

Box 2.1

Findings Obtained from Interviews with Businesses

Within the Central Bank of the Republic of Türkiye (CBRT), studies are carried out under the name of “Economic Lens to the Real Sector” (ELRS), which is based on face-to-face meetings with businesses.¹ This box summarizes the findings from the interviews conducted in the April-June 2022 period.

Information from the interviews indicated a similar outlook for economic activity in the second quarter of the year compared to the previous quarter. While the driving role of export-oriented companies in economic activity continued, domestic sales were also more positive, albeit slightly, than the previous period.

It was observed that consumer demand for basic needs, especially for non-durable and semi-durable goods, was relatively buoyant while the demand for non-essential and deferrable durable goods slowed.

The removal of pandemic measures, the support of financing conditions, sales campaigns and brisk tourism activities were the main factors supporting domestic sales. On the other hand, it was reported that the general level of prices and supply issues continued to put pressure on domestic demand. Meanwhile, the demand brought forward in the previous periods and the regulatory changes made in June for credit card spending were highlighted as other factors that slowed sales.

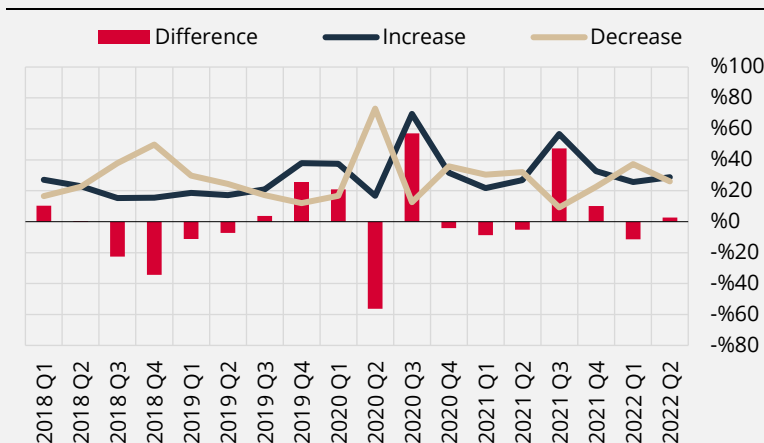
It was highlighted that due to supply concerns in food and fast-moving consumer goods, stock purchases in some products suppressed sales in the current quarter to some extent. Apparel sales were reported to remain buoyant in the regions where tourism activities are strong. While it was stated that companies in white goods and furniture sectors were trying to keep demand alive with campaigns, the effect of the regulation on credit cards, which restricts sales, has mostly been felt in the furniture sector. The strong demand outlook for the automotive sector continued, but the demand was not fully reflected in sales due to the ongoing supply problems. Home sales to foreigners remained strong. Firms expect that favorable tourism and wage adjustments to be made in July would limit the decline in sales in the third quarter.

It was stated that exports, which gained strength during the pandemic period, maintained their buoyant outlook.

Due to the pandemic and the Russia-Ukraine War, the demand has shifted towards Türkiye and continued to support Turkish exports. Moreover, companies' appetite to access new markets and customers continues. However, anecdotes were shared that the increase in global inflation has started to suppress foreign demand, especially in the EU.

Exports continue to be stronger in sectors such as apparel, furniture, and the automotive parts industry, whereas they slowed down in basic metals, the automotive industry and white goods sectors compared to the previous period. Concerning the exports of apparels, it was reported that, the positive effect of the demand shifting to Türkiye became more noticeable with the lifting of pandemic restrictions and Russia's orientation towards Türkiye to meet its demand provided additional support to the sales. After seeing a strong demand during the pandemic, exports of white goods started to somewhat normalize. The export orientation and market diversification push in furniture maintains its strength. While supply problems continue to be effective in automotive exports, the positive effect of the shifting demand from the Far East continues in the automotive parts industry. Respondents in the tourism sector stated that the demand for city hotels was above expectations and the demand from the Europe was strong.

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 businesses 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 businesses 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 graphics are produced by scoring the anecdotal information obtained from the company interviews. This study includes evaluations and inferences based on interviews with businesses 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.

Chart 1: Demand Perception of Companies* (QoQ)

Source: CBRT ELRS.

* Demand Perception shows the evaluation made by considering the current sales realizations, orders and expectations of the companies. The series, stated as the difference, 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.

Optimistic expectations remained in place while production activities maintained their pace in the second quarter.

While the positive trend in domestic sales compared to the previous quarter played a supportive role in production, the trend in exports was largely preserved and continued to affect production positively. The firms interviewed stated that supply shortages continued, albeit at a reduced rate compared to the first quarter, and commodity prices and energy expenditures continued to suppress production activities. In this context, companies attached more importance to stock management than they did in previous periods, especially in raw materials and intermediate goods. On the other hand, companies shared their predictions that the current pace of production might improve in the next quarter in line with their domestic and international sales expectations.

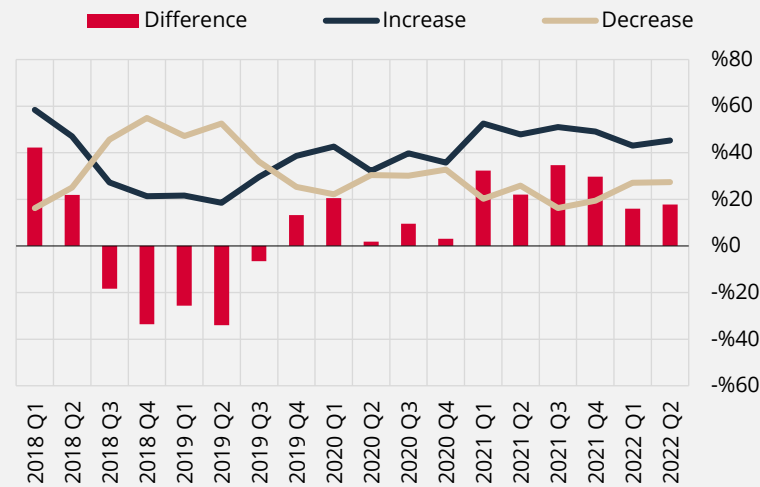
It was observed that the investment stance of exporting or export-related companies is more positive than that of the companies operating in the domestic market.

It is noteworthy that companies remain prudent in investments mainly due to the rise in production costs triggered by soaring commodity prices and the uncertainty in demand conditions. On the other hand, those exporters that reported higher demand differed positively in terms of investments.

Machinery, equipment and energy investments are prioritized in company investment plans. There is significant appetite for machinery and equipment investments in sectors such as food, food-related packaging, machinery, textile, apparel, chemistry, rubber and plastic, construction-related and fabrication metal manufacturing. Interview findings revealed that investment plans regarding the production transformation in line with the Green Deal were prioritized in some manufacturing industry companies producing especially for the European market, and the solar energy systems investment appetite remained stronger due to the increase in energy costs.

The interviews held in this quarter indicated that unfavorable long-term financing conditions, in particular, played a determining role in the increase of firms' tendency to use their own funds to finance investments. Meanwhile, the "Advance Loans Against Investment Commitment" may be effective in initiating some investments that were postponed due to financing problems or in bringing forward some investments that are in the intention stage.

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



Source: CBRT ELRS.

* Investment Stance shows the evaluation made by considering the investment appetite of the companies for the next 12 months. The series stated as difference 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.

In line with their investment stances, companies aim to maintain their current employment levels in the upcoming periods. Positive expectations regarding demand conditions and skilled worker shortages are expected to influence employment plans.

Firms' financing needs continued to rise due to the increase in their working capital needs.

Rising working capital needs are associated with rising costs led by the increase in raw metal prices and energy expenses. While cash flow mismatches and stock management were also mentioned for the rise in the working capital needs, the demands of long-term financing of investments were also emphasized.

The credit conditions and standards that eased at the end of the first quarter displayed a similar course throughout the second quarter. Although access to credit continued throughout the quarter, anecdotes were told that credit conditions and standards were tightened as of June due to macroprudential measures. While public loans limited this tightening, the CBRT-sourced export and investment-committed advance loans played a supporting role.

It was emphasized that the increase in energy and global commodity prices exerts pressure on companies.

Rising energy and raw material prices were the most emphasized cost factors throughout the quarter. In June, some companies started to draw attention to exchange rate developments as a cost factor. Firms reported that the recent decreases in industrial commodity prices had not yet been reflected in their input costs due to the length of the supply chain and the duration of the contracts, with the exception of natural gas and coal costs that were reflected in product prices in sectors with intensive energy use.