

## Box 2.1

### Findings from Interviews with Businesses

The Central Bank of the Republic of Türkiye (CBRT) holds face-to-face meetings with businesses as part of the “Economic Lens to the Real Sector” (ELRS).<sup>1</sup> This box summarizes the findings from the interviews conducted in the October-December 2022 period.

***It is observed that the moderate outlook in demand and production conditions in the last quarter of the year was accompanied by a positive investment stance. While easing in cost pressure continues, the limiting effect of energy costs remains.***

Information from the interviews indicated that improvement in domestic and foreign demand conditions was limited in the last quarter of the year compared to the third quarter. Improvement in domestic demand perception, decrease in financing costs and the easing in cost pressure stood out as the main reasons behind this outlook.

***It was observed that the slowdown in the sales of non-durable and semi-durable goods was offset by the support of the campaigns, while the consumer demand for durable goods, especially in products such as white goods, electronics and furniture, was relatively buoyant.***

Domestic sales showed a gradual recovery after slowing in the third quarter. With the expectations of an increase in wages and prices in the beginning of the new year, consumer demand, especially in durable goods, was brought forward, and sales were beyond expectations with the support of the campaigns. Sales continued to be relatively positive in regions where tourism activities were buoyant.

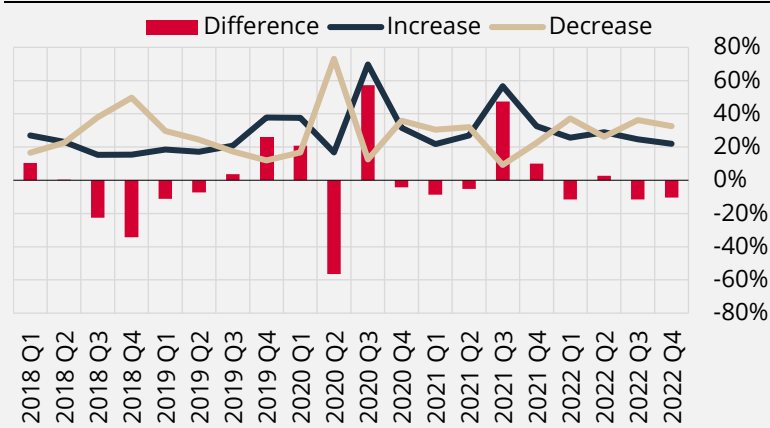
It was reported that while the sales of non-core foods were relatively weaker, sales to dealers in the fast-moving consumer goods segments such as cleaning and personal care products gained momentum in the last quarter. Apparel sales were above expectations, thanks to the purchases by tourists and non-residents and to year-end campaigns. It has been emphasized that sales in white goods firms were buoyant, and credit card facilities have had a positive impact on sales in the last period. High stock levels and the easing in cost pressure enable furniture firms to increase their sales by organizing campaigns. The Special Consumption Tax regulation, demand for fleet vehicles and the expectation of an increase in vehicle prices in the new year stimulated demand while light commercial vehicle sales, which have not been affected by supply-side constraints, remained strong. It was reported that the demand for housing was postponed due to the expectation that financing support for housing will increase in the new year.

***It was observed that exports were above expectations.***

It was observed that the pressure on foreign demand caused by the uncertainties regarding global inflation, recession expectations and the Russia-Ukraine war continued throughout the quarter. However, the moderate demand conditions in Europe, the market advantages in favor of Türkiye due to the war, and the successful attempts of firms to diversify their markets have alleviated this pressure. Accordingly, exports in the last quarter were higher than expected at the beginning of the period.

On a sectoral basis, it was observed that automotive and machinery exports displayed a positive outlook, while exports of white goods and chemicals were flat throughout the year. On the other hand, it was stated that firms operating in textile, apparel, basic metal and construction-related sectors felt the slowdown in demand more. The positive outlook in the previous quarters was largely preserved in the tourism sector, and firms in the sector reported high occupancy rates in October and November thanks to the extension of the season.

<sup>1</sup>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 firm 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 Firms\* (QoQ)**

Source: CBRT ELRS.

\* Demand Perception shows the evaluation made by considering the current sales, orders and expectations of the firms. The series is stated 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, not the size of the change.

***In the last quarter of the year, demand conditions supported production.***

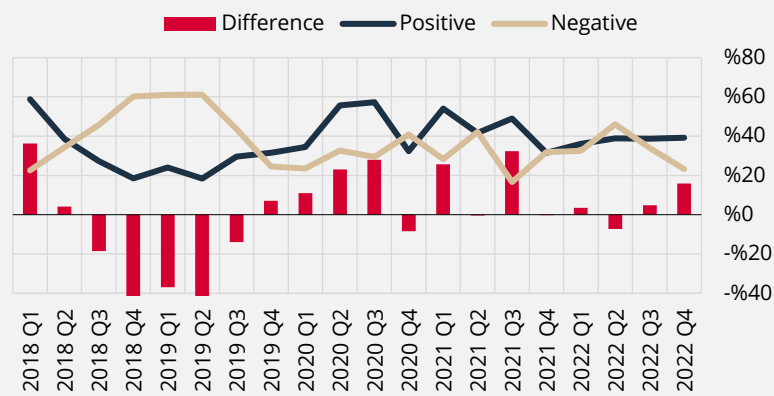
Demand conditions had a positive impact on the production activities of firms working especially for the domestic market. The decrease in supply disruptions, tendency to compensate for production downtimes throughout the year and the strong demand for commercial vehicles supported production of the automotive industry, which is one of the sectors where production is relatively buoyant. In furniture sector, the demand brought forward due to the expectations of price and wage increases in the new year, was the highlighted factor driving production. It was stated that the impact of the EU's weak demand has been limited in machinery-equipment sector due to its value-added production structure and compensated by leaning towards other overseas markets. Production in chemicals, especially in the paint and cleaning products sub-sectors, maintains its strength. In construction sector, recovery signals were received before the expected housing financing supports for the upcoming period. Textile, apparel, cement-ceramic and basic metal were the sectors where a slowdown in production was widely expressed.

***As of fourth quarter of the year, firms' investment stance for the next twelve months continued to recover.***

It is observed that the positive expectations of the firms for economic activity and the financing facilities provided through targeted loan policies improved their investment stances. In accordance with the targeted loan policies, the investment stance of exporting or export-related firms is more positive than that of firms operating in the domestic market.

Machinery-equipment, energy and production facility investments stand out among the investment plans of the firms. High energy costs were said to have increased the investment appetite for solar and wind energy systems. From a sectoral point of view, the appetite for investment to increase capacity is strong in the sub-sectors of manufacturing that have buoyant foreign demand. While warehouse and vehicle investments are at the forefront in the logistics sector, which is facing increasing demand from the service and trade sector after the pandemic, renovation investments in the accommodation sector are increasing. In the retail sector, it is noteworthy that some apparel and durable goods firms, whose demand conditions are favorable, are planning to open new stores. While the high land and production costs suppressed the investment appetite in the housing sector, it was observed that the investment stance of the firms improved with the expectation of new financing support for housing.

Firms continue their tendency to maintain their current employment levels in the next six months. Employment growth is limited except for the firms that plan to increase their capacity in the upcoming period. The increase in automation in the production processes and the efforts to increase efficiency are stated as the main factors limiting an increase in employment. It is understood that increase in the minimum wage and the EYT regulation (early retirement package) will play a decisive role on employment plans, especially in labor-intensive sectors.

**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 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, not the size of the change.

***The firms' need for working capital financing decreased slightly compared to the previous quarter due to declining raw material prices and cash flow improvements.***

Despite falling raw material prices and the stability in the exchange rate, the high working capital requirement throughout the quarter was associated with increased energy expenses. While the improvement in cash flow was expressed as a factor that reduced the need for working capital, it was observed that the emphasis on long-term financing needs for investment continued.

With the latest regulations, the credit conditions and standards have loosened mainly due to the decline in commercial loan rates. Although firms pointed out the limit and maturity aspects throughout the quarter, it was observed that a significant number of the firms did not have any difficulty in accessing finance. The supportive role of rediscount loans and "Advance Loans Against Investment Commitment" of the CBRT continued to be emphasized.

***The ease in cost pressure continued in the fourth quarter.***

Both the firms' emphasis on exchange rate and labor costs as a source of increasing costs and the increase in input and supply-chain costs decreased significantly. The stability in commodity and freight rates and the opening of the grain corridor were influential in easing the input-based cost pressure on firms. On the other hand, energy was highlighted as main cost factor throughout the quarter, more prominently in the October and November.