

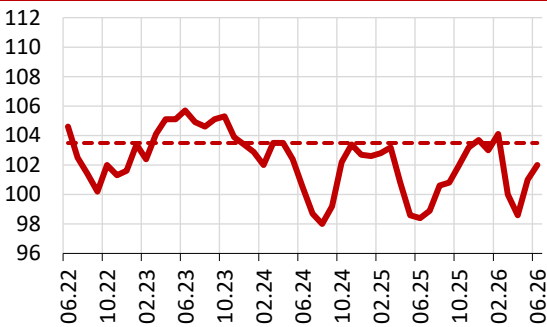
Macro: The effects of the war on decline in June

While The Business Tendency Survey (BTS) data for June pointed to a continuing weak outlook in the manufacturing industry, it also indicated that the adverse effects stemming from the war have begun to subside. On the other hand, sectoral divergences are noteworthy; indicators for capital goods are trending more positively—consistent with the recent performance of the industrial production index, which has been driven by the "other transport equipment"—whereas indicators for consumer durables are diverging negatively. Meanwhile, sectoral confidence indices show month-on-month improvements in the services, retail, and construction sectors in June, signaling that the negative impacts of the war are beginning to diminish across the sectors.

Confidence Indices

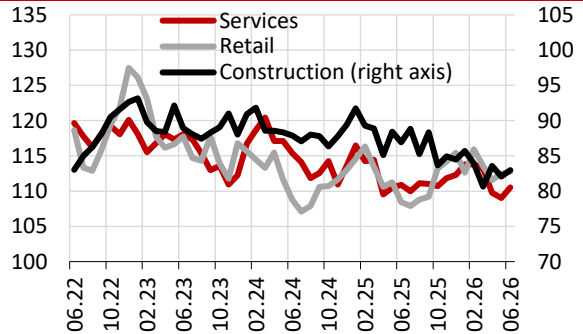
Real Sector Confidence Index (RSCI): Having declined following geopolitical developments, the RSCI continued to recover as uncertainties began to ease after the ceasefire. While the seasonally adjusted (s.a.) index rose by a total of 3.4 points over the last two months to reach 102.0, it remained 1.5 points below its long-term average (Chart 1). A notable recovery in production expectations for the coming three months drove the monthly improvement in the index. On a quarterly basis, however, the RSCI has been on a downward trend since the beginning of the year.

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 June, all sectoral confidence indices recorded month-on-month increases—albeit more modest in the retail sector (Chart 2). However, when evaluating the war period as a whole, the outlook across all sectors remains more negative compared to the pre-war period. At the same time, confidence levels across all sectors continued to remain significantly below their long-term averages. Finally, the monthly rise in demand indicators across all sectors was stronger than the rise in the confidence indices.

Capacity Utilization Rate (CUR)

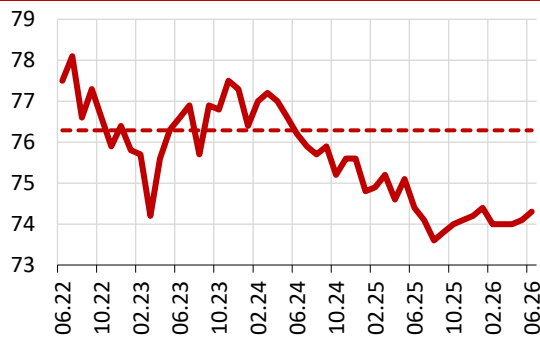
CUR (s.a.) rose by 0.2 points month-on-month to 74.3% in June but maintained its weak trend (Chart 3). **By firm-scale,** CUR (s.a.) increased by 0.5 points for large-scale firms (76.9%), while it declined by 0.3 points (68.4%) and 0.4 points (69.7%) for small- and medium-scale firms, respectively. Compared to long-term averages, the rate is 2.5 and 5.2 points lower for small- and medium-scale firms, and 1.9 points lower for large-scale firms (Chart 4).

By main industrial groups, CUR (s.a.) declined in all main groups except for capital goods (Charts 5 and 6). For capital goods, the CUR (s.a.) rose by 2.9 points in June, following a 0.6-point drop in May. The

most significant decline, at 2.7 points, was observed in durable consumer goods. The CUR (s.a.) fell by 0.5 points for intermediate goods and by 0.1 points for non-durable consumer goods.

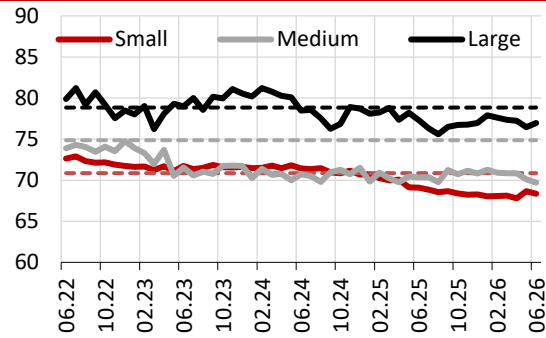
By sectors; the most significant increase in the CUR (s.a.) was observed in **vehicle**, rising by 8.4 points; the magnitude of which suggests the movement could be temporary. The decline in basic **pharmaceutical** products continued for a third month; the total drop reached 5.6 points over this period, pushing the CUR to its lowest level since July 2025. The rate fell by 2.2 points in **electrical equipment**, and by 2.0 points each in other **transport equipment** and **tobacco** products. In the **food** sector, the CUR declined by 0.7 points in June following seven consecutive months of increases. A flat trend was observed in the **textile** sector, while the **clothing** sector recorded a 0.4-point decline in June after a 1.9-point rise in May. A mixed outlook prevailed in construction-related sectors. While a limited increase was seen in **basic metals**, the **rubber and plastics** sector continued to show a weak performance, hitting 71.4%—its lowest level since August 2020. Limited increases occurred in **fabricated metal** products and **non-metallic mineral** products. The CUR remained flat in the **furniture** sector, whereas declines were observed in the **chemical** and **paper** sectors.

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



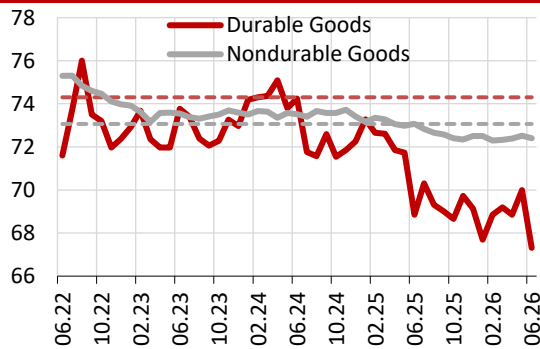
* Dashed line shows 2007-2019 average.
Source: CBRT

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

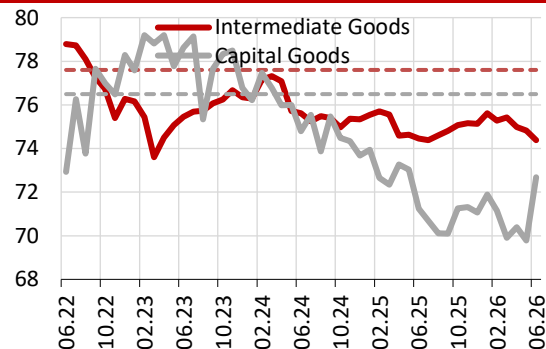


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



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



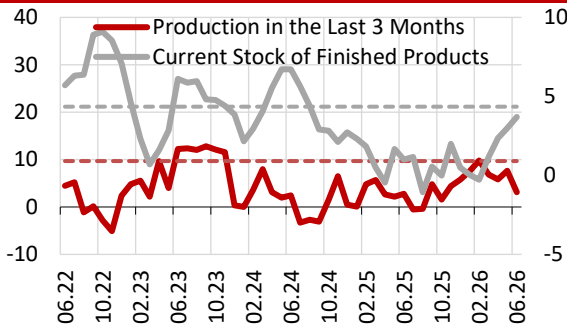
Business Tendency Survey

Regarding the **production volume** over the last three months, a sharp decline was observed in June (Chart 6), whereas **stocks of finished goods** have been rising for the past four months. Looking at demand indicators, **registered export orders** have increased over the last three months, coming in slightly above their long-term average, while **domestic orders** remained flat. When the trend in demand and the rise in inventories are considered together, the decline in production volume presents an inconsistent picture.

By product groups, a marked decline in production volume was observed in the durable consumer goods sector. Production volume also decreased in sectors other than capital goods. In terms of firm size, the decline was widespread.

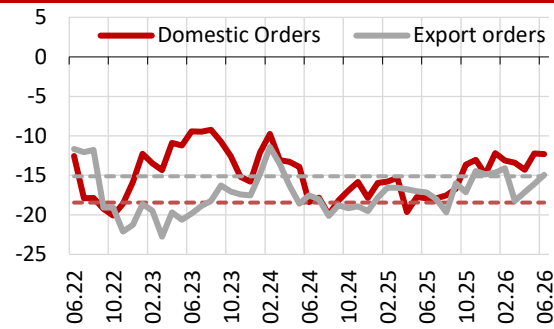
Registered export orders declined across product groups other than capital goods. The drop was more pronounced in consumer durables. Conversely, domestic orders increased in product groups excluding capital goods. Regarding firm size, both export and domestic market orders decreased among small firms. As recently observed in the IP data, the volatile trend in the "other transport equipment" sector may also be the reason for the volatility in these indicators.

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



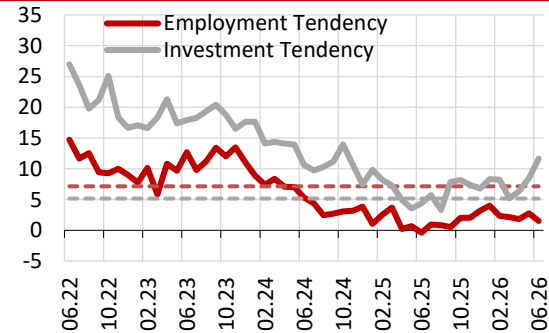
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



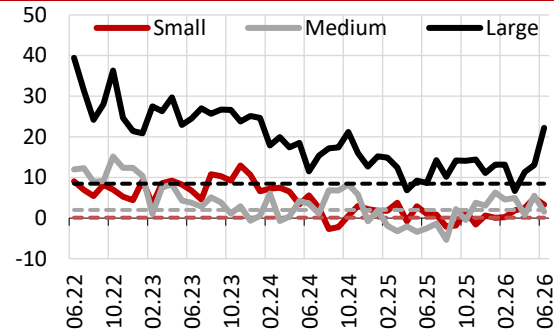
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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

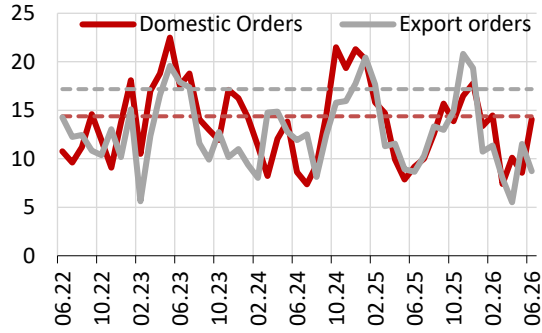
The deterioration in **employment tendency** persisted; with the exception of January and May, the overall trend since the beginning of the year has been downward (Chart 8). In contrast, **investment tendency** rose in the second quarter despite the environment of heightened uncertainty. However, there are sectoral divergences. Across product groups, declines were observed in both employment and investment tendency, with the exception of capital goods. The most pronounced decline in investment trends was seen in durable consumer goods. By firm size, the employment trend remained flat for medium-sized firms but declined for others. An increase in investment trends was observed only among large-scale firms (Chart 9).

Following the increase in May, manufacturing firms' expectations for **export orders** declined in June, while expectations for **domestic orders** rose (Chart 10).

Cost-related questions showed some easing, driven by the decline in energy commodity prices (Chart 11). The manufacturing sector's expectation for the next 12 months of annual PPI inflation edged down

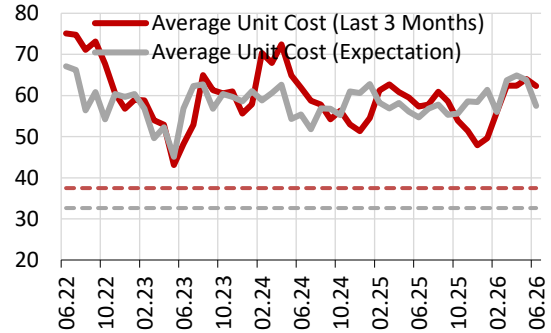
to 31.5%. Firms' expectations regarding the cost of Turkish Lira loans also point to a slight easing of tighter financial conditions.

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

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