

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 January-March 2023 period.

Demand conditions in the first quarter of the year displayed a buoyant outlook compared to the previous quarter. In this period, production activities accompanied the positive outlook in demand conditions, while the improvement in investment stance continued. The emphasis on energy and exchange rate as a cost element decreased significantly.

Information obtained from the interviews indicates that the aggregate demand conditions in the first quarter of the year were more buoyant compared to the previous quarter. It was observed that wage increases, campaigns and price hike expectations at the beginning of the year supported domestic sales, while export market diversification activities of the companies and easing concerns over recession in Europe limited the slowdown in foreign demand. It was also observed that the decline and disruptions in domestic demand, export shipments and production activities due to the earthquake that occurred in early February were compensated for in the non-earthquake zone as of March, while a recovery has started in the earthquake zone.

Positive effects of wage increases were seen in sales of non-durable and semi-durable goods, and sales of durable goods remained strong.

In the last quarter, demand, chiefly for durable goods, was brought forward with increasing household income and expectation for price hikes, and domestic sales performed better than anticipated with the support of the campaigns. This revival, which has been more evident especially since December 2022, continued in the first quarter of the year with the support of consumer financing conditions. Accordingly, a rapid compensation was seen in the significant drop in demand caused by the earthquake in February in various sectors across the country.

It was stated that the positive effects of wage increase at the beginning of the year were reflected in food production and sales were more favorable compared to the previous quarter. It was also revealed that the demand for aid to the earthquake zone, which had increased significantly in February, turned to normal in March. It was stated that apparel sales were supported through campaigns, and the sharp decline in sales due to the earthquake in February was gradually reversed as of the end of the month. While it was stated that demand for white goods and furniture products normalized following the strong demand recorded in the last quarter, it was specified that cumulative demand in the automotive sector due to supply shortages supported sales further. Despite the decrease in foreign demand, it was emphasized that the demand for housing increased in the provinces which received immigration after the earthquake.

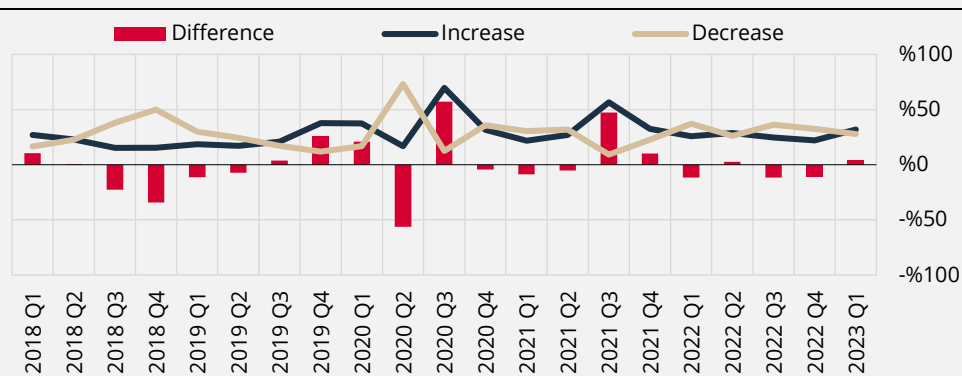
It was observed that exports followed a positive outlook.

Exports recorded a better-than-expected outlook at the beginning of the period, which was mainly attributed to eased concerns over the energy crisis and recession in Europe. In addition, it was stated that companies could compensate for the losses in orders they incurred in this process with new countries and customers.

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.

On a sectoral basis, the rebound in foreign demand in the European textile sector started to be mirrored in export orders, and apparel exports remained strong compared to the previous quarter. In furniture exports, it was stated that despite the cost disadvantage caused by the lower freight prices, product quality and delivery speed advantage of the Turkish firms in the US and European markets continued. In the white goods main and sub-industry, it was emphasized that the negative impact of the recession in Europe on sales remained limited, thereby leading to a sustained steady course. While it was disclosed that exports in the automotive sector maintained a positive outlook, it was pointed out that producer companies in the basic metal industry might shift to the domestic market amid the growing demand mainly for construction steel after the earthquake. It was stated that the course of the tourism sector hovered around normal seasonal levels, and although there were short-term cancellations due to the earthquake in February, the demand was not negatively affected for most of the quarter. It was also expressed that the booking data indicate that the European demand is strong.

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 is constructed as 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, rather than the size of the change.

In the first quarter of the year, production activity recorded a buoyant course compared to the previous quarter.

The production activity, which slowed down after the earthquake disaster in February, gained momentum again in March. Export demand affected production positively throughout the quarter. On the other hand, the earthquake-driven slowdown in demand was compensated for companies that mainly produce for the domestic market, which supported production. Furthermore, the production activity in **Adana** and **Gaziantep**, the provinces with the highest share in national income within the earthquake zone, returned back to its pre-earthquake levels. On the other hand, the recovery was more limited in **Kahramanmaraş** and **Hatay**.

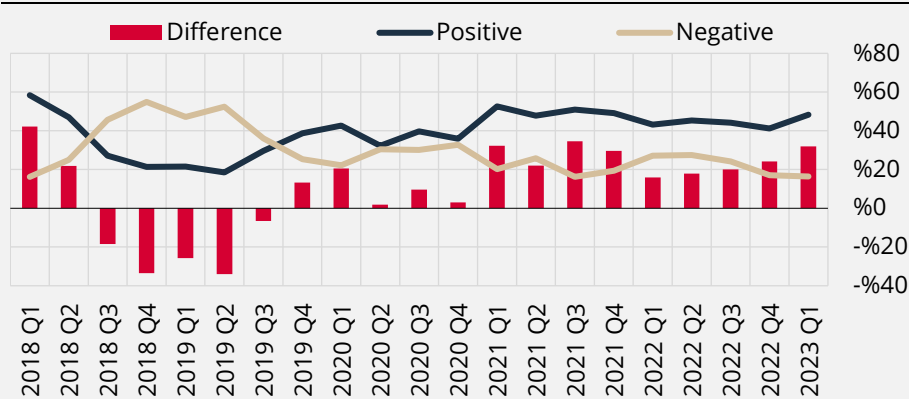
In the automotive industry, one of the sectors where production activities are positive across Turkey, supply disruptions eased in production, which also affected the orders of the automotive sub-industry positively. In **white goods** and **consumer electronics**, the efforts of the main manufacturers to replace the depleting inventories supported production. In **textile**, the pickup in EU demand started to be reflected in orders and production, while a more limited activity was observed in **apparel**. In **furniture**, while the normalization in domestic demand weighed on production activities, the robust export demand limited this effect. In **basic metals**, despite the recent weak outlook, companies stated that they could compensate for this by steering towards the domestic market in the upcoming period.

The investment stance for the next twelve months remained on a positive track in the first quarter of the year.

In this period, 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. Some companies suspended their new production facility or store investments in the earthquake-hit provinces, yet this did not spill over into the whole.

Machinery-equipment and energy investments remained on top among the investment plans of the companies. In this period, mechanization and automation investments were accelerated in order to reduce costs, and energy investments, chiefly solar energy systems, became the focus. From a sectoral point of view, the investment stance in the manufacturing sector remained strong and was more positive in exporting companies. It was observed that the weak outlook in land investment for housing in the construction sector continued in this quarter. In the retail trade sector, demand remained favorable, and store and office investments continued, mainly in companies operating in durable product groups. Although logistics companies have investment plans for renewal and expansion, it was stated that the required number of new vehicles could not be reached due to supply problems.

Chart 2: Investment Stance of Firms* (12-Month-Ahead)



Source: CBRT ELRS.

* Investment stance shows the evaluation made by considering the investment appetite of the firms for the next 12 months. The series is stated as 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, rather than the size of the change.

Investment and production outlook continued to support firms' employment plans for the next six months.

While companies maintained their tendency to preserve employment in the future, efforts to foster automation and productivity in the production process limit the increase in employment. Labor markets were affected dramatically in the earthquake-hit zone, and the return period of the labor force was extended. It was said that the early retirement package will not cause a significant loss of employment, and that most of the employees who opted to claim retirement under this scheme will continue to work in their companies.

In the first quarter of the year, companies' financing needs remained high, but decreased slightly compared to the previous quarter.

Despite falling energy prices and the stability in exchange rate, the high working capital requirement across the quarter was attributed to increased labor payments and deteriorated cash flows of firms in the earthquake zone. The emphasis on investment financing continued, with the need for long-term financing in the lead.

Within the framework of macroprudential measures, credit conditions and standards continued to loosen in the first quarter as well. This easing was mainly driven by the decline in commercial loan rates throughout the quarter. While the emphasis on maturity and limits, excluding targeted areas, continues, the percentage of firms that pointed out to eased access to credit as of the quarter increased. The emphasis on the supportive role of CBRT-led export and investment loans continued.

While the emphasis on energy and exchange rates decreased significantly, a limited rise was seen in the cost pressure on firms due to labor expenditures compared to the previous quarter.

Firms mostly base their wage adjustments on the rate of increase in minimum wage at the beginning of the year. In the first quarter, transfers related to input and supply-chain costs as well as labor costs increased slightly. On the other hand, the reductions in energy prices limited cost pressures in both manufacturing and trading companies. The reduction in electricity and natural gas prices, mainly in energy-intensive sectors such as metal, glass and ceramic manufacturing, counterbalance the rise in labor costs.