Macro: Domestic demand weakened, while external demand improved for manufacturing in July

The Business Tendency Survey (BTS) indicates that the domestic demand outlook weakened in the manufacturing and retail sectors in July, while improved in the services and construction sectors. Meanwhile, registered export orders in the manufacturing industry increased. Although the capacity utilization rate fell by 0.5 points to 73.8%—its lowest level since September 2025—this monthly decline was largely driven by temporary factors stemming from the automotive sector. On a sectoral basis, capital goods and durable goods underperformed. A decline was noted in responses regarding costs—likely in able to reflect recent geopolitical tensions and resurging energy prices.

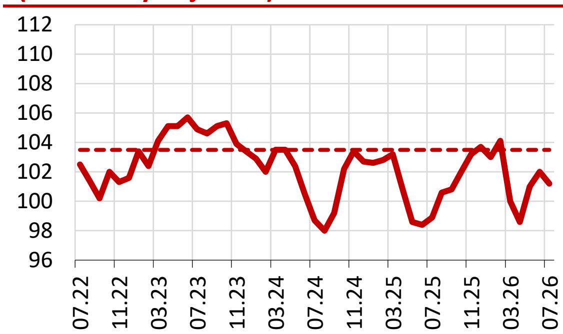
Regarding the quarterly survey questions, there was no increase in the share of firms citing insufficient demand as a factor constraining production. This raises questions about the extent to which aggregate demand conditions are acting as a constraint. On the other hand, there was a slight increase in the share of firms identifying financial constraints as a limiting factor. No significant changes were observed in assessments regarding competitiveness.

Confidence Indices

Real Sector Confidence Index (RSCI): Following a two-month recovery, seasonally-adjusted (s.a.) RSCI fell by 0.8 points to 101.2 in July, dropping 2.3 points below its long-term average (Chart 1). A marked deterioration in investment tendency drove this monthly decline. Conversely, an increase was observed in export orders for the coming three months.

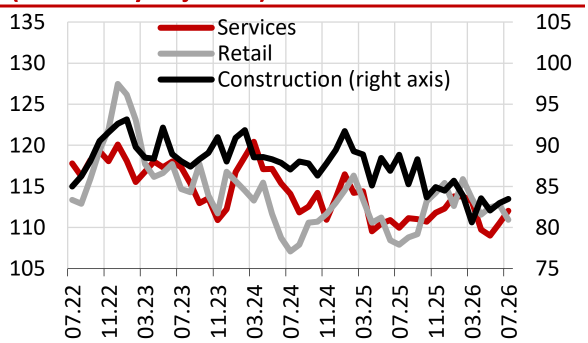
Sectoral Confidence Indices (SCI): Excluding retail sector, the upward trend in sectoral confidence indices continued (Chart 2). However, index levels across all sectors remained significantly below their long-term averages. Finally, while monthly increases in demand indicators within the services and construction sectors drove the rise in the headline indices, a sharp decline was observed in the demand outlook for the retail sector.

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



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

Chart 2. Sectoral Confidence Indices (seasonally adjusted)



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

Capacity Utilization Rate (CUR)

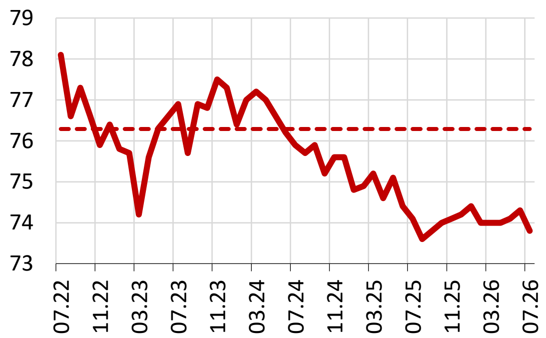
After rising by a total of 0.3 points in May and June, the CUR (s.a.) fell by 0.5 points in July to 73.8%, dropping to its lowest level since September 2025. Thus, the rate remained significantly below the 2007–2019 average (76.3%) (Chart 3).

By firm-scale: The decline in the CUR was driven by a decrease among large-scale firms. For large-scale firms, the CUR (s.a.) fell to 75.5%, marking its lowest level since July 2020. While the CUR saw a limited increase among medium-scale firms (69.8%), it rose by 0.4 points to 69.0% among small-scale firms, reaching its highest level over the past year. Compared to their long-term averages, the CUR remained 1.9 and 5.1 points lower for small- and medium-scale firms, respectively, and 3.3 points lower for large-scale firms (Chart 4).

By main industrial groups: CUR declined for the capital goods and durable consumer goods sectors (Charts 5 and 6). Following a three-month decline (totaling -1.1 points), the CUR for intermediate goods rose by 0.2 points on a monthly.

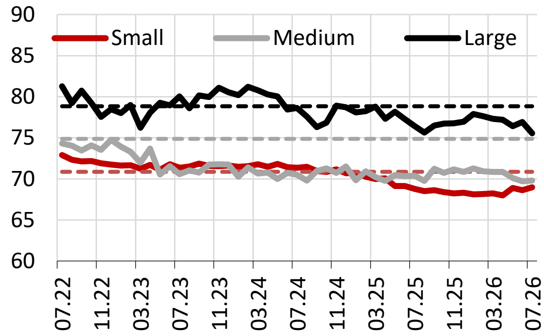
By sectors; the most significant decline in the CUR at 5.8 points occurred in the **vehicle** sector. Given the sector's weight, we believe that the vehicle sector accounts for the bulk of the drop in the overall CUR. Such declines in the CUR of the vehicle sector are often observed during summer months due to production pauses for scheduled maintenance. Therefore, the drop in the CUR both within this specific sector and in the manufacturing industry as a whole is likely temporary. Meanwhile, **other transport equipment** sectors and **leather** products each fell by 1.0 point. In the **food** sector, the CUR declined by 0.1 points in July, following a 0.7-point drop in June. The CUR remained flat in the **apparel** sector while showing a modest increase in the **textile** sector. A mixed picture prevails in construction-related sectors; declines were observed in **basic metals** and **fabricated metal** products, whereas increases occurred in **rubber-plastics** and **non-metallic mineral products**. Among durable goods sectors, the CUR rose for **furniture** but continued to decline for **electrical equipment**. Decreases were also recorded in the **chemical** and **paper** sectors.

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



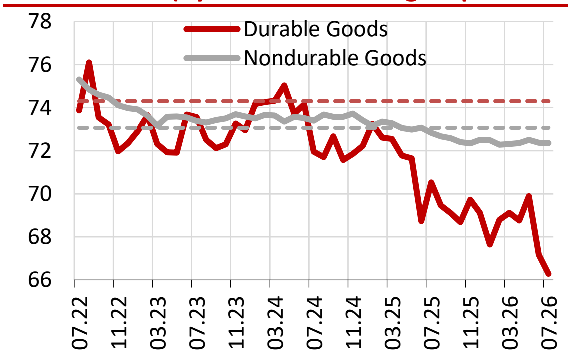
* Dashed line shows 2007-2019 average.
Source: CBRT

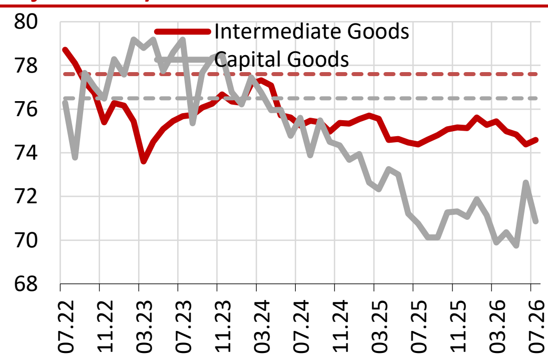
Chart 4. Capacity Utilization Rate (by firm-scale, seasonally adjusted, %)*



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

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





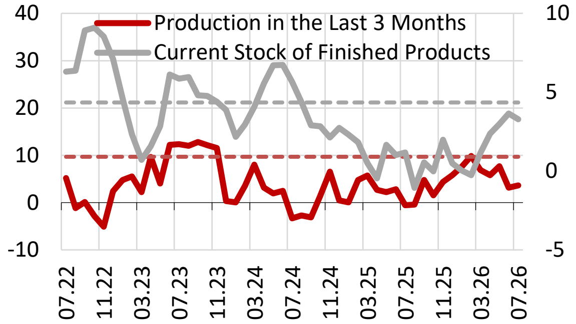
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Business Tendency Survey

Regarding **production volume** over the last three months, a limited increase was observed following the sharp decline in June (Chart 6). By firm size, a decline occurred among large-scale firms; by product group, a decline was recorded in all categories except capital goods. As **stocks of finished goods**, a limited decrease was observed following four months of increases.

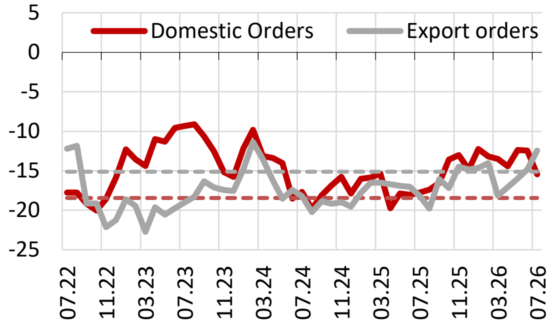
Regarding **demand indicators**, registered export orders have risen over the past four months, exceeding their long-term average. While a decline was observed only among medium-sized firms, the increase in orders across product groups was widespread. Conversely, recorded domestic market orders declined; by firm size, an increase was seen only among small firms, whereas large-scale firms experienced a sharp drop. Among product groups, the most pronounced decline was observed in durable consumer goods.

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



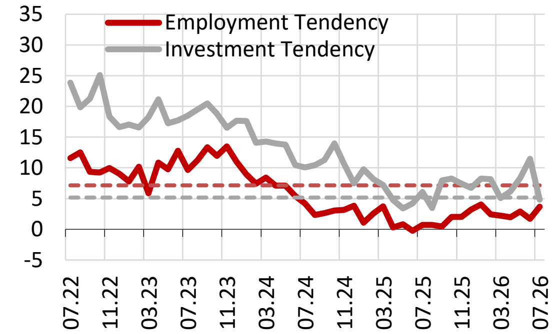
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



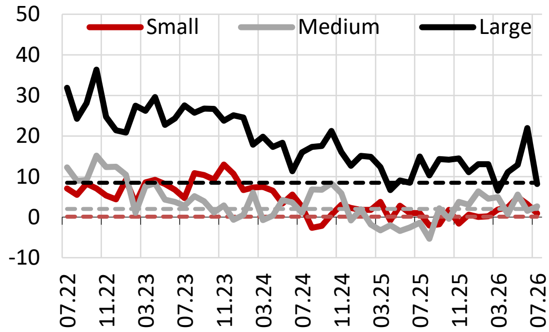
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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

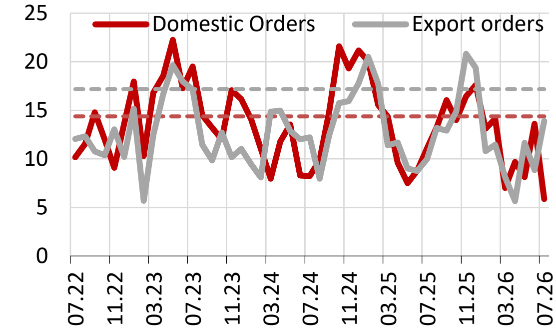
An improvement was observed in the **employment tendency** (Chart 8). **The investment tendency**, however, lost its recent gains. Regarding employment tendency by product group, increases were recorded across all categories except non-durable consumer goods and capital goods. The most pronounced declines in the investment tendency were observed in capital goods and durable consumer goods, and in terms of firm size among large-scale firms (Chart 9).

Expectations for **export orders** among manufacturing firms rose in July following a decline in June. A sharp drop, however, was observed in expectations for **domestic orders** (Chart 10).

The downward trend in **cost-related indicators** continued (Chart 11). The manufacturing sector's expectation for the next 12 months of annual PPI inflation stood at 31.3%, reflecting a limited decline.

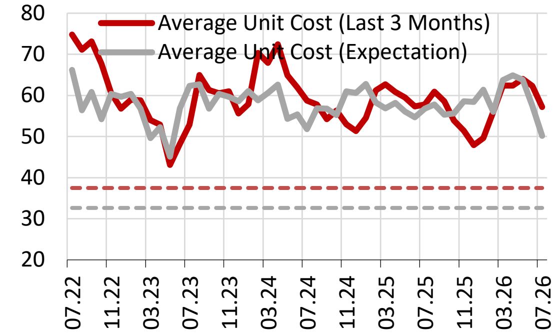
Meanwhile, firms' expectations regarding the cost of Turkish Lira loans points to an anticipated decrease.

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

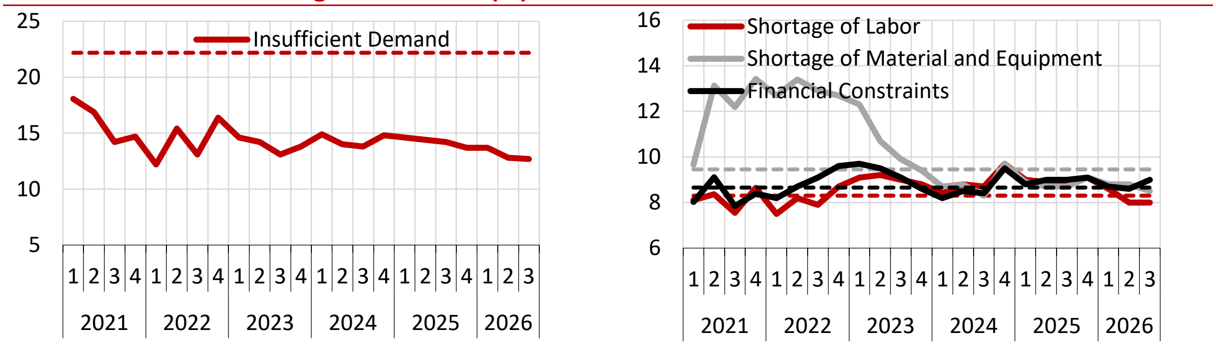
Chart 12. Average Unit Labor Cost (seas. adj.. increase-decrease. %)*



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

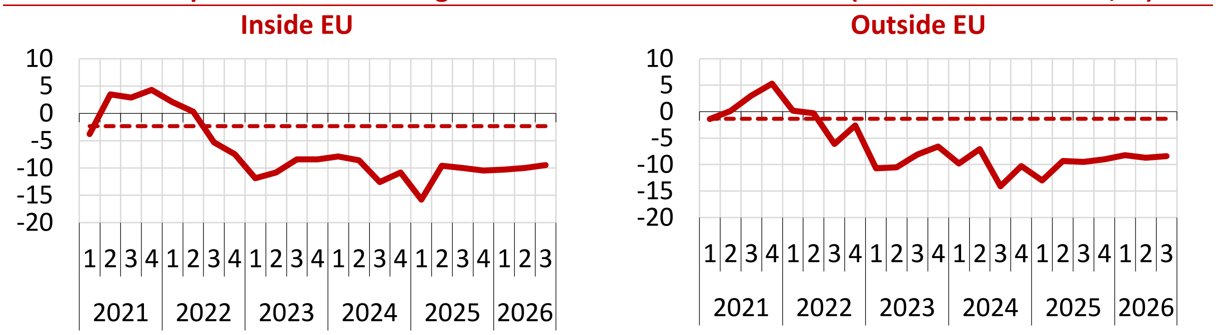
Finally, the quarterly questions were shared in the July survey. The proportion of respondents citing insufficient demand as a factor limiting production showed a slight decline (Chart 13). By product group, **insufficient demand** decreased across all categories except for capital goods; the most pronounced drop was observed in durable consumer goods. Meanwhile, the issue of **material and equipment shortages** remained below historical averages. Responses regarding labor shortages remained flat. A slight increase was observed in reports of **financial constraints**, reflecting the tight financial conditions. Finally, the outlook regarding changes in competitiveness remained largely unchanged (Chart 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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