Box 2.2

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 July-September 2022 period.

Despite the weakening in demand conditions, especially export-linked companies are considered to maintain their investment appetite. While cost pressure eased in line with the fall in global commodity prices, it is understood that the limiting effect of energy costs continues.

Information from the interviews indicated that economic activity weakened in the third quarter of the year compared to the previous quarter. Domestic and foreign demand conditions and, therefore, slowing production activities stood out as the main reasons underlying this weakening.

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

The general level of prices and consumer financing conditions in particular were listed as the main factors that put pressure on domestic sales across sectors. The supporting effect of sales to domestic exporting companies noticed in previous periods weakened in the third quarter due to a slowdown in export orders.

Non-durable and semi-durable goods sales were observed to be relatively positive in regions where tourism activities were buoyant. While the demand for food and fast-moving consumer goods was relatively stronger, the demand for end-of-season discount sales of apparel was below expectations. It was stated that in the durable goods group, the expected seasonal recovery was not observed in products such as furniture and white goods due to the slowdown in the construction sector, the demand brought forward in the first half of the year, and the suppressing impact of regulations regarding credit cards and the number of installments on sales. On the other hand, it has been observed that supply problems in the automotive sector have decreased and there has been a stabilization in demand. It was pointed out that the six-month and 6,000 km requirement for vehicle sales had reduced investment demand for vehicles. It has been also stated that the housing sales for investment have also weakened. While the companies expected the weakness in demand conditions to continue in the last quarter, they also stated that there may be a recovery in domestic demand if stocks are replaced, public support is increased, and there is a possible relief in the credit channel.

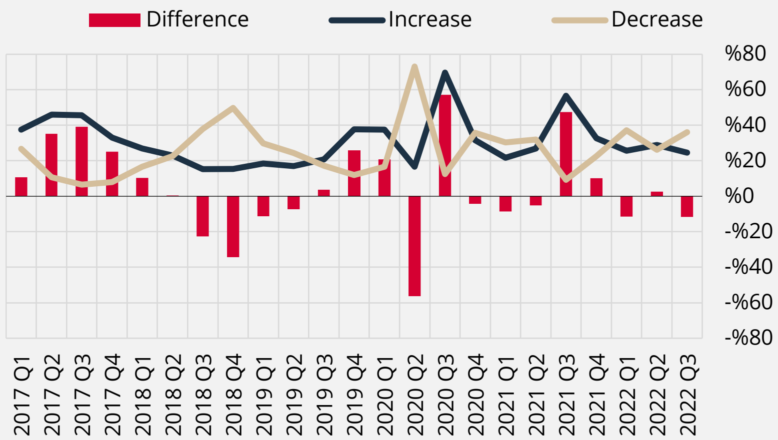
It has been observed that pressures originating from the EU market in exports have become more evident.

The shift in demand towards Türkiye due to the breaks in the supply chain continued to support exports, but the accelerating global inflation and rising uncertainty due to the war and increasing energy costs put significant pressure on foreign demand, especially from the EU. Pressure was felt more intensely in textile and basic metals sectors, while chemical products, rubber, plastic, machinery-equipment, and automotive exports held steady. It was also stated that the rapid increases in energy prices resulted in rising demand for paper, cable, and sub-industrial products for automotive sector from the European market.

Firms in the tourism sector reported occupancy rates beyond their pre-season expectations. It is stated that with the increase in the number of tourists in the upper segment, more income per capita is achieved.

[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 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.

Domestic demand conditions and the slowdown in export orders of some sectors due to recession concerns for the EU economy caused a slowdown in production.

Among manufacturing sectors that mainly aim to export to Europe, the slowdown in production in textile-apparel companies was the most obvious. On the other hand, automotive production is expected to gain momentum in the last quarter of the year with the decrease in supply disruptions, which will support the related sectors such as the fabrication metal, plastics and the automotive parts industry. It was observed that demand conditions and declining raw material prices weakened the raw material stocking tendency of firms in the third quarter. It was stated that possible energy crisis for the EU countries in the next quarter may create additional demand in sectors such as glass, ceramics, chemicals automotive, plastic, and rubber, which consume energy intensively.

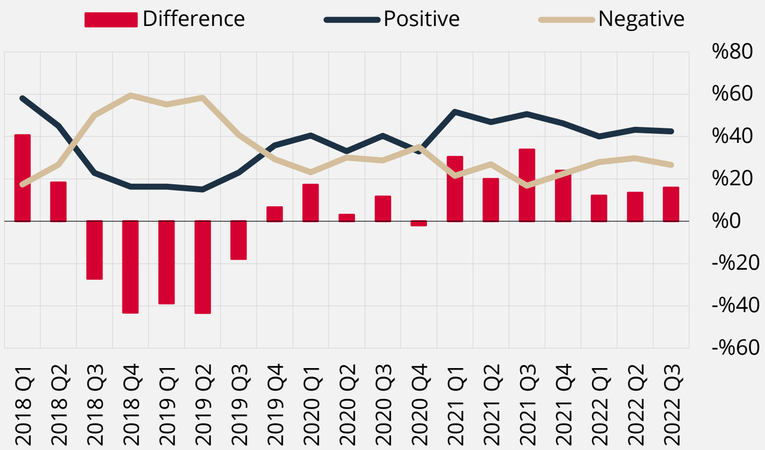
Although there has been an improvement in the investment stances of companies for the next twelve months since the beginning of the year, it is observed that this improvement did not become evident on a quarterly basis.

The investment appetite of those companies that have buoyant foreign demand and have production close to capacity constraints is strong. Machinery-equipment, production facility, and energy investment plans dominate the investment plans of such companies. Companies from food manufacturing and retail, textile and apparel, automotive and automotive parts industry, chemicals, plastics and rubber, basic metals, electrical equipment and not elsewhere classified machinery and equipment manufacturing, energy production-distribution, logistics and food service sectors all have a positive investment appetite.

Although the long-term financing conditions were especially emphasized in the interviews, it is understood that the Advance Loans Against Investment Commitment (ALAIC) positively affects the investment plans of the companies and this loan facility is effective in bringing the investment plans of some companies forward.

The tendency for employment growth is limited except for the companies that plan to increase their capacity in the upcoming period. In this period, most of the firms state that they intend to maintain their employment levels in the next six months. In that context, it is seen that the skilled worker shortage and demand conditions are the main factors limiting the employment increase plans.

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.

Although the companies' need for working capital financing decreased slightly compared to the previous quarter due to the declining raw material prices, it was observed that especially rising energy costs limited this decrease.

Despite falling raw material prices and the stability observed in the exchange rate, the high working capital requirement throughout the quarter was associated with increased costs due to labor payments and energy expenses. While mismathces in cash flow were mentioned as another factor that increased the working capital needs, it was observed that the emphasis on long-term financing needs continued in investment financing.

Macroprudential measures were taken after the loosening of credit conditions and standards in the second quarter. In the third quarter, the impact of those measures was tried to be observed outside the targeted areas. In that context, while the loan interest rates decreased with the measures taken at the end of August, companies' emphasis on interest rates decreased. Although companies emphasized the limit and maturity aspects throughout the quarter, it was observed that a significant part of the companies did not have any problems accessing finance. At this point, the supportive role of rediscount loans, which provide suitable financing conditions in meeting the working capital needs, becomes clear. Furthermore, the support that ALAIC gives to investment decisions has grown recently, especially due to long-term loan conditions.

Cost pressures on firms eased somewhat due to fall in global commodity prices.

In the third quarter of the year, companies' emphasis on raw materials as a source of increasing costs decreased compared to the previous quarter, and the emphasis on the exchange rate, which increased in June, decreased in the third quarter. Energy and labor were highlighted as cost factors throughout the quarter, and it was stated that the increases in these items limited the impact of the decrease in raw material prices. It has been observed that the transition in energy costs to prices is faster in sectors that use energy intensively in production.