

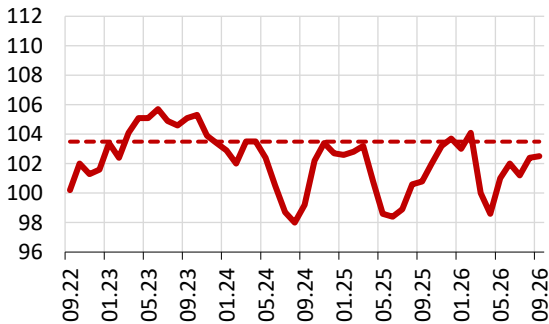
Macro: The rebalancing of demand composition in the manufacturing industry continued in the third quarter

According to the Business Tendency Survey (BTS), while the domestic market outlook in the manufacturing industry showed a slight recovery in September, it weakened on a quarterly basis; meanwhile, the rise in registered export orders signaled that the rebalancing trend in demand components continued into the third quarter. The capacity utilization rate, which had followed a more volatile path in recent months due to transitory factors in the automotive sector, rose by 0.6 points on a monthly basis to 74.1%. Excluding the automotive sector, however, the flat trend over the previous three quarters maintained in the third quarter, with the underlying trend remaining weak. Despite rebounded international prices, a decline was recorded in cost-related indicators on a quarterly basis. Nevertheless, the improvement in PPI inflation expectations has stalled. Expectations regarding loan interest rates also improved following the CBRT's move to lower funding costs. A recovery in perceptions regarding the general outlook is also evident in September; however, responses to expectation-related questions indicate that risk perceptions remain elevated.

Confidence Indices

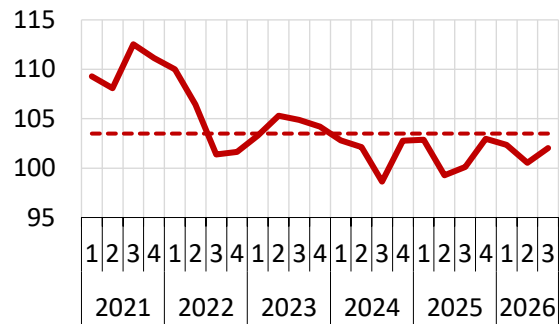
Real Sector Confidence Index (RSCI): The seasonally adjusted (s.a.) RSCI reached its highest level since February. Consequently, the index—which had declined in the second quarter—recovered in the third quarter; however, on a monthly basis, it remains 1.0 point below its long-term average (Charts 1 and 2).

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



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

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



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

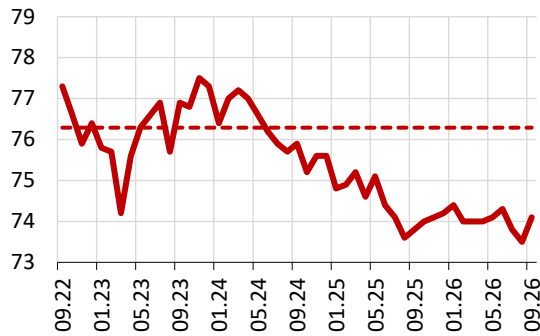
Capacity Utilization Rate (CUR)

While CUR (s.a.) rose by 0.6 points month-on-month to 74.1%, it remained 2.2 points below its 2007–2019 average, signaling a continued weak trend in the manufacturing industry (Chart 3). By firm size, CUR (s.a.) for large-scale firms reached 76.7%, the highest level since June. While the CUR (s.a.) saw a limited increase among small-scale firms, it fell by 0.9 points to 68.9% for medium-scale firms, marking the lowest level since January 2021. Compared to long-term averages, the CUR (s.a.) is 2.2 and 6.0 points lower for small- and medium-scale firms, respectively, and 2.1 points lower for large-scale firms (Chart 4). On a quarterly basis, following three quarters of a flat trend, the CUR (s.a.) declined by 0.3 points to 73.8% in the third quarter.

By main industrial groups, CUR (s.a.) declined for durable consumer goods and intermediate goods (Charts 5 and 6), whereas the CUR (s.a.) for capital goods has been trending upward for the past two

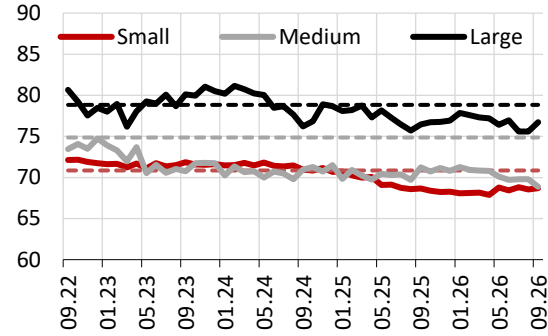
months. **On a sectoral basis**, the most significant increase in the CUR (s.a.) took place in **motor vehicles**, rising by 10.1 points month-on-month. This sector had previously recorded a cumulative decline of 8.5 points over the preceding two months. As noted in our earlier reports, such volatilities occur in the automotive sector due to production pauses for scheduled maintenance during the summer months. Consequently, excluding the motor vehicles sector, main trend in the CUR (s.a.) remained flat throughout the third quarter. Regarding other sectors, the CUR (s.a.) declined in "**other transport equipment**." In the **food** sector, the CUR (s.a.) remained stable in September following a three-month downward trend. The CUR (s.a.) in the **apparel** sector has been rising for the last two months, reaching 77.1% in September, its highest level since August 2024, while it declined in the **textile** sector. A mixed picture prevails in construction-related sectors: declines were observed in **basic metals** and **rubber-plastic** products, whereas increases occurred in **fabricated metals** and **mineral products**. Among durable goods sectors, the CUR (s.a.) for **furniture** has been decreasing for the past two months. The CUR (s.a.) continued to rise in the **electrical equipment** sector. While increases were observed in the **chemical** and **paper** sectors following three months of decline, these gains were insufficient to offset the losses from previous months.

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



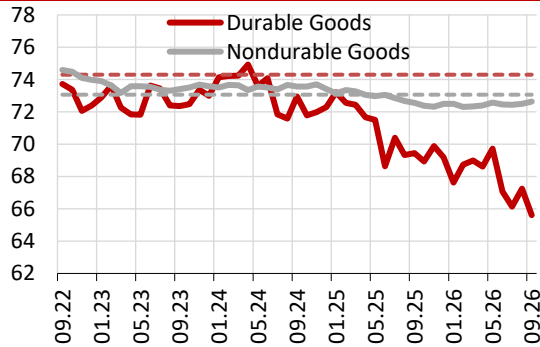
* Dashed line shows 2007-2019 average.
Source: CBRT

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

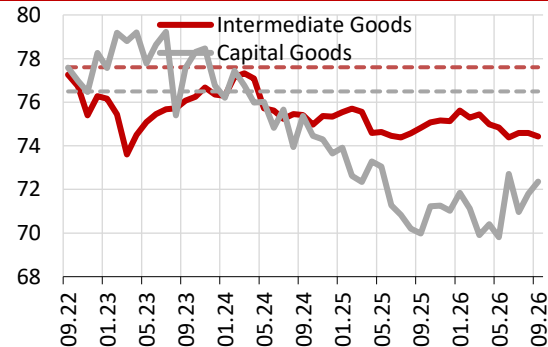


* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



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

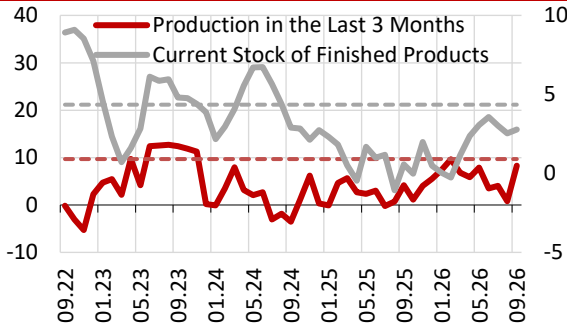


Business Tendency Survey

Regarding the **production volume** over the last three months, a marked increase was observed following the decline in August (Chart 6). By firm size, large-scale firms showed a significant increase, whereas medium-sized firms experienced a decline. Across product groups, increases were recorded in all categories except for durable consumer goods; durable consumer goods saw a decline for the second consecutive month. Meanwhile, an increase was observed in **stocks of finished goods** following a two-month decline.

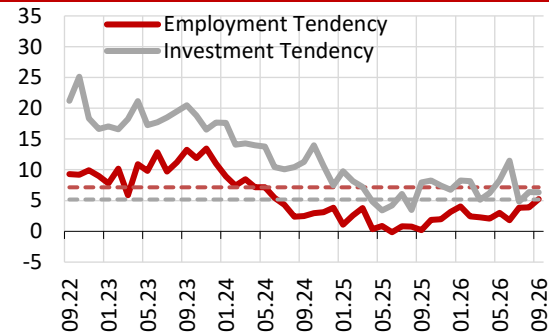
An analysis of demand indicators reveals an overall upward trend in **registered export orders** (with the exception of March and August), with levels exceeding the long-term average. This increase was broad-based across firm sizes, though declines were observed in capital goods and durable consumer goods. **Registered domestic orders** have shown an increase over the past two months; however, when broken down by firm size, this growth was limited to large firms. By product group, the most significant rise was seen in durable consumer goods, whereas declines occurred in capital goods and non-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)*



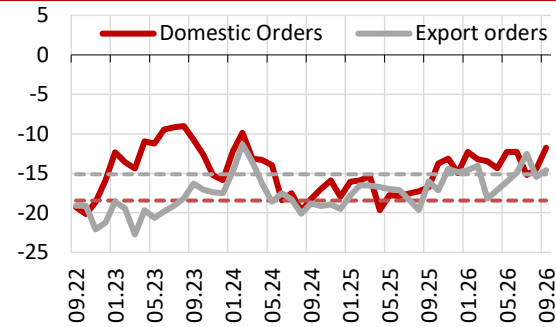
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

Chart 8. Employment and Investment Tendency (seas. adj., increase-decrease, %)



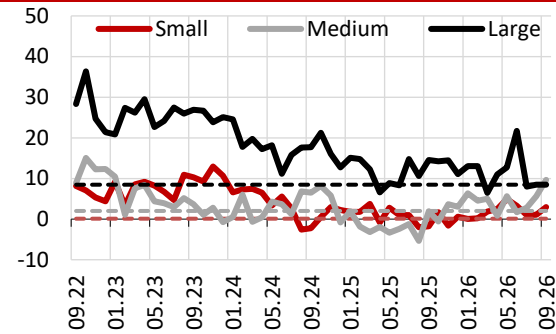
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



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

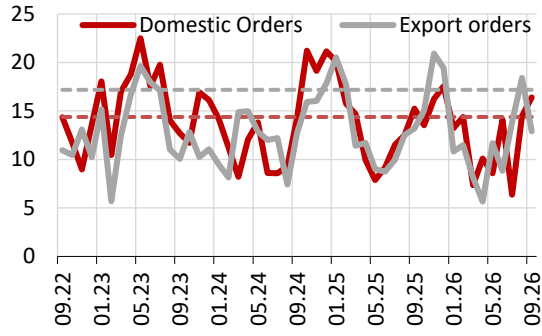
Chart 9. Investment Tendency (by firm-scale, seas. adj., increase-decrease, %)



Source: CBRT, Akbank

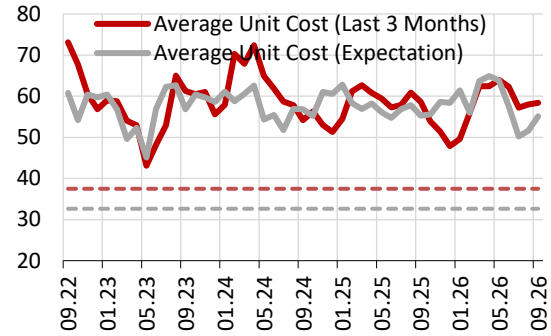
While the upward trend in **employment tendency** continued (Chart 8), the **investment tendency** remained flat. By product group, both employment and investment tendency declined in intermediate goods and durable consumer goods. While a decline in employment tendency was observed among small-scale firms, the increase in investment tendency spread across all scales (Chart 9). Following two months of increases, a decline was observed in September regarding the expectations for **export orders** of manufacturing firms. **Domestic order expectations** have been rising for the past two months (Chart 10). We assess that the deterioration in external order expectations stems from geopolitical developments. **Regarding cost-related indicators**, the deterioration driven by rising commodity prices persisted (Chart 11). Cost-push pressures remain. The manufacturing industry's annual PPI inflation expectation for the next 12 months edged down from 31.2% to 31.0%. Following the CBRT's resumption of one-week repo auctions, the weighted average funding cost declined to 37%, and a decrease is also observed in loan and deposit interest rates. Consequently, a loosening is also evident in firms' expectations regarding the cost of TL-denominated loans.

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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