Box 2.2

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 2024 period.

It was observed that the positive outlook in economic activity conditions continued in the first quarter of the year.

While domestic demand remains buoyant, mainly due to consumers' demand for durable products, the export outlook has been preserved with the support of sales to non-prime markets. As a result of these developments, aggregate demand conditions were considered to be relatively positive compared to the previous quarter. On the other hand, expectations of a slowdown in domestic demand starting from the second quarter were widely communicated during the initial quarter interviews, and the first observations obtained in April also indicated a loss of momentum.

While the weak course of the investment stance continued, it has been noted that companies with investment plans were focusing more on cost-cutting and efficiency-enhancing investments. In the last quarter, companies reflected their increasing costs, especially labor costs, significantly on their prices.

The buoyance in domestic sales, which started in mid-January, continued throughout the quarter.

It has been observed that, wage increases and campaigns stimulate consumer demand on the one hand, while demand is brought forward depending on expectations and the tendency to spend becomes stronger on the other. It has been widely emphasized that, especially with the beginning of the second quarter, expectations regarding exchange rate developments and the expansion of the scope of tight economic policies caused consumers to bring forward their demand. It has been observed that final consumer demand was especially strong in white goods and automobiles, while sales on the housing side were weak. In intercompany trade, although weakness was seen in some construction-related sectors in parallel with domestic demand developments, the weakness in the machinery sector became prominent.

It was stated that sales of food and fast-moving consumer goods were buoyant compared to the previous quarter, due to the effect of wage increases in January. Apparel sales remained vibrant with the support of campaigns, and sales were more positive in stores selling affordable products. It has been reported that demand for white goods products were strong, especially with the support of credit card installments limitation expectations. Furniture products behaved similarly to white goods, and the acceleration that started in February became more evident in March. It has also been noted that the sales of companies with an organized sales network and relatively affordable prices differed positively. It was reported that the automotive industry started the year with high sales figures, and this strong trend was maintained throughout the quarter. The demand for SCT-exempt vehicles, the support of fleet purchases postponed from previous years, and the ongoing campaigns, although decreasing, have been highlighted as the factors behind the dynamism in the sector. In the housing sector, it has been observed that high prices and credit conditions continued to suppress demand for residential purposes.

It was observed that first-quarter exports followed a similar course to that of the previous quarter.

While the pressure on foreign demand conditions has started to ease compared to previous periods, it has been observed that the activities of exporting companies in accessing new markets and product development continue to create opportunities. On the other hand, geopolitical risks and high costs in TL terms continued to be highlighted as factors that pose a risk to the export outlook.

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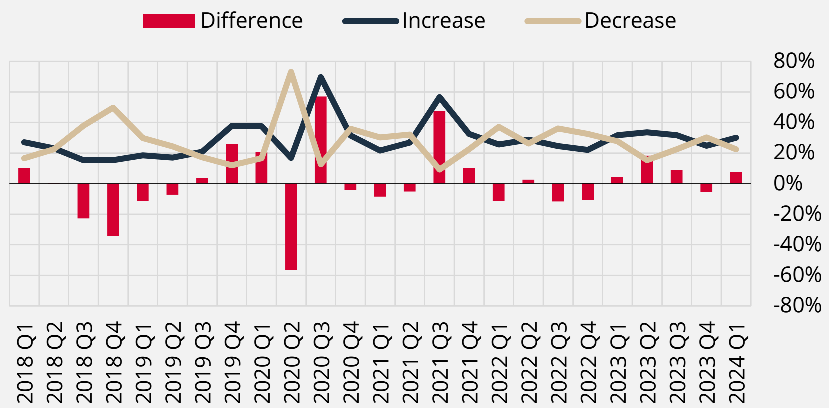
[1]The main purpose of this study is to obtain information on periodic production, domestic and international sales, investments, employment, credit conditions, and cost and price developments in a timely manner, to closely monitor economic activity, and to improve the communication between the CBRT 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, 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.

The analysis on a sectoral basis reveals that cost pressures continued in the textile and apparel industry, but Türkiye's share in value-added product groups was preserved. In addition, it was reported that the demand shifting to Türkiye, especially in textiles, due to the developments in the Red Sea, supported the sales. The flat course in furniture sector exports was maintained on a quarterly basis. It has been stated that the motivation to access new export markets was strong in the sector, and hence, the American continent was seen as a potential market for exports. While the weakness in the demand conditions of European countries continued in the white goods sector, the increase in production costs has been emphasized as a risk factor in the sector's exports. It was stated that automobile exports, which were weak due to the shutdowns in the automotive industry in January, returned to their normal course in February. While the main industry was flat due to ongoing projects, a more positive trend has been observed in sub-industry companies with the commissioning of projects by global main producer companies. High energy costs, quotas and increasing Far East competition in basic metal industry exports continued to affect sales negatively. On the other hand, it has been reported that the supply problems, delays and freight increases arising from the problems in the Red Sea have supported steel exports recently.

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.

Demand conditions in the first quarter of 2024 slightly supported production, which started to slow down in the second half of 2023.

Sectors such as automotive, white goods, chemicals and food stood out among the sectors where domestic demand supported production in the first quarter. On the other hand, predictions of a weakening domestic demand have suppressed production since the second quarter of the year. In exporting companies, production maintained its course compared to the previous quarter.

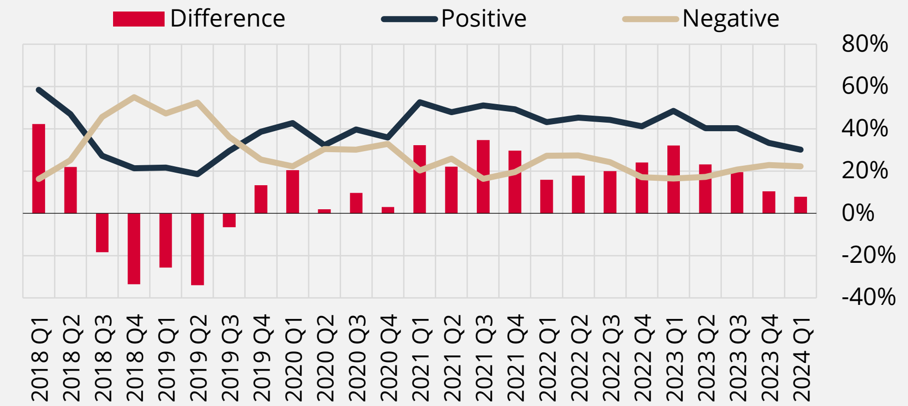
Looking at sectoral developments, in the automotive main industry, strong sales in the domestic market in the first quarter of the year allowed the production plans for the year to be unchanged. On the export side, activity remained buoyant in line with production plans for strong foreign demand in both the main industry and the sub-industry. In white goods and consumer electronics, foreign demand remained flat on a quarterly basis, while production was buoyant in line with the strong course of domestic demand. In furniture, while foreign demand was similar to the previous quarter, production was slightly higher than that in the previous quarter due to vivid domestic market since February. In machinery and equipment, while companies on the export side benefited from the relatively positive demand conditions in markets outside the EU, the limiting effects of the slowdown in demand for investment goods in the domestic market were felt on production. In the chemicals industry, production increased on a quarterly basis amid buoyant domestic and foreign markets. In textiles and apparel, the weakness in production continued due to the lack of dynamism in foreign demand, except for orders that were reported to be due to developments in the Red Sea and were considered temporary. In the basic metals, despite the orders due to the developments in the Red Sea, production was similar to that in the previous quarter due to the weak course of the domestic market. It was seen that urban transformation projects in the domestic market and construction-infrastructure activities in the earthquake zone support production in the construction sub-industry.

The weakening of companies' investment stance continued in the first quarter of the year.

In this period, the increase in financing costs and uncertainties regarding domestic demand were highlighted among the reasons for companies that did not have investment plans. It has been observed that companies that are more cautious about starting new investments in the current period have largely continued the investments they had already started.

It appeared that the investment appetite of companies that diversified their products and gained new customers and markets were more positive. Increasing production and labor costs directed companies with strong resources to invest in machinery and equipment. In addition, energy investments continued to be prioritized with the motivation of reducing costs as well as making more sustainable and competitive production.

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.

On a sectoral basis, it has been observed that the investment stance is positively differentiated in the manufacturing industry sector, especially in the food, machinery-equipment and automotive sub-industry sectors. In the food manufacturing industry sector, investments to increase production capacity and introduce new products were at the forefront. It has been observed that the investment appetite in the automotive sub-industry sector was relatively strong with the support of demand conditions. Among the sectors where the weak demand outlook suppressed the investment stance; textile, apparel, and the construction sector stood out. It was reported that the negative investment stance in the textile sector was also due to the fact that the sector had been operating with idle capacity for a while. In the construction sector, high land prices, the weak course of housing demand and the tightening in financial conditions were cited as factors suppressing investment appetite.

It was observed that employment plans were maintained in the first quarter of the year, led by exporting companies.

Despite the weak course of investment, expansionary investments supported employment plans in companies whose demand was relatively strong. While companies' emphasis on high employee turnover continued, the motivation to retain trained personnel was effective in maintaining employment across sectors. In this period, cost increases, financial tightening, companies' efforts to increase automation and productivity in the production process have come to the fore as factors that suppress plans to increase employment.

Companies' financing needs remained high in the first quarter of the year.

Although the financing need, which mainly consists of working capital decreased slightly in January due to the impact of global commodity prices, it increased in the following months. In cases of high working capital needs, companies highlighted wage increases, raw material and exchange rate-related costs, and increased business volume as driving factors. Regarding investment financing, emphasis was placed on the need for financing, especially from investments that started in the past.

While the tightening in loan conditions due to interest rates continued throughout the quarter, an extension was observed in loan maturities for working capital. It was reported that banks' appetite for lending remained high in the first two months of the quarter but started to decrease after the additional tightening steps in March, and this situation was also reflected in limit allocations in the relevant month.

High TL loan costs continued to suppress companies' loan demands. However, expectations that access to credit would become difficult after the second quarter played a role in increasing loan demand. The demand for rediscount loans continued as they were more cost-effective, and exporting companies underlined the importance of these loans.

Although it was stated that the conditions in intercompany trade were largely similar to the previous quarter, the emphasis on tighter conditions increased in March. Maturity mismatches and cash discount rate rises parallel to the interest rates caused cash purchases to become widespread in intercompany trade. On the other hand, it has been stated that some companies were trying to extend their payment terms in order to retain cash. Despite the tightening in maturities and delays in receivables, it was reported that there were no significant problems in receivables collection throughout the quarter. However, the increase in financing costs and expectations of weakening in demand as well as the widespread use of checks have led to increased concerns about collections across sectors.

While the cost pressure on companies increased in the first quarter of the year, there was a limited decline in the ratio of companies planning price increases.

Wage increases came to the fore as the main reason for cost increases, followed by input costs excluding the exchange rate effect and exchange rate-related costs. It has been observed that input costs were cited more heavily due to reflection of labor costs on raw material prices, as well as supply delays and increased freight costs due to developments in the Red Sea. In addition, it has been reported that there was an increase in the costs of sectors with high exchange rate sensitivity that use direct and indirect imported inputs due to exchange rate developments.

Although it was stated that the companies reflected their increasing costs, especially labor, on the prices within the quarter, the decline in the price increase plans was observed to be limited. It was understood that expectations as well as the part of the costs that could not be reflected played a role in keeping the decline in price increase plans limited.