

Macro: The weakening outlook for non-agricultural activity persists

Sectoral confidence indices and the Business Tendency Survey (BTS), indicate that the weakening trend—which began in the second quarter across both manufacturing and non-manufacturing sectors—has persisted as we enter Q4. While the effects of a slowdown in domestic demand have become somewhat more pronounced in the services sector recently, divergences have emerged within the manufacturing sector. Consistent with industrial production, the weakest outlook in registered orders is observed in consumer goods—particularly in durable consumer goods.

Although the capacity utilization rate (CUR) has reached 74.3%—matching the highest reading in June—it also points to a shift in sectoral composition. While the outlook for construction-related sectors has weakened somewhat, capital goods are showing a relatively better performance. Consequently, the trends in the CUR suggest that the recent sectoral outlook in the industrial production has largely carried over into the final quarter.

Confidence Indices

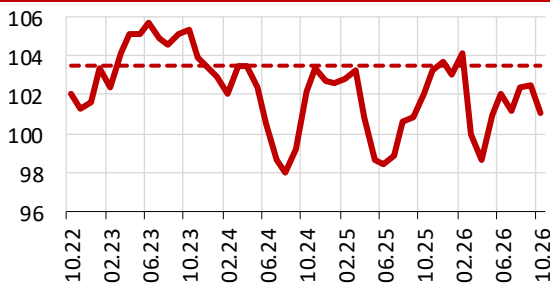
Real Sector Confidence Index (RSCI):

The seasonally adjusted (s.a.) RSCI fell by 1.4 points month-on-month to 101.1, marking its lowest level in the last five months. Although the index remains above the threshold value, it sits 2.4 points below its long-term average, signaling that the relatively weak trend in the manufacturing sector has persisted into the final quarter (Charts 1 and 2).

Sectoral Confidence Indices (SCI):

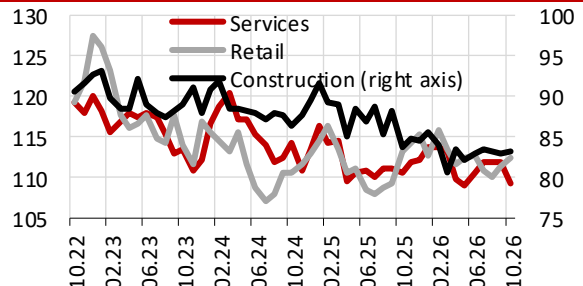
SCI, with the exception of the services sector, increased on a monthly basis (Chart 2). However, since the second quarter—when the loss of momentum in economic activity became more pronounced—there has been no change in the broad-based, weak outlook across sectors. The decline in the services confidence index (2.7 points) is particularly noteworthy. The fact that this drop stems primarily from a sharp decline in the demand outlook—reaching its lowest level since May 2021—may be a signal that the disinflationary pressures on the services sector, driven by demand conditions, are likely to persist.

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)

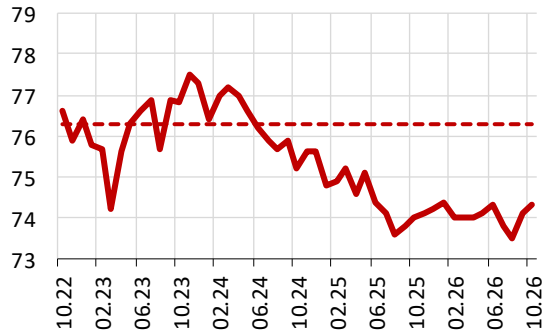
CUR (s.a.) increased by 0.2 percentage points in October, returning to its June level of 74.3%. Although this marks the highest level for the year, the CUR much like the RSCI remains below its long-term average (76.3%), signaling that the weak trend in manufacturing production persists (Chart 3). While the increase was broad-based across firm sizes, the most notable rise was observed among medium-sized enterprises (Chart 4). For large-scale firms, CUR (s.a.) reached 77.0%—returning to its June level,

similar to the headline CUR—following the recovery from the temporary decline in the automotive sector. CUR (s.a.) currently stands 1.8, 2.0 and 5.0 percentage points below the long-term averages for large, small and medium-sized enterprises, respectively (Chart 4).

The **monthly increase was broad-based across industrial groups**. The most notable rise occurred in durable consumer goods (Charts 5 and 6). For capital goods, CUR has shown an upward trend over the last three months, partly driven by a recovery in the automotive sector. As for intermediate goods, the trend has been relatively flat, though there is heterogeneity across sub-sectors.

Although the CUR (s.a.) has returned to its June level, there are changes in its sectoral composition. Sectors linked to construction activity such as **fabricated metal products** and **basic metals** exhibit a weaker outlook compared to June. Similarly, there is no recovery in the production of **mineral products**, another key sector tied to construction. This picture is consistent with the recent weakening observed in other construction-related indicators. Furthermore, the **chemical products** sector has seen a decline of nearly 2.5 percentage points, with the rate falling to 72.5% over the last three months, down from 75.0% for the first seven months of the year. In labor-intensive sectors like **apparel** and **textiles**, which have remained weak for a long time, there has been no significant change, despite a slight uptick. The **food** sector has also remained flat during this period. Sectors showing relative improvement include **motor vehicles**, **the printing and reproduction of recorded media**, and **wood and cork products**. Meanwhile, there is no sign of weakening in capital goods sectors, excluding motor vehicles. In the durable consumer goods sector, a general weakness persists, notwithstanding a monthly increase. Consequently, the outlook for the capacity utilization rate suggests that the sectoral trends recently observed in the industrial production have largely carried over into the final quarter.

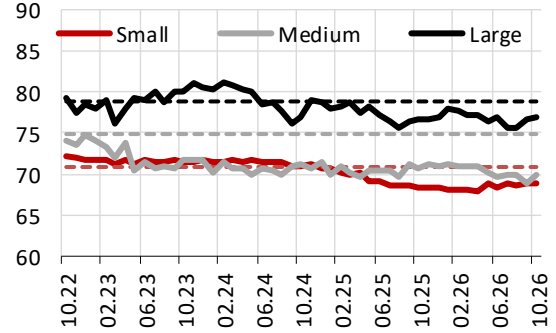
Chart 3. Capacity Utilization Rate (seasonally adjusted, %)*



* Dashed line shows 2007-2019 average.

Source: CBRT

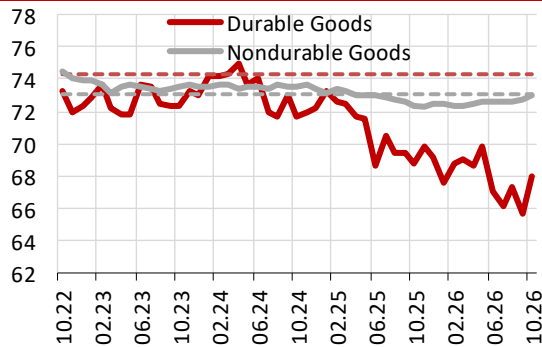
Chart 4. Capacity Utilization Rate (by firm-scale, seasonally adjusted, %)*



* Dashed lines show 2007-2019 average of each series.

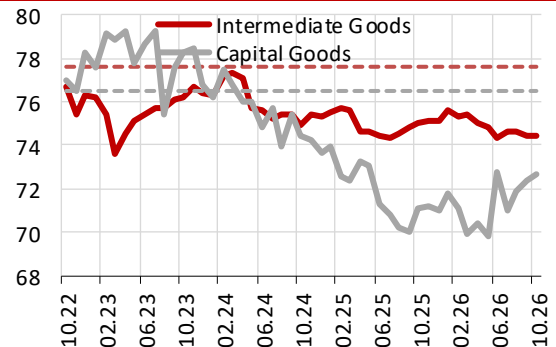
Source: CBRT, Akbank

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



* Dashed lines show 2007-2019 average of each series.

Source: CBRT, Akbank



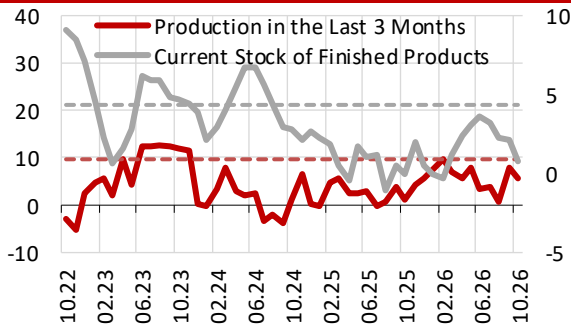
Business Tendency Survey

Regarding the **production volume** over the last three months, a slight decline was observed in October following a notable increase in September; the level remains below the long-term average (Chart 6). By firm size, medium-sized firms saw an increase in October, reversing a two-month downward trend, while the overall decline was driven by large and small-scale firms.

By product groups, capital goods have recorded increases over the last two periods. While a strong rise was noted for durable consumer goods, intermediate goods and non-durable consumer goods saw a decline. Meanwhile, **stocks of finished goods** have decreased for the fourth consecutive month.

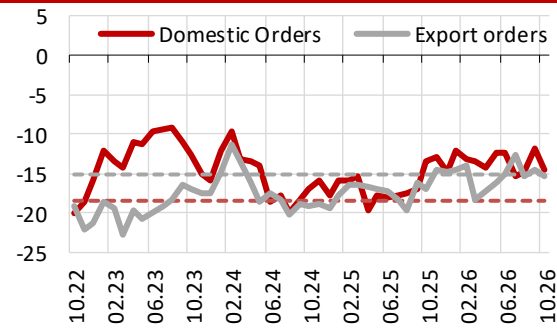
Looking at demand indicators, there has been a month-on-month decline in **registered orders**, with domestic orders showing a slightly more pronounced weakness. However, the sectoral outlook is not uniform. Registered **export orders** increased among medium-sized enterprises and across most product categories—with the notable exception of durable consumer goods, which saw a sharp decline. As for **registered domestic orders**, there was a decrease across all product categories except for capital goods; the most significant drop occurred in durable consumer goods. In summary, the demand outlook for durable goods is relatively more negative.

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



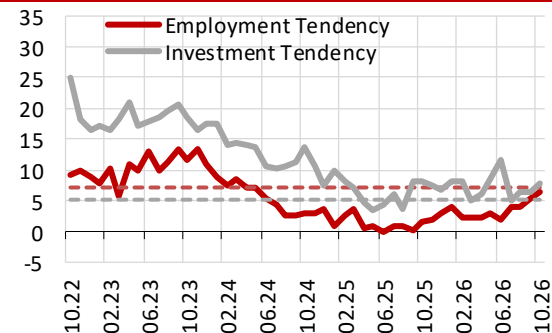
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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



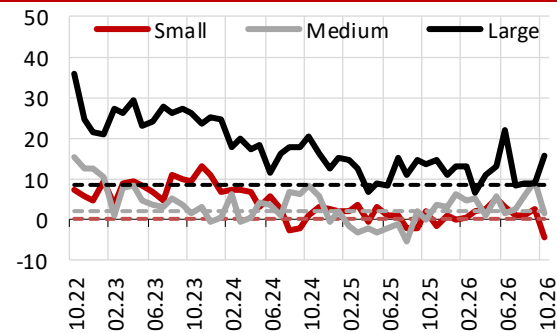
* Dashed lines show 2007-2019 average of each series.
Source: CBRT, Akbank

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, %)

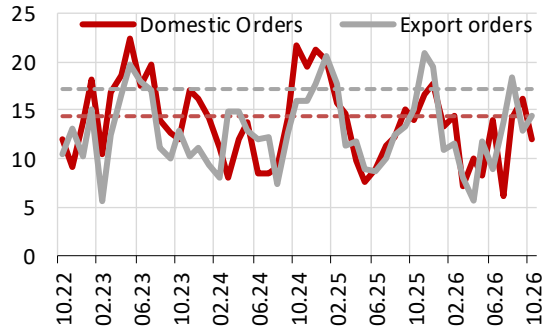


Source: CBRT, Akbank

Upward trend in both **employment tendency** and **investment tendency** continued (Chart 8). A decline in the employment tendency was observed among medium-sized firms, while the investment tendency showed a decrease across all size categories except for large-scale firms. By product group, the employment tendency increased in all categories except for intermediate goods. The investment tendency declined only for non-durable consumer goods, whereas a notable increase was recorded for durable consumer goods (Chart 9).

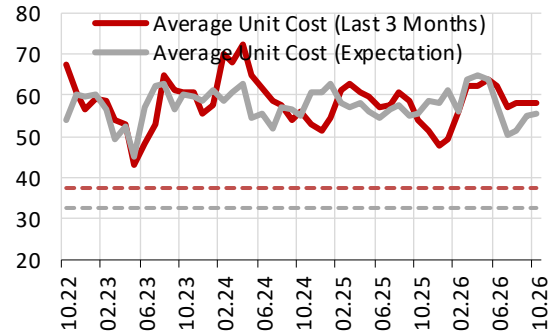
Expectations for **export orders** among manufacturing firms increased in October. Expectations for **domestic orders** declined, following two consecutive months of growth (Chart 10). **Cost-related indicators**, expectations for average unit costs over the next three months—driven by rising commodity prices—continued to climb, signaling persistent cost-side pressures (Chart 11). The manufacturing sector's annual Producer Price Index (PPI) inflation expectation for the next 12 months fell from 31.0% to 30.4%, reaching its lowest level since February.

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

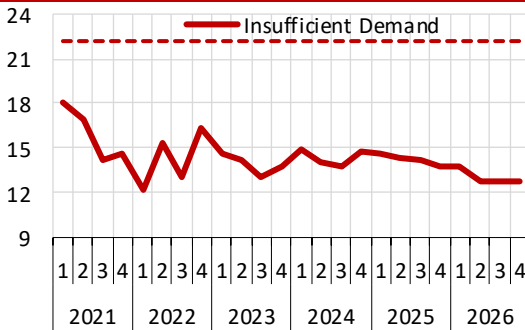
Chart 12. Average Unit Labor Cost (seas. adj., increase-decrease, %)*



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

Finally, among the quarterly questions, the proportion of respondents citing insufficient demand as a factor limiting production saw a marginal increase (Chart 13). By product group, insufficient demand declined for intermediate goods, remained stable for capital goods, and rose for both durable and non-durable consumer goods. Meanwhile, there was an uptick in responses pointing to **material and equipment** and **labor shortages**. **Financial constraints**—linked to the prevailing tight financial conditions—were also cited more frequently. Regarding changes in **competitiveness**, firms reported a slight decline in their competitive position within the EU region (Chart 14).

Chart 13. Factors Limiting Production* (%)



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

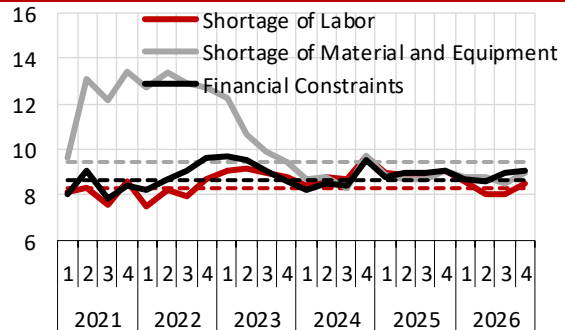
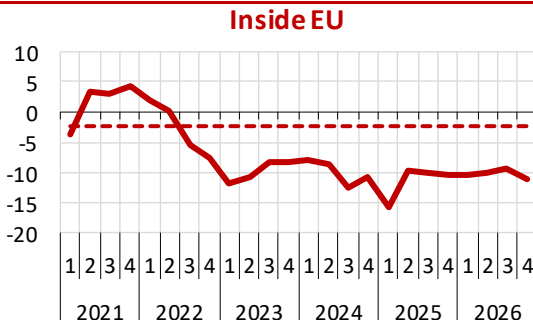
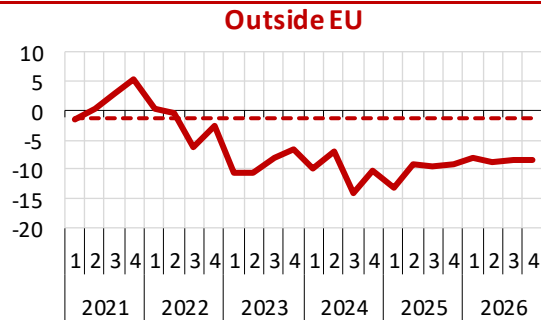


Chart 14. Competitiveness in Foreign Markets in the Last 3 Months* (Increased-decreased, %)



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



This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağlar Yüncüler, PhD – Vice President

Caglar.Yunculer@akbank.com

M. Sibel Yapıcı

Sibel.Yapici@akbank.com

Sercan Pişkin

Sercan.Piskin@akbank.com

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