

Macro: Changing external demand conditions due to geopolitical developments negatively impact the manufacturing industry

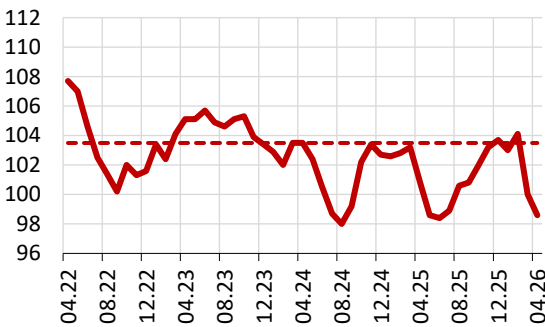
The Business Tendency Survey (BTS) data for April indicates that geopolitical developments continue to negatively impact manufacturing, although when the last two months are considered together, the effects, excluding foreign market orders, have not been severe. The positive outlook in capital goods sectors, particularly vehicles and other transport equipment, appears to have supported manufacturing. On the other hand, a relatively more negative outlook is observed in intermediate goods, especially construction-related sectors, and in non-durable consumer goods, particularly textiles and clothing. The continued high energy prices keep expectations of cost increases strong, but despite the increasing uncertainty, there has been no significant deterioration in investment and employment tendencies

According to the quarterly survey, despite a decline in registered orders and orders placed over the last three months, the proportion of those citing insufficient demand as a factor restricting production has decreased. On the other hand, raw material and equipment shortages remain below historical averages. While the decrease in labor shortages continues across all product groups, it is still above the historical average. Despite the unexpected tightening of financial conditions, there has been no increase in the question regarding financial constraints. Finally, despite the continued real appreciation of the Turkish Lira, there has been no significant change in assessments regarding competitiveness in export markets.

Confidence Indices

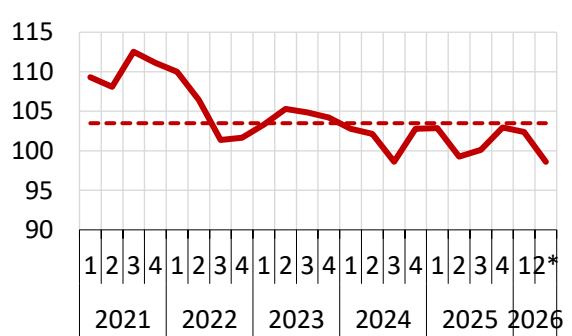
Real Sector Confidence Index (RSCI): The weakening in the RSCI continued in April, albeit at a lesser extent than in March (Chart 1). Seasonally-adjusted (s.a.) RSCI fell by a total of 5.5 points in the last two months, reaching its lowest level since June 2025 and its lowest quarterly level since 2024-Q3 at 98.6 (Chart 2). The index is also 4.9 points below its long-term average.

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



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

Chart 2. Real Sector Confidence Index (seasonally adjusted)*



* As of April
*Dashed line shows 2007-2019 average.
Source: TURKSTAT

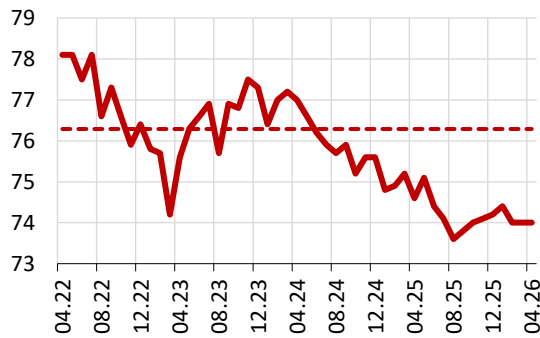
Capacity Utilization Rate (CUR)

CUR (s.a.) has been flat at 74.0% since February, continuing to signal weak production by staying 2.3 points below the 2007–2019 average (Chart 3). **By firm-scale:** The decline continued in small-scale firms, with a CUR of 67.1%, the lowest level since August 2020. The CUR remained stable at 70.8% in medium-sized firms, while in large-scale firms it decreased by a total of 0.6 points over the last three months to 77.2%. Compared to long-term averages, the CUR is 3.7 and 4.0 points lower in small and medium-sized firms, and 1.6 points lower in large-scale firms (Chart 4).

Despite the flat trend on a monthly basis, sectoral differences are noteworthy. **By main industrial groups:** CUR declined in all main groups except capital goods (Charts 5 and 6). CUR in capital goods rose in April after a two-month decline, yet, it could not compensate for the previous months' decrease. The CUR decreased by 0.4 percentage points monthly in intermediate goods and by 0.3 percentage points in durable consumer goods.

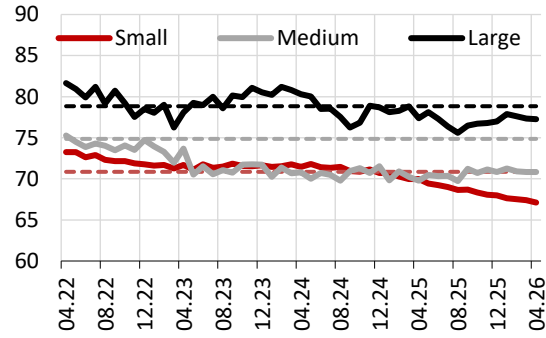
By sectors; the most significant decrease in CUR took place in the **machinery & equipment** and **tobacco** products sectors, with decreases of 1.5 points each. The **vehicle** and **other transport equipment** sectors saw an increase after a two-month decline; however, this did not offset the previous decreases. The gradual recovery in the **food** sector continued in April, reaching its highest level since August. In the **textile** and **apparel** sectors, whose increase we considered a surprise last month, CUR declined in April and fell below the February level. Construction-related sectors generally showed a weakening trend. CUR in **basic metals** saw a limited increase, **while rubber-plastics, fabricated metals, and mineral products** declined. Among durable goods sectors, CUR in furniture decreased, while **electrical equipment** continued to increase. The **chemical** sector saw an increase in April, while the **paper** sector decreased.

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



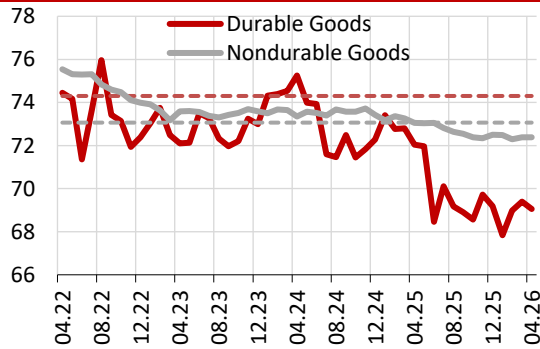
* Dashed line shows 2007-2019 average.
Source: CBRT

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

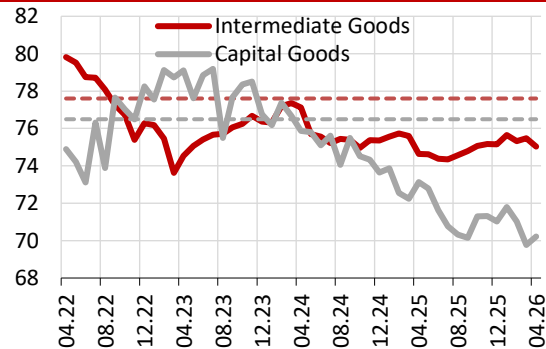


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



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

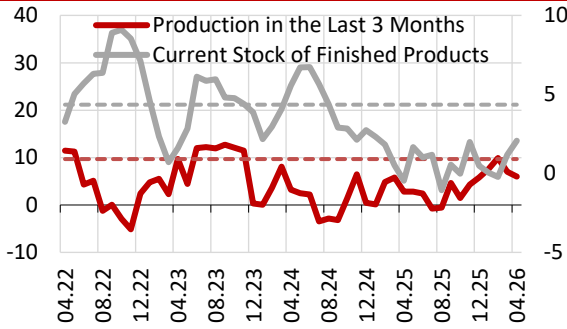


Business Tendency Survey

The decline in **production volume** over the last three months has continued at a moderate pace (Chart 6). **Stocks of finished goods** have increased for the past two months. From this, it can be concluded that production has not yet responded to demand developments to the same extent. In questions regarding **registered orders**, export orders increased only slightly after the sharp drop in March, but remained below long-term average. The decrease in domestic orders remained moderate (Chart 7).

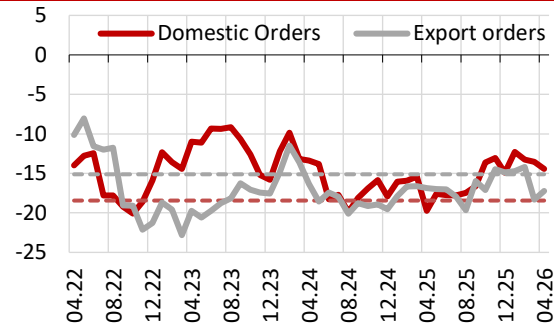
On the other hand, by product groups, sectoral divergences are noticeable. The most pronounced increase in production volume and orders was realized in capital goods. Registered export orders declined in intermediate goods and durable consumer goods, while they increased in non-durable consumer goods. By firm size, large firms saw an increase in production volume and export orders, while domestic market orders decreased. We assess that this stems from the vehicle and other transport equipment sectors. In small and medium-scale firms, export orders increased, while production volume decreased.

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



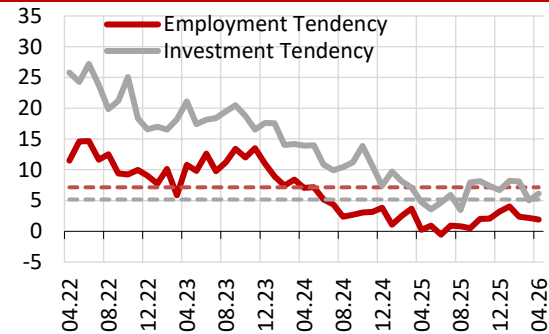
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



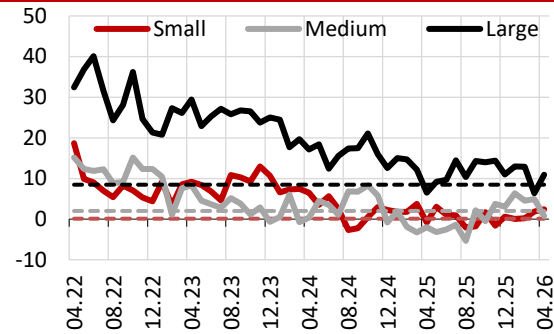
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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, %)



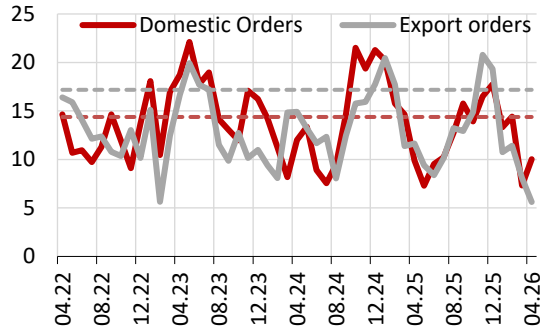
Source: CBRT, Akbank

The deterioration in **employment tendency** has continued for the past three months (Chart 8). While there has been a slight increase in **investment tendency**, it remains below the decline of previous months. By product groups, both employment and investment tendency show a decrease in durable consumer goods, while employment tendency increased in medium-sized firms, and investment tendency increased in small and large-scale firms (Chart 9).

Manufacturing firms continued to decline their expectations for **export orders** in April, following a similar decline in March. While expectations for **domestic orders** increased in April, this increase was less than the decrease in the previous month (Chart 10). We assess that the deterioration in foreign order expectations due to geopolitical developments continues.

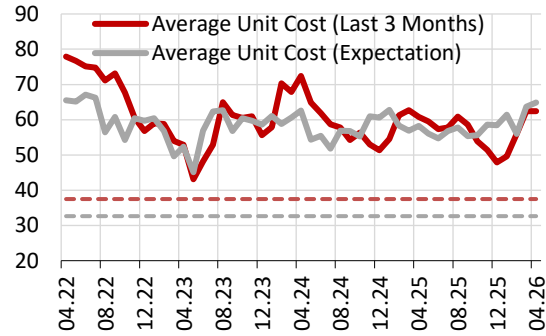
Cost-related questions have deteriorated over the past two months due to rising energy commodity prices (Chart 11). Thus, cost-driven pressures persist. The manufacturing sector's expectation for the next 12 months of annual PPI inflation has also risen from 31.1% to 31.9%. Firms' expectations regarding the cost of Turkish Lira loans also point to the expectation of tighter financial conditions.

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

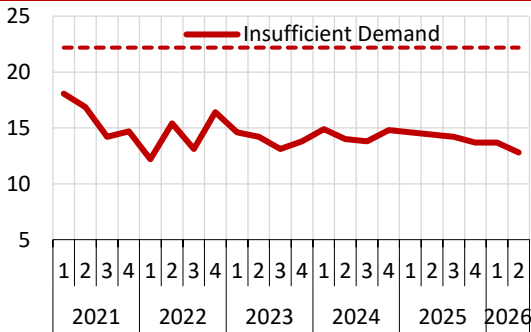
Chart 12. Average Unit Labor Cost (seas. adj.. increase-decrease. %)*



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

Finally, the quarterly questions were shared in the April survey. Despite the decline in registered orders and orders over the last three months, the proportion of those who indicated insufficient demand as a factor restricting production decreased (Chart 13). **Insufficient demand** decreased across all product groups. The most significant decrease was seen in non-durable consumer goods. On the other hand, **material and equipment shortages** are below their historical averages. While the decrease in the **labor shortage** question continues in all product groups, it is still above its historical average. The most significant decrease was seen in durable consumer goods. Despite the unexpected tightening of financial conditions, there was no increase in the question of **financial constraints** for capital goods and durable consumer goods. Another important question asked quarterly concerns the change in **competitiveness**. Despite the continued real appreciation of the Turkish Lira, there is no significant change in the assessments regarding competitiveness (Graph 14).

Chart 13. Factors Limiting Production* (%)



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

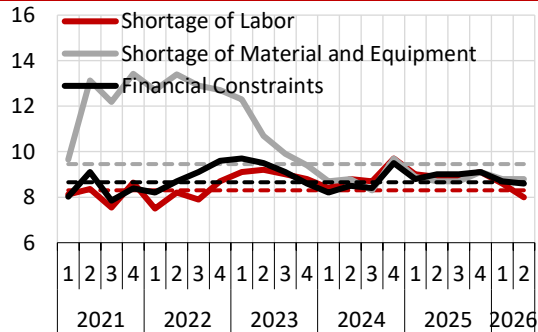
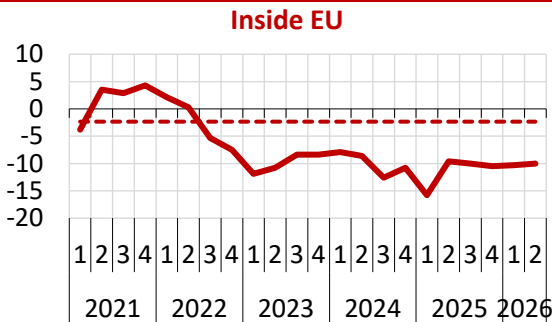
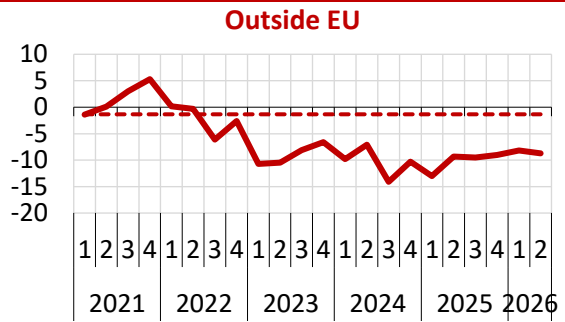


Chart 14. Competitiveness in Foreign Markets in the Last 3 Months* (Increased-decreased, %)



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



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