Box 2.2

Findings from Interviews with Firms

The CBRT holds face-to-face meetings with firms as part of the "Economic Lens to the Real Sector" (ELRS).[1] This box summarizes the findings from the interviews conducted in the October-December 2023 period.

It was observed that economic activity conditions were more positive in the last quarter of the year than anticipated in the third quarter.

While domestic demand conditions supported sales mainly through the final consumer channel, no significant change was observed in foreign demand conditions in the last quarter, although the emphasis on downside risks continued. As a result of these developments, participants reported that the loss of momentum in aggregate demand conditions observed in the previous quarter decelerated in this period, and the limited slowdown in production continued. While the weak course of investment continued, it has been noted that firms have focused more on cost-cutting and efficiency-enhancing investments. On the other hand, it has been observed that price increases have slowed down with references to labor and input costs and exchange rate-related costs.

The loss of momentum in domestic sales, which started in the third quarter, slowed down in the last quarter of the year.

Consumer-oriented campaigns and the fact that consumers continue to bring forward their demand to hedge against expected price increases in the new year, stand out as factors supporting domestic sales. On the other hand, the high course of the general price level and the tightening in financing conditions, especially in durable goods, were noted as the main factors suppressing sales. It continued to be reported that consumers' sensitivity to campaigns was high and the tendency towards affordable products was widespread. On a sectoral basis, basic products such as food, consumer electronics and automotive sales stand out as product groups with a relatively positive trend, while ready-made clothing followed a more buoyant trend compared to previous periods owing to the impact of campaigns.

It has been observed that consumers' expectation of wage increases in the new year supported sales in **food and fast-moving** consumer goods. While it was stated that the fourth quarter was buoyant as a result of discount campaigns in the **apparel industry,** it was noted that the sales of firms that entered the season with attractive pricing policies were more positively differentiated. It has been reported that **white goods** sales increased as of November due to discount campaigns but slowed down slightly on a quarterly basis. Consumer electronics and small household appliances were reported to be more buoyant. While **furniture** sales followed a parallel course to the previous quarter, it was emphasized that factors such as weakness in new home sales, price levels and the low number of installments suppressed demand. On the other hand, it has been stated that the leading firms in the sector achieved their seasonal sales targets by refraining from price increases and organizing campaigns, and that firms that have brand power and strong resources differentiated positively. **In the automotive industry**, it has been observed that the increased automobile supply and competition as well as the response to campaigns including price discounts and the demand brought forward supported sales. It has been stated that demand for residence purposes is low in the **housing** sector due to high prices and credit conditions, and the expectation of campaigns that will revitalize the sector also creates additional pressure on sales. While the demand for investment housing purchases continues to slow down, it has been observed that the expected boost in sales to foreigners did not materialize.

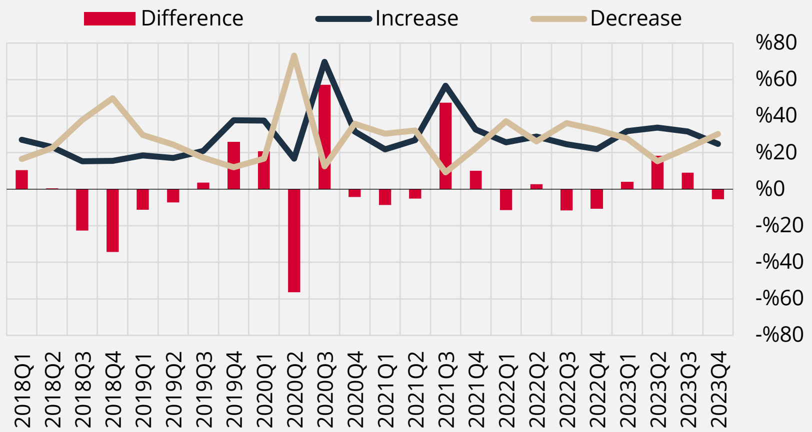
[1]The main purpose of this study is to obtain information on periodic production, domestic and international sales, investments, employment, credit conditions, and cost and price developments in a timely manner to closely monitor economic activity and to improve the communication between the CBRT and real sector representatives through meetings with firms in different sectors. The findings obtained from the semi-structured interviews constitute a high-quality and timely source of information for monetary policy decisions. Interviews are held with firms in the manufacturing industry, trade and services sectors within the framework of the sample created by considering their weight in the total economic activity at sectoral, regional and scale levels. The charts are produced by scoring the anecdotal information obtained from the firm interviews. This study includes evaluations and inferences based on interviews with firms and does not reflect the views of the CBRT. The information and findings obtained may differ from the official statistics, information and findings that will be published later.

It was observed that foreign demand conditions maintained their course in the third quarter.

Weak demand conditions in European countries, the decrease in freight costs especially until December, tighter competitive conditions with China's return to foreign markets and geopolitical risks were expressed as the main factors that put pressure on exports. While firms' export orientation and market/product diversification flexibility continue to be emphasized as factors that ease pressure, the beginning of the removal of energy subsidies in some countries has been noted as a development that will increase competitiveness.

On a sectoral basis, it has been observed that weak demand conditions continue in the **apparel** and **textile sector**, and the stagnation in EU demand continues to play a particular role in this weakness. It has been observed exports in **furniture** sector displayed a similar outlook as in the previous quarter, and the sales of firms with less dependence on the European market have followed a more positive course. It has also been stated that firms are trying to increase their exports through product and market diversification in order to compensate for losses in the domestic market. It has been observed that **white goods** main and sub-industry exports exhibit different trends on a product basis. It has been stated that the Chinese influence has become evident in foreign markets, especially in the stove, oven and hood product groups. It has been observed that exports in the **automotive** sector maintained their positive outlook. It has been reported that demand in Europe remained strong throughout the quarter, and that the original equipment manufacturer's side remained strong in the main industry exports and sub-industry, especially in the commercial vehicle market. Firms shared their anticipations that exports will gradually increase in 2024 with orders received from new customers and investments to be put into effect. It has been reported that while the demand for rebar in the **base metal** sector has contracted, the demand for pipe-profile products used in various sectors has maintained its strength despite the negative demand conditions in the EU.

Chart 1: Demand Perception of Firms* (Compared to the Previous Quarter)



Source: CBRT ELRS.
* Demand perception shows the evaluation regarding the current sales, orders and expectations of the firms. The difference series shows the difference between firms with a positive perception of demand and those with a negative perception of demand compared to the previous quarter and provides information on the prevalence of the change in demand perception but not the size of the change.

The slowdown in production activity that started in the third quarter continued in the last quarter.

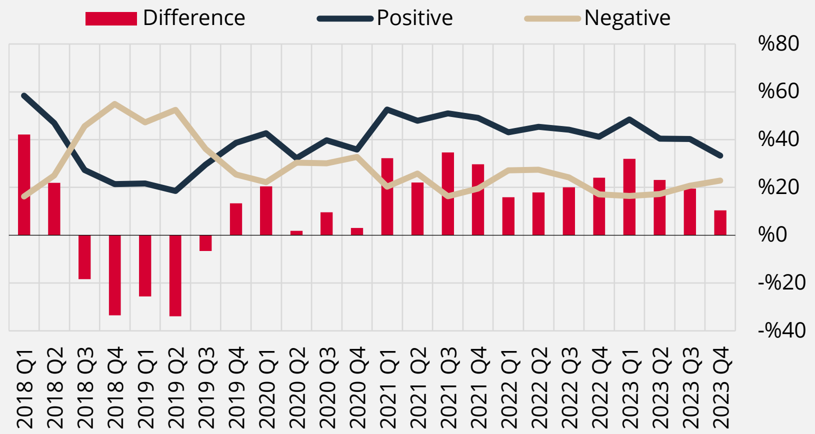
For firms operating mainly in the domestic market, although the campaigns supported demand in November and December, production was affected by the tightening in financing conditions and expectations that the slowing in consumption may increase as of the second quarter of 2024. Although it has a positive trend compared to the domestic market, production activity in exporting firms started to slow down as of the last quarter.

Looking at sectoral developments, production in the **automotive** industry remained strong amid strong domestic and foreign demand. Despite the anticipated slowdown in the domestic market in 2024, expectations for foreign demand are positive. It is envisaged that the current strong trend will continue as the main industry plans are largely determined in this direction. In addition to the positive evaluations of foreign demand for **white goods** for 2024, production has maintained its strong course owing to campaigns organized by the main industry in the domestic market. **In furniture**, foreign demand remained similar to the previous quarter, while on the domestic side, although the effect of the campaign was more limited than in white goods, production followed a horizontal course on a quarterly basis. **In machinery and equipment**, the weakness in the investment stance in the domestic market negatively affected demand, while in exports, production activity remained similar to the previous quarter as a result of firms' ability to find alternative markets. **The chemicals industry** maintained its production in automotive and cleaning products in the domestic market as well as in foreign demand. On the other hand, weakness in textile and construction-related areas suppressed production. **In basic metals**, amid stagnation in the construction sector in the domestic market, the expected recovery in foreign demand has not yet started, and Chinese competition continued to negatively affect production. **In construction**, demand remains weak except for the earthquake zones and earthquake-resistant provinces. While contractors try to complete ongoing projects in order to avoid additional costs, the appetite for starting new projects is low. **Textile and apparel** production slowed down compared to the previous quarter as a result of the negative reflections of the tightening in financial conditions in the domestic market on inter-firm trade and the increasing emphasis on the weakening of competitiveness in foreign demand. On the apparel side, demand supported by campaigns supported production to some extent.

The prudent investment stance of firms continued in the last quarter of the year.

The increase in investment financing costs and uncertainties regarding domestic and foreign demand have been highlighted as the main reasons for the weakness in the investment stance. Despite the weak course of the investment stance, it was observed that there was no significant increase in the rate of postponed investments in this quarter and those investments that had been started largely continued. The investment stance of export-oriented firms continued to be relatively positive. On the other hand, due to uncertainties regarding the course of demand in the main markets during this period, it was observed that the exporting firms also increased their prudence regarding their investment stances within the quarter.

Chart 2: Investment Stance of Firms* (Next 12 Months, %)



Source: CBRT ELRS.
* Investment stance shows the evaluation regarding the investment appetite of the firms for the next 12 months. The difference series shows the difference between the number of firms with a positive investment stance and firms with a negative investment stance and provides information on the prevalence of the change in investment stance but not the size of the change.

It is observed that firms focus on cost-reducing and efficiency-increasing investments in their investment plans. In this context, machinery-equipment, expansion and energy investments continued to be at the forefront. In this period, while the investment motivation of firms with strong resources differed positively, decreasing labor and energy costs, increasing efficiency by reducing unit costs by economies of scale and completing ongoing investments supported this motivation. **On a sectoral basis**, it is observed that the investment stance has differentiated positively in the **food manufacturing** and **automotive** sectors. There are new investments in the **food manufacturing** sector to increase production capacity and to introduce new products. It is seen that investment appetite is strong due to strong demand conditions in the **automotive** sector and the growth in the electric vehicle market. **Textile, apparel** and **construction** sectors stand out among the sectors where the investment stance is negative due to the weak demand outlook. High land prices in the **construction** sector and the weak course of housing demand are cited as factors that suppress investment appetite.

As of the fourth quarter, it was observed that the weakness in the investment stance of firms continued to be reflected in their employment plans.

Firms' efforts to increase automation and efficiency in the production process continued to be a factor limiting employment growth. In this period, in addition to uncertainties regarding domestic and foreign demand and wage increase expectations, the increasing share of social service costs granted to employees in the total cost also increased the limiting effect on employment plans. On the other hand, efforts to retain existing experienced employees owing to difficulties in finding employees and the start of operations in completed investments supported employment plans.

The emphasis on the increase in financing needs showed a limited decrease in the last quarter of the year.

The emphasis on financing needs, which mainly arise from demand for working capital, decreased in December from their high levels in October and November. It has been stated that declining and/or flat raw material prices were effective in this decrease. On the other hand, for firms with increasing working capital needs, the emphasis on cash flow disruptions in December was remarkable while costs related with fuel and electricity expenses were highlighted more intensely in the first month of the quarter. Although the need for investment-based financing remained important, it was expressed less in this quarter.

Even though the tightening in credit conditions continued in the last quarter, it was stated that there was an easing in terms of maturity and limit. It has been observed that the decrease in firms' loan demand due to high TL loan costs started to become evident as of December, and exporting firms' tendency towards more cost-effective rediscount loans increased. It was stated that banks' appetite for lending increased, and correspondingly, access to credit was eased in the fourth quarter compared to the previous quarter. This relief is conveyed especially by exporters and manufacturing firms, and it is attributed to increasing rediscount credit limits.

While the increase in maturity differences in inter-firm trade caused cash purchases to become widespread, there was a slight increase in the emphasis on delays in receivables in December. Although it was reported that the increase in receivables-payable maturity mismatch caused disruptions in the cash flows of firms, there were no significant problems with collections as of the last quarter. However, it is seen that the increased use of checks in the market, the increase in financing costs and the expectations of a weakening in demand led to concerns about collections.

It was observed that the cost pressure on firms eased, and the price increase rate slowed down in the last quarter.

The emphasis on labor costs, which stood out as a source of cost increase in the previous quarter, dropped significantly in this quarter. Although input costs were the most frequently mentioned cost factor during the quarter, they were cited less frequently owing to the stable course of global commodity prices. In addition, there was a significant decrease in the ratio of companies emphasizing exchange rate-related cost increases compared to the third quarter. Although references to energy costs came to the fore in October with the increases in natural gas and electricity prices, they faded out in the remaining months of the quarter.

It was observed that price increases decelerated, and the frequency of price updates decreased during the quarter. It is considered that i) monetary tightening, ii) the recent easing in cost pressure, iii) the fact that the cost increases from the previous period have been largely reflected, iv) the public call to fight against inflation and v) competitive pressures arising from the campaign period are effective in this slowdown.