

Box 2.1

Findings from Interviews with Firms

The Central Bank of the Republic of Türkiye (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 July-September 2023 period.

It was observed that economic activity slowed down slightly in the third quarter of the year compared to the previous quarter.

According to the information obtained from the interviews, while aggregate demand conditions slowed down in tandem with domestic sales, production activity largely maintained its strength. On the other hand, an evident prudence in terms of investment stance was noted, especially in firms operating in the domestic market. It was observed that firms reflected labor and exchange rate-related costs to prices significantly within the quarter, and price increase plans due to these costs decreased for the remainder of the year.

It was seen that domestic sales remained relatively buoyant in the third quarter of the year, but lost momentum compared to the previous quarter.

It was evaluated that the slowdown in consumer demand due to elevated level of prices and the tightening in financing conditions suppressed sales. On the other hand, wage increases and payments made within the scope of the EYT (early retirement package) regulation, demand brought forward due to price hike expectations, campaigns and post-earthquake expenses were noted as the main factors that eased the pressure and supported sales. It has also been reported that consumers are prioritizing their basic needs, campaign sensitivity is increasing, and the tendency towards affordable products is prevalent. Sales of basic needs products (food, cleaning products, etc.), consumer electronics and automotive stood out as product groups with relatively positive sales.

It has been reported that the demand for **food and fast-moving consumer goods**, cleaning and personal care products in particular, brought forward ahead of the VAT regulation as well as EYT payments and July wage adjustments had a positive impact on sales. In **apparel**, sales were weak and the expected seasonal level was not observed. It was stated that sales to tourists were also below expectations. It has been observed that **white goods** sales, which started the quarter vigorously, remained brisk despite some slowdown during the period. It has been reported that the buoyant outlook in **consumer electronics** has also continued in the sector. Despite having been limited by the deceleration in new home sales, **furniture** sales remained relatively brisk on the back of EYT payments and the purchases of Turkish workers living abroad. It was emphasized that price hikes and limitations on the number of installments suppressed the demand for both white goods and furniture. Although the demand for the **automotive** industry continues to be buoyant, it has been reported that the increase in regulations and inspections regarding the second-hand market has reduced the demand for trading purposes. On the other hand, it has been reported that the supply-demand imbalance in the automotive market has begun to wane as the supply-related problems lost their significance. As for the **housing sector**, it has been stated that the demand for residential purposes remains low due to high prices and credit conditions, and the expected buoyance in sales to foreigners has not been observed.

Exports followed a similar course to the previous quarter.

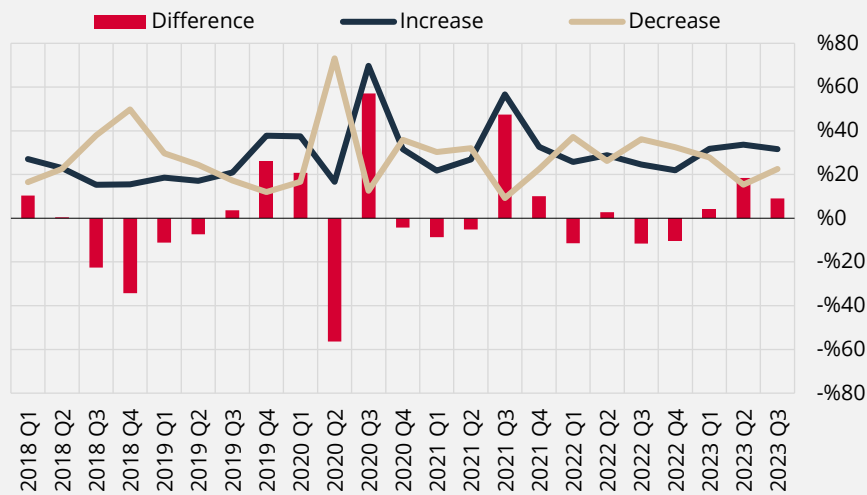
It was noted that weak global demand conditions, especially in the main markets, and cost increases were the main factors that put pressure on exports. It was also underlined that competition conditions have tightened due to the decrease in freight prices and the normalization in global supply chains.

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 Central Bank of the Republic of Türkiye. The information and findings obtained may differ from the official statistics, information and findings that will be published later.

Firms' export orientation and market/product diversification flexibility were the notable factors that relieved the pressure in this period.

When looked at on a sectoral basis, it was observed that weak demand conditions continued in the **apparel and textile** sector, while it has been stated that profitability has been affected somewhat positively by the recent increase in exchange rates. **Furniture** exports were said to have been on a more positive course in the nearby regional markets, despite the stagnant outlook in the EU market. Although **white goods** main and sub-industry exports exhibited different trends on a product basis, it was observed that they generally followed a flat course compared to the previous quarter. It has been stated that exports in the **automotive** sector have maintained their positive outlook which has been supported by waning supply problems and the new projects. Although the occupancy rate targets set ahead of the season could not be achieved, it was stated that it was a good season and **tourism** revenue levels of the previous year could be exceeded. While the high prices set before the season were cited as the main reason for the failure to achieve the targeted occupancy rates, it was also reported that firms started to discount prices in the middle of the season, which had a positive impact on the occupancy rates.

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 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, not the size of the change.

Despite the loss of momentum in domestic demand in the third quarter of the year, production activity largely maintained its strength.

Loss of momentum in domestic demand in the third quarter limited the production activity, which had been driven by the buoyant course of domestic and foreign demand in the second quarter. For firms mainly operating in the domestic market, the slowdown in demand as well as the tightening financing conditions have begun to be reflected in production. Production dynamics in exporting firms, on the other hand, maintained their relatively positive course.

Looking at sectoral developments, it is estimated that the year will be completed with strong growth in the **automotive** industry, with supply problems left behind and the production process continuing smoothly. Thanks to strong demand, the sub-industry is also expected to remain buoyant. In **construction**, activity remains weak in general, except for the earthquake zone. While firms try to finish their existing projects to avoid additional costs, it is observed that the appetite for new projects remains low. In the **construction sub-industry**, continuation of activity in the housing and infrastructure sectors, and export orientation support production. Production in **white goods, consumer electronics and furniture** followed a positive course as a result of the buoyant domestic demand. In the **chemical industry**, production was similar to the previous quarter, with sub-items other than textiles maintaining their strength in the domestic market and foreign demand remaining

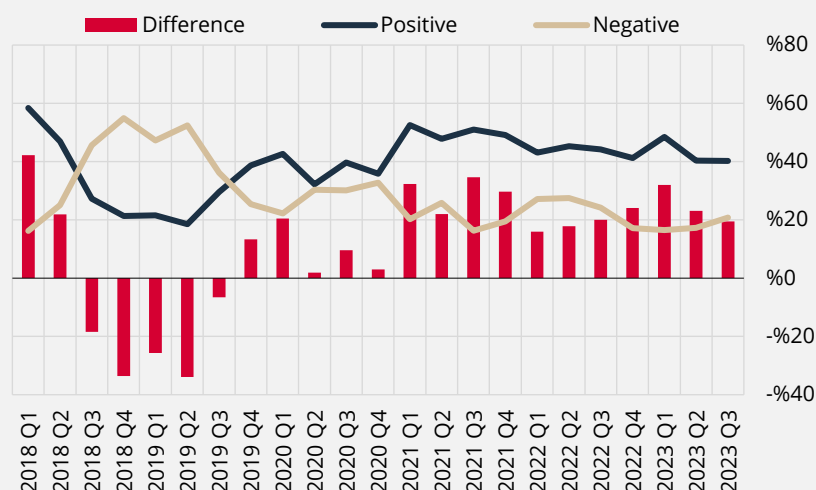
almost flat. In the **machinery and equipment** sector, while the demand for the construction-infrastructure sectors maintains its strength in the domestic market, activity is similar to the previous quarter due also to foreign demand. **Apparel** production is negatively affected by the weak domestic and foreign demand. The weakness in production is more evident in textiles, where the emphasis on competitiveness is more intense. In the **basic metals industry**, slower than expected recovery in the domestic market, the weak foreign demand and Chinese competition are affecting the production negatively.

As of the third quarter of the year, prudence in the investment stance of firms for the next twelve months has become evident, especially in firms operating in the domestic market.

Financing conditions and uncertainties regarding the domestic market were highlighted as the reasons why the prudent approach to investment, which started in May due to the uncertainties brought about by the election period, became evident in the third quarter.

The investment stance in export-oriented firms continues to be positive compared to domestic market-oriented firms. This situation is supported by positive expectations regarding exports. In addition, it has been observed that the investment stances of large organizations with strong resources that can meet their financing needs and continue their investments in a strategically planned manner, firms in sectors that have to continue their investments due to their structure, and/or firms with certain motivations such as the use of incentive certificates, diverge positively.

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 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, not the size of the change.

Machinery-equipment, production facilities and energy investments continue to be at the forefront among firms' investment plans. Mechanization and automation investments continue to be expedited to reduce labor costs and needs as well as to increase production efficiency. It is observed that firms facing stronger and more stable demand continue to invest in production facilities. Renewable energy investments, on which firms focus in order to reduce energy costs and carbon footprint, have tended to slow down somewhat due to the relatively stable course of energy prices and the financing conditions. In sectoral terms, the investment stance in the manufacturing sector is relatively positive in the food, rubber and plastic, machinery, electrical equipment, and automotive sub-sectors. In the construction sector, in addition to the high land prices, the high course of housing prices, uncertainty regarding demand and restricted housing loan opportunities limit firms' land investments. Increasing rents and high investment costs negatively affect the investment stance of firms in the retail trade sector.

As of the third quarter, it was observed that the prudence in the investment stance of firms was reflected in their employment plans.

It is noteworthy that prudence in employment plans is mainly observed in firms operating in the domestic market and that the ratio of firms planning to increase employment has partially decreased compared to the previous period. Efforts to increase automation and efficiency in the production process continue to be a factor which limits employment growth. It is stated that the fact that some experienced employees leave the workforce due to the EYT regulation is a factor that increases the problems of firms in new hiring. In addition, it is reported that the opportunity to work for higher wages in the earthquake zone increases the problems of firms in new hiring in provinces outside the earthquake zone, especially in the construction sector.

The financing needs of firms increased in the third quarter of the year.

The financing need increased mainly due to working capital, which was affected by labor, fuel and exchange rate-based supply costs. In addition, the need for financing due to disruptions in cash flow driven by credit conditions and shortened maturities in inter-firm trade was also emphasized. It was observed that the investment-related financing need decreased in the third quarter, based on the current investment level.

It was stated that credit conditions and standards tightened as of the third quarter, but a partial easing was seen in the maturity and limit channels to a very limited extent in August and was a little more widespread in September. Within the framework of the simplification of macroprudential measures, it was reported that there was some easing in access to credit by large firms as of the end of the quarter. In addition, regaining access to rediscount loans and increasing the credit disbursement limit were effective in improving access to credit for exporting firms. It has been observed that due to the difficulties in accessing finance, efforts are being made to increase the share of equity in meeting the working capital need. On the other hand, although it was stated that there was a tightening in inter-firm trade conditions due to maturity and cash flow, it was noted that there were no significant problems with collections.

In the third quarter, it was observed that labor and exchange rate-related costs were largely reflected in prices during the quarter, while the costs of fuel, which affect all sectors, continued to be reflected.

There was a significant increase in the cost pressure on firms in the third quarter. The most emphasized cost element was labor, followed by exchange rate-related costs and input and supply costs. The emphasis on fuel costs increased significantly throughout the quarter.

The improvements made in the minimum wage and other wage groups since July have caused a widespread cost increase. It has also been stated that some firms have increased wages above the minimum wage increase in order not to lose skilled labor. In addition, it has been reported that in the construction sector, daily wages have increased significantly due to the effect of intense construction activities in the earthquake zone, and the wages of skilled labor and workers have increased above the mentioned rates. Although global commodity prices remained flat throughout the quarter, it was stated that exchange rate-related costs increased, most visibly in sectors where the direct and indirect imported input ratio is high.

Increasing costs caused significant price hikes within the quarter, and the fact that cost increases occurred in items with an extensive effect such as labor force, exchange rate and fuel was effective in the acceptance of price hikes.

It has been observed that the ratio of firms planning price increases for the coming period consistently decreased from July to September. Firms' price increase plans are influenced by costs that cannot be reflected due to demand and competitive conditions, as well as upside cost expectations. Views were shared that energy costs, including fuel, would increase, and it was stated that there may also be an increase in foreign currency-based prices of inputs as a result of the inflationary pressure that is effective at the global level. However, it is stated that the tightening in credit conditions and demand conditions may limit price increases. It was observed that the rate of increase in automobile prices slowed down in September. In addition to the elimination of the availability problem, it was stated that the end-of-year campaigns, which have not been implemented for a while, will be on the agenda again with price discounts included, due to normalizing demand and competitive conditions in the last quarter.