

Box 2.1

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 April-June 2023 period.

Demand conditions in the second quarter of the year were buoyant compared to the previous quarter. In this period, production activities accompanied the positive outlook in domestic demand conditions, while prudence in investment stance of firms was notable. Cost pressure on firms eased due to the course of energy and other commodity prices compared to the previous quarter. However, there was an increase in the proportion of firms that indicated cost increases as of the end of the quarter due to exchange rate movements.

Information from the interviews indicates that aggregate demand conditions in the second quarter of the year were more buoyant compared to the previous quarter, mainly due to domestic demand. It was observed that domestic demand was strong mainly on the back of campaigns and expectations for price hikes that supported domestic sales. In exports, the buoyant course in the previous quarter was maintained as the decrease in energy costs supported the competitive power of Turkish firms, and the exchange rate developments had a positive impact on profitability. It was noted that the decline and disruptions in economic activity in the first quarter caused by the earthquake disaster were mostly recovered.

It was observed that domestic demand, which started to improve in March amid the easing of the negative effects of the earthquake, strengthened in the second quarter.

In the second quarter, it was observed that demand brought forward ahead of expected price hikes, campaigns offered by firms, and the realization of the consumption postponed due to the earthquake remained as important factors supporting domestic sales. In this period, it was mentioned that the end of the uncertainty caused by the elections and the start of the tourism season created an additional demand in the domestic market. Accordingly, it was seen that the sales of non-durable and semi-durable goods remained buoyant, while the sales of durable goods maintained their strength.

It was stated that the payments within the early retirement package (EYT) regulation and feast bonus payments supported sales of food and fast-moving consumer goods sectors throughout the second quarter. In personal care products, it was mentioned that consumers follow the campaigns and buy goods to maintain their stocks. It was highlighted that apparel sales remained resilient throughout the second quarter with the easing of adverse effects of the earthquake, and purchases by tourists supported sales further. It was observed that while the effect of the demand brought forward against possible price hikes in white goods, small household appliances and consumer electronics continued, this effect proved more limited in the furniture sector. It was also stated that the campaigns supported sales in both white goods and furniture sectors, while the weakness in new house sales was a limiting factor in these sectors. It was observed that despite the partially restrictive effects of high prices and loan limits, the demand for automobiles remained strong in this quarter, where supply shortages continued to shape the sales figures. It was noted that while price levels and credit conditions continued to suppress the demand in the housing sector, foreign demand also decreased.

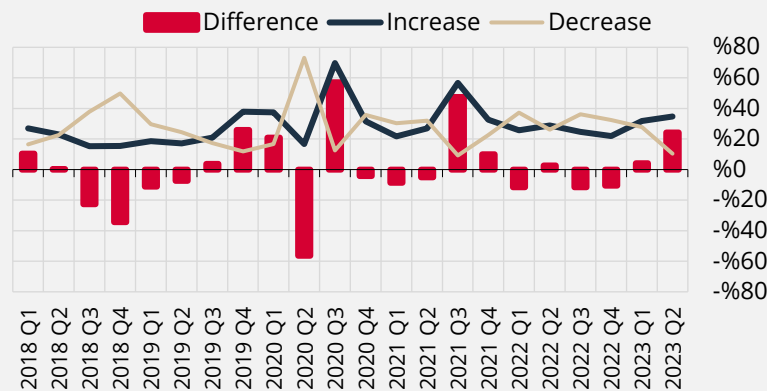
It was observed that exports displayed a positive outlook similar to the first quarter.

The rebound in foreign demand with eased concerns over recession in Europe stood out as the main factor of the positive outlook.

¹The 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, and 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.

On a sectoral basis, firms in the **apparel and textile** sectors stated that the decrease in energy costs supported export orders and the recent exchange rate developments had a positive effect on pricing. In the apparel sector, it was also observed that the increasing activity of Turkish firms in the Russian market due to the war continued. It was stated that the quality and delivery speed advantage of Turkish firms in **furniture** and related sectors continued, and positive effects of the restored relations with neighboring countries started to be seen. It was mentioned that the exports of **white goods** slowed down due to the fall in foreign demand, while the firms still searched for new markets and customers. It was reported that exports in the **automotive** sector maintained their buoyant outlook, and the **tourism** sector hovered around normal seasonal levels. It is predicted that the summer season, identified as the high season for this sector, will be positive in terms of occupancy rates and revenues.

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



Source: CBRT ELRS.

* Demand perception shows the evaluation made by considering the current sales, orders and expectations of the firms. The series denotes 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, not the size of the change.

In the second quarter of the year, production activity was more robust than the previous quarter.

Driven by exporting firms in the first quarter, the production activity maintained a more balanced course in the second quarter with the uptick in domestic demand. On the exports front, production remained buoyant as a result of the additional improvement in the competitive power of Turkish firms and especially the recovery in European Union (EU) demand.

On a sectoral basis, in the **automotive sector**, production activities continue in line with the strong growth targets set at the beginning of the year. In **white goods and consumer electronics**, the normalization in foreign demand was balanced by buoyant domestic demand, and production was similar to that of the previous quarter. In **textiles and apparel**, the positive outlook in the domestic market and the recovery of the EU demand coupled with the falling energy costs and exchange rate developments had a positive impact on production activities. In the **chemicals** industry, construction and automotive-related areas maintained their positive outlook, and additional demand was observed for the segments that provide input to the textile industry. In the **furniture** sector, the expectations that the recovery in demand, which started in April, will continue in the third quarter, were mirrored positively on production. In the **machinery-equipment sector**, expectations for the postponed investments that will be made after the elections supported production activities in the domestic market. Regarding exports, the value-added production and the ability of firms to find alternative markets have underpinned production activities. In **basic metal**, the realization of the expected acceleration in the domestic market following the earthquake disaster fueled production. Lastly, in **construction**, the expectations that demand might recover due to exchange rate developments and

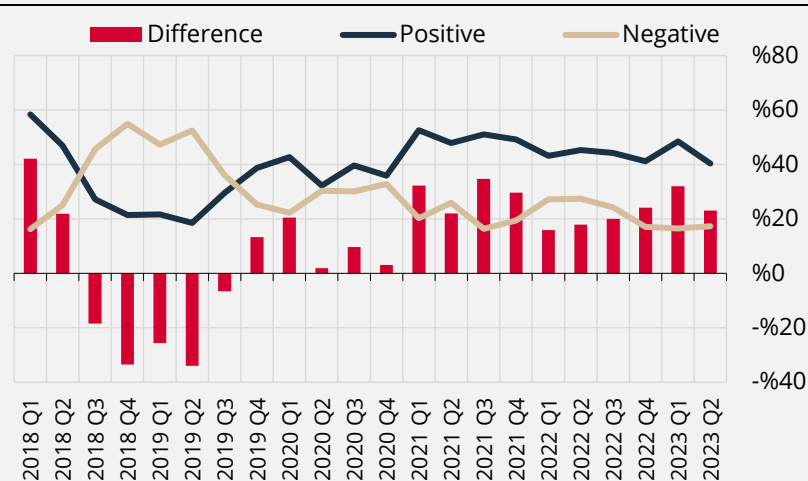
the motivation to complete existing projects quickly in order to avoid cost increases supported production.

The investment stance for the next twelve months remained prudent in the second quarter of the year.

In the first quarter of 2023, improved prospects for exports led by alleviated concerns over the energy crisis and recession in Europe coupled with the sustained financing facilities provided by targeted loan policies enhanced investment motivation. In the second quarter of the year, uncertainties regarding the outcome of the elections and the tightening in credit conditions and standards were the main factors limiting the investment stance of the firms.

While the investment stance of export-oriented firms is more positive, these firms remain more prudent compared to those operating in the domestic market. Uncertainties regarding foreign demand due to the ongoing Russian-Ukrainian War, the decline in international freight prices, the supply of products by North African and Far Eastern countries to the European market with more competitive prices, and difficulties in pricing were highlighted as factors that negatively affected the investment appetite of exporting firms in this period.

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



Source: CBRT ELRS.

* Investment stance shows the evaluation made by considering the investment appetite of the firms for the next 12 months. The series denotes 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, not the size of the change.

Machinery-equipment and energy investments remained at the top of firms' investment plans. Mechanization and automation investments were accelerated to reduce costs and improve production efficiency. On the energy front, renewable energy investments remained strong to control costs and reduce carbon footprint, but edged down compared to the previous quarter. Among the reasons for the decrease, the recent fall in energy prices and the financing conditions were mentioned. From a sectoral point of view, it is noteworthy that the investment stance in the manufacturing sector is relatively positive in the food, chemistry, rubber and plastic, machinery and electrical equipment sub-sectors. In addition, it is expected that the investment stance of construction-related sectors may improve in the upcoming period due to the concentration on reconstruction activities in the disaster area under the coordination of public authorities.

Positive outlooks for investment and production remained supportive of firms' employment plans for the next six months.

There is a limited growth in the rate of firms that plan increasing their capacity and employment levels in the next six months, yet most of the firms maintained their tendency to preserve employment in the future. It is observed that the problems of firms in new hiring continued to increase. High employee turnover and difficulties in finding new employees create additional upward pressure on wages. It was

stated that the EYT regulation did not cause a significant loss of employment, and that most of employees who opted to claim retirement under the EYT scheme continue to work.

In the second quarter of the year, firms' financing needs remained high, but dropped slightly compared to the previous quarter.

Decrease in financing needs in the quarter were attributed to the fall in energy costs and commodity prices. On the other hand, the high level of working capital needs was associated with severance pay of workers under the EYT scheme, exchange rate developments and disruptions in cash flows. It was observed that financing needs of the firms for ongoing or new investments continued. In this context, there was a consequent emphasis on long-term financing needs proceeded.

It was stated that credit conditions and standards tightened slightly in the second half of the quarter, which was mainly reflected in shorter loan maturities and loan disbursement limits as of June. Some firms also stated that the cost of loans offered increased in the last month of the quarter. The emphasis on the supportive role of the CBRT's export loans continued.

In the second quarter, as the impact of the fall in energy prices became more evident and labor costs remained steady, the cost pressure on firms eased compared to the previous quarter. However, there was an increase in the proportion of firms that reported cost increases as of the end of the quarter due to exchange rate movements.

Reductions in electricity and natural gas prices since the beginning of the year had a greater impact on energy-intensive industries, such as metal, glass and ceramics manufacturing. Although severance payments made under the EYT scheme and wage increases in the construction sector were the prominent points mentioned in the second quarter, the cost-increasing effect of labor expenses decreased significantly compared to the previous quarter. On the other hand, the relationship between the recent exchange rate movements and costs and the limiting effect of the decline in global commodity prices on domestic prices were emphasized.