quarter's level. As a reminder, the construction sector has recently been making a significant contribution to GDP growth. Under these circumstances, the nearing completion of construction activities in the earthquake zone could be a factor eroding confidence in the sector.

Capacity Utilization Rate (CUR)

CUR (s.a.) increased slightly (0.1 points) in December to 74.2%, maintaining its weak performance throughout the year. The CUR remained within a narrow range (73.6%-74.2%), well below the 2007-2019 average of 76.3% during the second half of the year (Chart 3). Over 2025, the average is 74.3%, the lowest since 2010 (excluding 2020, which was affected by the pandemic) (Table 1).

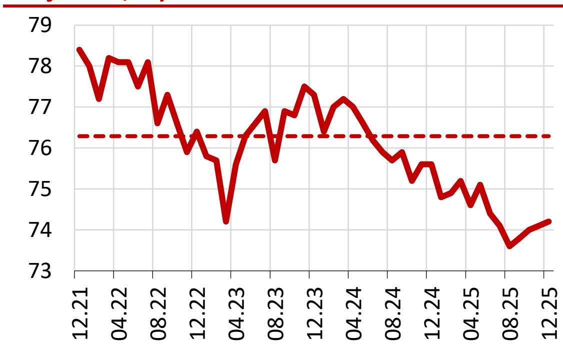
The limited increase in December stemmed from large-scale firms and from consumer goods (Charts 4 and 5). Intermediate goods and capital goods were the determining factors in the 0.3 percentage point quarterly increase in the last quarter. The overall weakening in 2025 appears to be widespread (Table 1). The decline in capital goods and durable consumer goods is more pronounced. In terms of scale, the decline in small and large-scale firms is noticeable, while the decrease in capacity utilization in medium-sized firms remained limited.

The monthly change in CUR in December shows a mixed picture across sectors. While **food** and **clothing**, which have weakened significantly recently, recorded a partial recovery on a monthly basis, more pronounced increases were recorded in the **mineral materials, basic metals**, **rubber-plastics**, and **fabricated metals** sectors, which we consider to be related to construction. On the other hand, CUR declined in durable goods sectors such as **electrical equipment** and **furniture**, as well as intermediate goods sectors such as **chemicals**, **paper**, **wood**, and **cork products**, and capital goods sectors such as **vehicles** and **machinery-equipment**.

Sectors that stood out in the quarterly increase in the last quarter were vehicles (4.2 points), basic pharmaceutical products (3.4 points), clothing and fabricated metal (1.1 points), computers, optics and electronic equipment (0.9 points), and wood and cork; while declines in recorded media (-3.7 points), food (-1.7 points), other transportation equipment (-1.0 points), and chemical products (0.3 points) limited the capacity utilization rate in the last quarter.

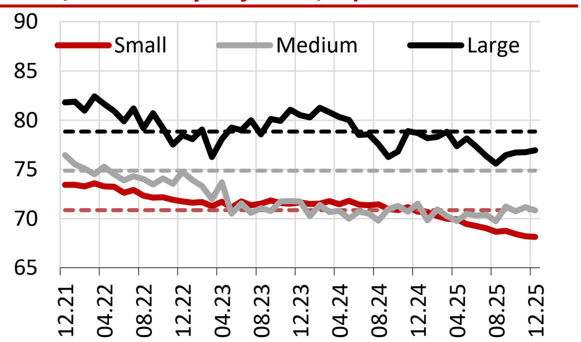
Throughout 2025, the decline was widespread across almost all sectors. The most significant decreases were recorded in machinery and equipment (-7.3 points), computers, electronic and optical instruments (-4.8 points), vehicles (-4.0 points), electrical equipment (-2.2 points), and textiles (-2.1 points). Increases in CUR were only observed in the tobacco, leather, wood, and cork sectors.

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, %)*



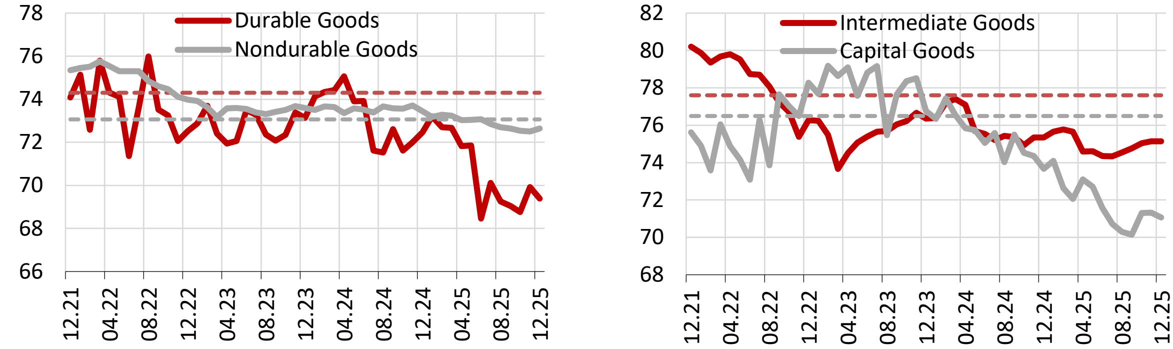
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Table 1. Capacity Utilization Rate (%)

	Avg (2007-19)	2020	2021	2022	2023	2024	2025
Manufacturing Industry	**76.3**	**71.9**	**76.6**	**77.2**	**76.3**	**75.9**	**74.3**
Food Products	72.8	71.6	72.4	73.6	73.3	73.8	73.1
Beverages	66.7	58.4	69.2	74.9	74.8	76.0	70.9
Tobacco Products	70.8	68.3	69.4	71.5	80.8	79.9	84.3
Textiles	77.0	69.0	79.3	76.3	70.0	71.8	69.7
Wearing Apparel	78.1	67.0	77.3	83.2	77.2	76.4	75.0
Leather and Related Products	61.8	55.2	62.0	67.4	67.3	62.1	63.1
Wood and of products of wood and cork	81.7	79.8	84.5	82.6	80.5	82.4	82.9
Paper and paper products	82.9	83.5	83.2	83.5	81.2	83.7	83.8
Reproduction of recorded media	74.0	66.9	68.6	69.0	69.8	68.5	67.2
Chemicals and chemical products	77.8	74.3	78.5	75.9	75.4	76.7	75.7
Basic pharmaceutical products	71.2	69.9	70.8	77.9	76.2	75.6	76.9
Rubber and plastic products	74.4	70.9	75.4	75.9	75.7	76.1	75.1
Other non_metallic mineral products	76.7	69.5	79.6	78.7	76.0	74.0	73.7
Basic metals	78.6	76.5	81.3	79.2	74.9	75.4	74.7
Fabricated metal products	71.9	70.1	75.5	74.3	74.5	72.4	71.9
Computer, electronic and optical products	78.2	79.2	79.8	80.7	80.2	74.0	69.2
Electrical equipment	76.5	71.0	77.9	75.6	74.9	75.0	72.8
Machineryand equipment	73.5	65.9	74.6	75.1	75.2	75.3	68.0
Motor vehicles	78.5	71.4	73.8	76.8	80.5	76.6	72.6
Other transport equipment	75.5	73.4	76.5	76.4	76.7	77.8	77.7
Furniture	71.4	65.6	71.9	77.3	75.9	75.6	75.4
Other manufacturing	68.3	62.1	68.2	69.7	70.4	69.5	67.5
Repair and installation of machinery and equipment	69.4	68.9	66.6	72.0	80.2	76.5	73.6
Manufacturing Industry	**76.3**	**71.9**	**76.6**	**77.2**	**76.3**	**75.9**	**74.3**
Durable Consumer Goods	74.3	67.9	75.1	73.7	72.7	73.1	70.6
Non_durable Consumer Goods	73.1	68.9	73.1	75.2	73.5	73.5	72.8
Consumer Goods	73.3	68.7	73.5	74.9	73.4	73.5	72.4
Intermediate Goods	77.6	73.4	79.2	78.3	75.6	75.9	75.0
Capital Goods	76.5	70.5	73.9	75.5	78.1	75.4	71.8
Small-sized firms	70.9	66.1	71.8	72.7	71.5	71.3	69.2
Medium-sized firms	74.9	66.9	72.7	74.4	71.9	70.7	70.5
Large-sized firms	78.8	76.2	80.3	80.3	79.1	79.0	77.2

Source: CBRT

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

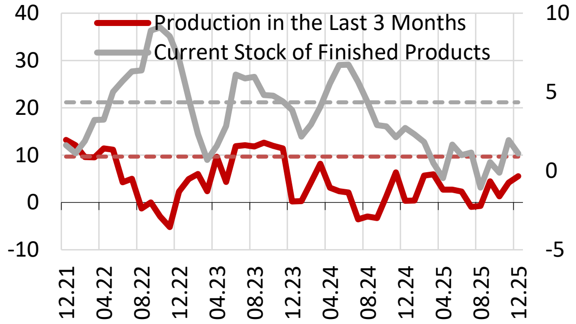


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Business Tendency Survey

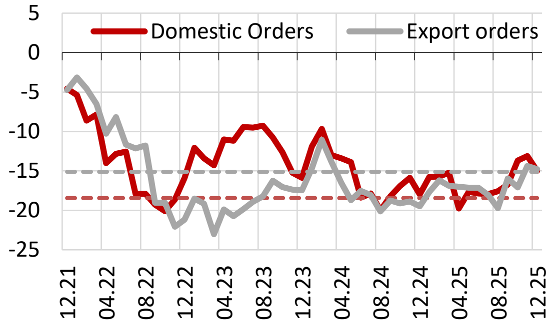
The production volume over the last three months continued to increase, offsetting the decline in November. However, it is still below the long-term average (Chart 6). A relatively weak outlook prevails in the production volume question for non-durable goods and capital goods. A partial correction occurred in **stocks of finished goods** following the strong increase in November. While **registered orders** declined in both the domestic and export markets, they continued to show a positive trend in terms of level, signaling that there is no slowdown in demand (Chart 7). Indeed, when considered on a quarterly basis, there is an improvement in **registered** orders. The outlook for the domestic market is more positive. On a sectoral basis, we see a more negative outlook for capital goods.

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



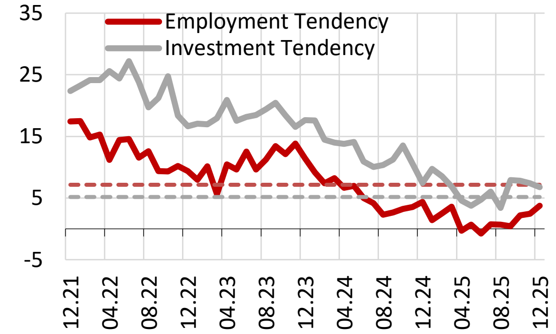
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



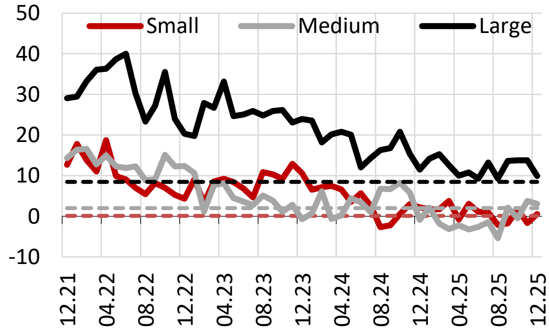
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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, %)

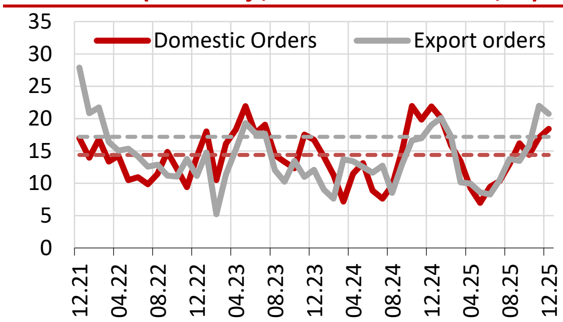


Source: CBRT, Akbank

The recovery in **employment tendency** that began in October continued in December, however, the weak outlook compared to the historical average was maintained (Chart 8). The decline in **investment** tendency continued in December after October and November. A sharp decline was observed in large-scale firms (Chart 9).

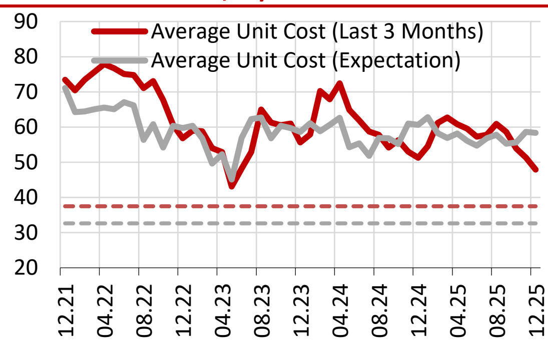
Manufacturing firms' expectations for **export orders**, after a strong rise in November, have slightly declined but remain optimistic. The increase in **domestic order** expectations has become more pronounced (Chart 10). **Regarding, the questions on costs and pricing,** the decline in the average unit cost over the last three months continued for the fourth consecutive month. On the other hand, expectations for the next three months maintained the level reached after the increase in November (Chart 11). The decline in the manufacturing industry's annual inflation expectation for the next 12 months continued for the eighth consecutive month, falling further by 0.5 percentage points to 33.0%.

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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