

Macro: First signs of geopolitical developments on manufacturing industry

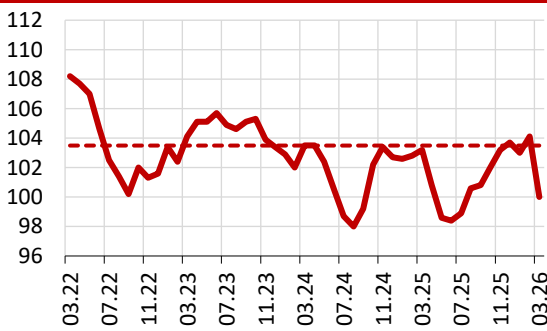
The Business Tendency Survey (BTS) data for March provide initial signals that the geopolitical developments, which started at the end of February and intensified during March, have had negative reflections on the manufacturing industry. In particular, while a significant decline is recorded in export orders for capital goods and non-durable consumption goods, a deterioration is observed across all sectors in expectations for domestic and export orders for the next three months. In addition, rising energy prices appear to have significantly increased both realized costs and cost expectations. Due to the tightening step taken by the CBRT and expectations that financial conditions will become tighter in the upcoming period; a notable deterioration is also observed in expectations regarding TL loan interest rates. Indicators related to the production side show a relatively limited deterioration and a divergence across sectors. The outlook for capacity utilization has not deteriorated, except for capital goods.

Although the survey implementation period fully covers the days after the war, the timing of responses by firms may vary. Responses given at the beginning of the month, when geopolitical developments had not yet intensified, may have caused the deterioration in the March survey to appear more limited. Firms' evaluations regarding capacity utilization are generally shaped by developments in the previous month. Therefore, April data will be more useful in understanding more clearly the negative effects of geopolitical developments on the manufacturing industry.

Confidence Indices

Real Sector Confidence Index (RSCI): Seasonally-adjusted (s.a.) RSCI declined sharply by 4.1 points in March, falling below its long-term average again (Chart 1). While a significant decline is observed in indicators related to production volume and overall course for the next three months, demand-related indicators (current orders and order expectations) also decreased.

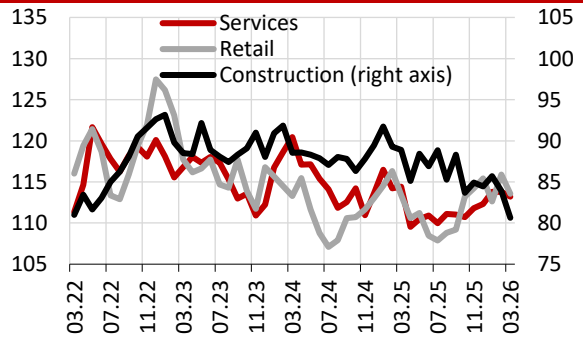
Chart 1. Real Sector Confidence Index (seasonally adjusted)*



* Dashed line shows 2007-2019 average.

Source: CBRT

Chart 2. Sectoral Confidence Indices (seasonally adjusted)



Source: TURKSTAT

Sectoral Confidence Indices (SCI): In March, all sectoral confidence indices declined (Chart 2). Across all sectors, levels continued to remain clearly below their long-term averages. On a quarterly basis, the services sector confidence index was 2.0 points above the previous quarter, while retail trade and construction sectors were 0.2 and 0.9 points below, respectively.

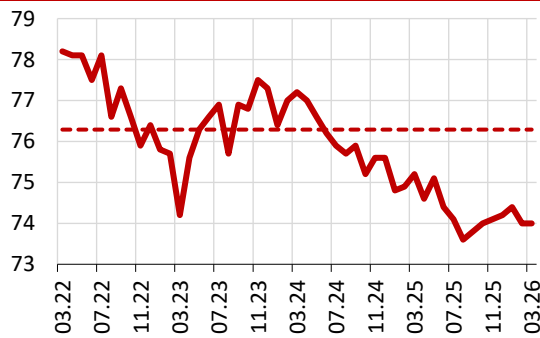
Services Sector Confidence Index decreased by 0.6 points in March. Despite the increase in assessments regarding demand and business conditions over the past three months, deterioration in expectations for the future was effective. **Retail Sector Confidence Index** fell by 2.3 points to 113.6 in March. The deterioration in demand expectations stood out in the monthly decline. **Construction Sector Confidence Index** has been declining for the last two months; the monthly decrease in March

was 3.3 points, and the index reached 80.6, the lowest level since May 2021. The assessment of construction activity over the last three months fell to its lowest level since June 2021. The deterioration in demand expectations for the upcoming period also continued.

Capacity Utilization Rate (CUR)

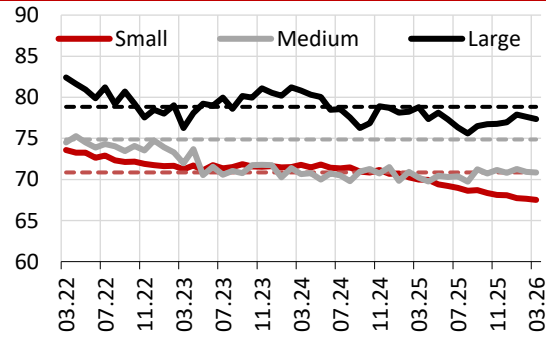
CUR (s.a) remained stable at 74.0% in March, continuing to signal weak production by staying 2.3 points below the 2007–2019 average (Chart 3). **By firm-scale:** In small-scale firms, the CUR (s.a) continued its gradual decline, reaching 67.5%, the lowest level since August 2020. In medium-scale firms, the CUR (s.a.) decreased slightly to 70.8, at the level of December 2025. In large-scale firms, the CUR (s.a.) fell by a total of 0.5 points over the last two months (77.4%). In small and medium-sized firms, the CUR (s.a.) remains 3.3 and 4.0 points below their long-term averages, respectively, indicating a weak outlook. In large-scale firms, it is 1.5 points below (Chart 4). **By main industrial groups:** CUR (s.a.) increased in all main groups except capital goods (Charts 5 and 6). In capital goods, CUR has been declining for the last two months, and decreased by 1.3 points month-on-month in March, reaching its lowest level since July 2021. In durable consumption goods, it increased by 0.4 points monthly, and in intermediate goods by 0.2 points. **By sectors:** The most pronounced declines in CUR (s.a) were observed in **other transport equipment** (2.2 points) and **vehicles**, both capital goods sectors (1.9 points decrease). A gradual recovery in **food** continued in March. In **textiles**, a volatile course is observed; after the decline in February, an increase was recorded in March. In construction-related sectors such as **basic metals**, **rubber-plastics**, and **fabricated metals**, the decline in CUR continued in March. On the other hand, in durable goods sectors such as **electrical equipment** and **furniture**, CUR continued to increase. While CUR in the **chemical** sector has declined over the last two months, the increase in the **paper** sector in March offset the decline in the previous month.

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



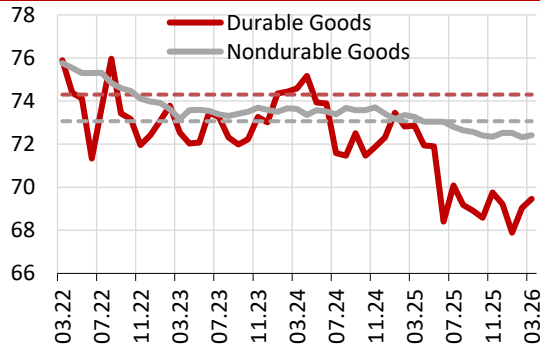
* Dashed line shows 2007-2019 average.
Source: CBRT

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

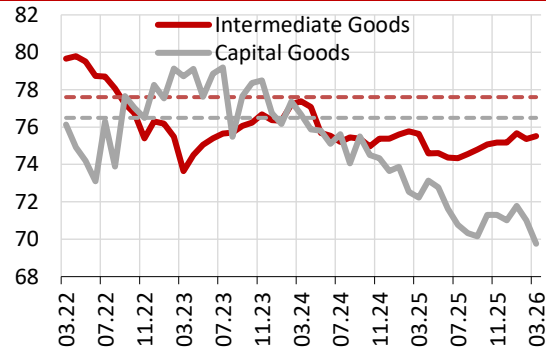


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



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

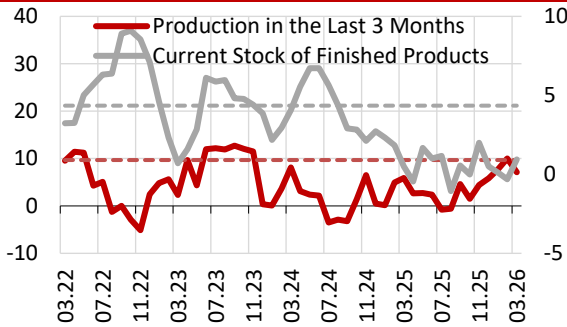


Business Tendency Survey

In **production volume** over the past three months, the upward trend did not continue and a slight decline was recorded (Chart 6). In **stocks of finished goods**, in contrast to production, an increase was observed following three months of decline. In questions regarding **registered orders**, a significant decline was observed in export orders, while the decrease in domestic orders remained limited. Export orders fell below its long-term average (Chart 7).

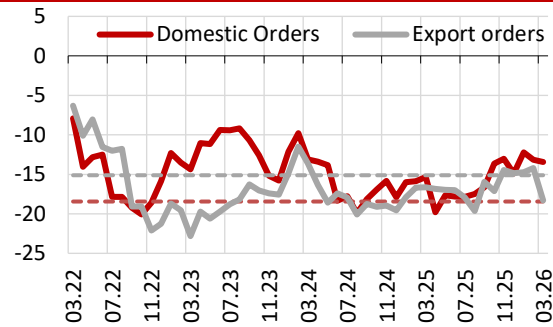
On the other hand, by product groups, sectoral divergences draw attention. The most pronounced decline in production volume and orders was realized in capital goods. While registered export orders also declined in non-durable consumption goods, no decline was observed in intermediate goods and durable consumption goods. By firm size, both production volume and export orders showed a significant decline in large firms. Evaluated together with the developments in capital goods, we assess that this situation stems from the vehicle and other transport equipment sectors. While small-scale firms remained relatively weak, domestic and export orders increased in medium-scale firms.

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



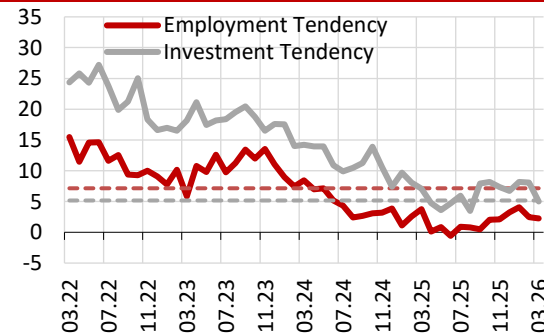
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



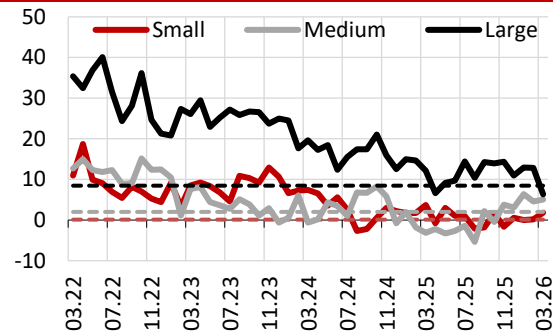
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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

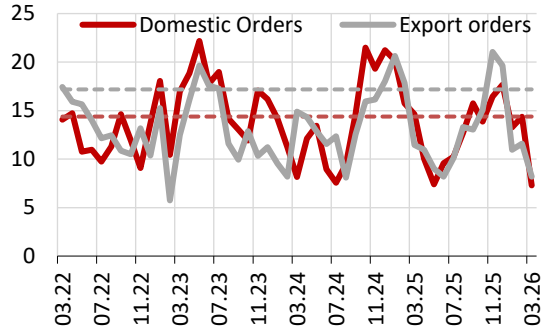
In the **employment tendency**, the deterioration that began in February continued in March (Chart 8). A significant decline was also observed in the investment tendency. The sharpest decline in the investment tendency was again in capital goods, and in large firms (Chart 9).

In the manufacturing industry, sharp declines are observed in both **export** and **domestic order** expectations in March (Chart 10). We assess that this sharp deterioration in expectations is driven by recent geopolitical developments. Downside risks are strengthening in the manufacturing industry, which is already exhibiting a weak trend.

Cost-related questions showed a significant deterioration due to the sharp increase in energy commodity prices driven by geopolitical developments (Chart 11). We are entering a period of increasing cost-driven pressures on inflation. Under these conditions, the manufacturing sector's expectation for the next 12 months of annual PPI inflation also rose from 30.2% to 31.1%.

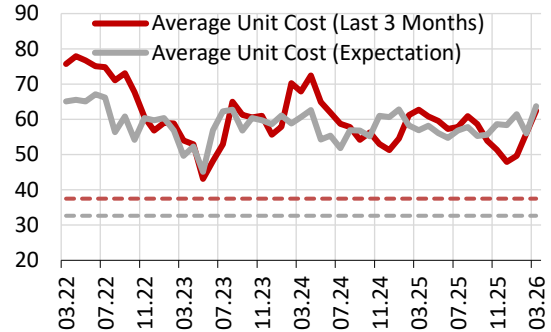
With the Central Bank of Turkey raising funding costs from 37% to 40% in response to geopolitical developments, and the expectation of tighter financial conditions going forward, firms' expectations regarding the cost of Turkish Lira loans also showed a widespread and significant deterioration.

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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