

Embargoed until: 10:00 (ANKARA), 1 March 2010

HSBC Turkey Manufacturing PMI

Turkish manufacturing sector expanded only marginally during February.

Key findings:

- New orders grew at second-slowest pace in ten months and output rose only modestly.
- Employment rose as manufacturers aimed to expand capacity amid positive expectations for growth.
- Sharpest rise in input costs since July 2008.

February survey data, collected and compiled for HSBC by Markit, signalled a marginal expansion of the Turkish manufacturing sector. However, the pace of growth eased since January, as incoming new business and output both increased at slower rates. Spare capacity at Turkish manufacturers was indicated by a further reduction in backlogs. Despite this, employment rose for a ninth consecutive month. Meanwhile, input costs rose substantially, driven by higher raw material prices. However, strong competition prevented manufacturers from increasing their charges at any meaningful rate.

The seasonally adjusted HSBC Turkey Manufacturing PMI™ provides a convenient single-figure measure of the overall health of the manufacturing economy. PMI readings above 50.0 signal an improvement in business conditions while readings below 50.0 signal deterioration. The headline index posted 50.9 in February, indicating a marginal improvement of business conditions in the Turkish manufacturing sector. However, the PMI was down on January's 53.0.

New orders increased marginally during February, supported by improved demand, particularly from overseas. However, the rate at which incoming new business expanded fell since January, and was one of the lowest recorded during the current ten-month period of sustained increases. Similarly, new export orders increased at a slower pace during February, although the latest rise was still solid.

Reflecting higher levels of incoming new business, output expanded during the month. Production increased at a slower pace compared to January, due to weaker new order growth and some reports of financial constraints. However, backlogs fell further in the month, indicating that a degree of spare capacity persisted in the manufacturing economy.

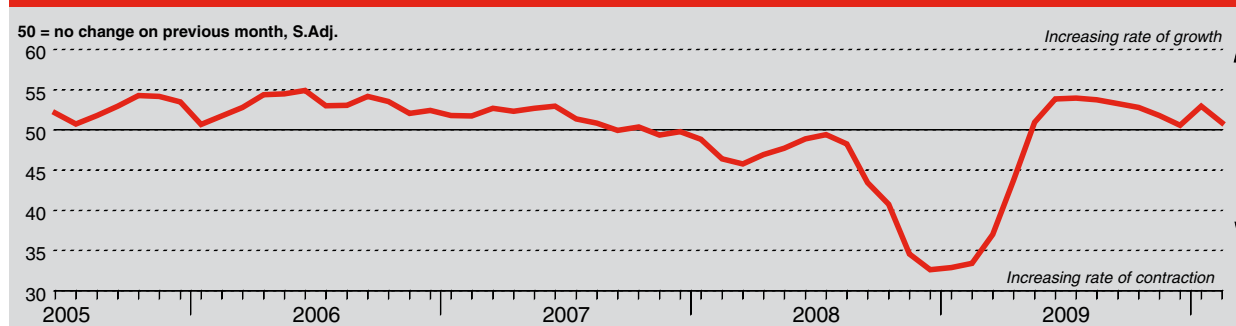
Stocks of finished goods were depleted further during February, despite the reduction in backlogs. Manufacturers reported that they were operating with minimum stocks, and therefore partially meeting new order obligations through existing inventories.

In line with higher output, employment rose modestly during February. Some panellists also noted that they were expanding production capacity due to positive expectations over future activity levels.

Input prices rose for a ninth successive month during February, with the latest rate of increase the strongest since July 2008. Higher raw material prices drove the rise in input costs. In contrast, manufacturers were only able to increase output prices slightly, as strong competition prevented larger rises.

Purchasing activity increased during February to support the expansion in production. The weaker rate of increase in buying volumes reflected not only the slower growth in output, but also higher raw material costs. Stocks of purchases were subsequently utilised to meet production requirements.

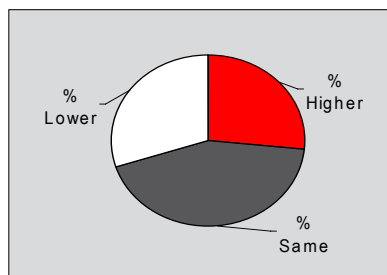
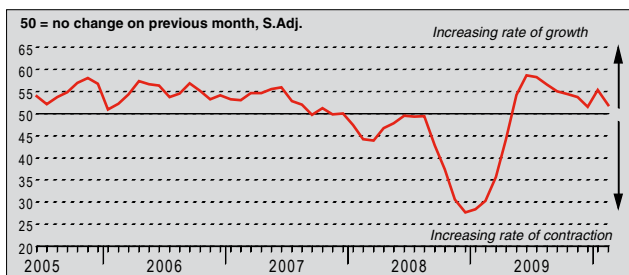
HSBC Turkey Purchasing Managers' Index (PMI™)



The HSBC Turkey Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

Output Index

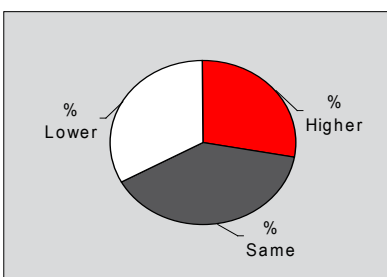
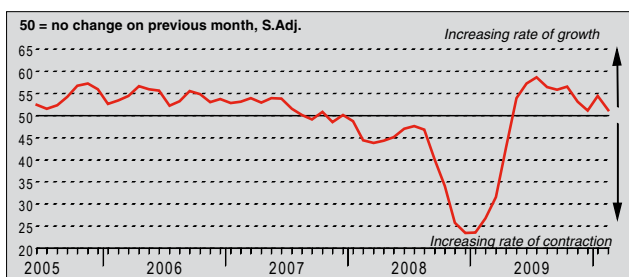
Q. Please compare your production/output this month with the situation one month ago.



Turkish manufacturing companies reported a modest rise in output during February. However, the rate at which production increased was the second weakest in the current ten-month period of growth. Panellists reported that higher output principally reflected rising new order volumes and efforts to expand production capacity. Some panellists commented that higher purchase costs and financial constraints (which had impacted negatively on buying activity) had undermined growth of output.

New Orders Index

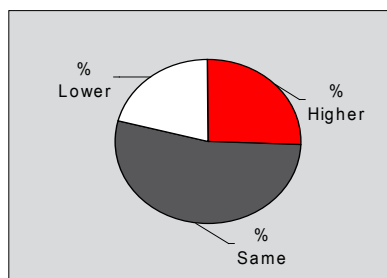
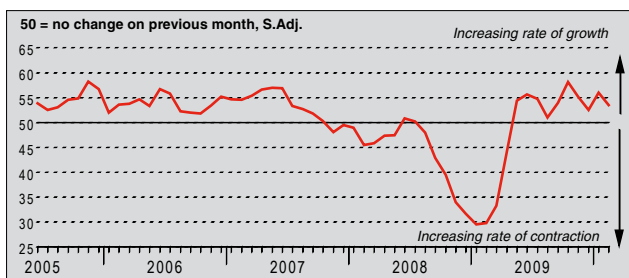
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



New order growth was reported by Turkish manufacturers for a tenth consecutive month in February. However, the rate at which incoming new business increased was markedly lower than in January, easing to a modest pace that was broadly in line with December's recent low. Where new orders rose, this was attributed to improved demand, particularly from overseas, as global economic conditions continued to recover. In contrast, some respondents noted that market conditions remained fragile.

New Export Orders Index

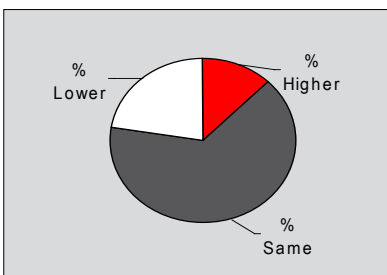
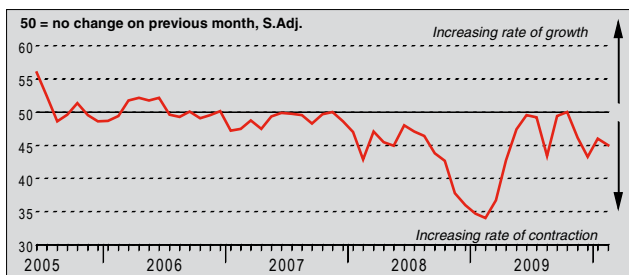
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Incoming new business received from overseas increased robustly in February, despite the rate of growth easing since January. Where a rise in new export order volumes was reported, this was attributed to improved demand resulting from an ongoing recovery in global economic conditions. Around a quarter of the survey panel reported that new export orders had increased since January, and growth has now been recorded for ten months in succession.

Backlogs of Work Index

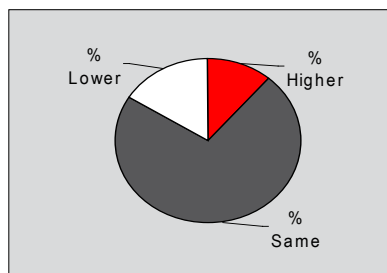
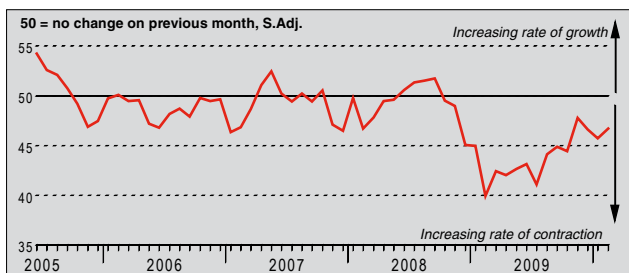
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at Turkish manufacturing companies fell markedly in February, and at a faster pace than that indicated in January. Moreover, the rate at which outstanding business was reduced was faster than the long-run average for the series. The fall in backlogs was predominately attributed by panellists to insufficient new order volumes, with output growth more than meeting requirements. A minority of respondents indicated that lower levels of outstanding business were due to more efficient production.

Stocks of Finished Goods Index

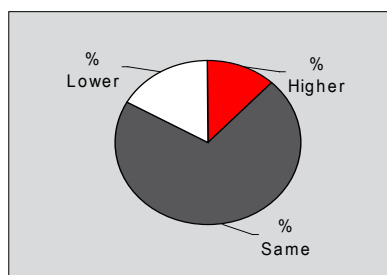
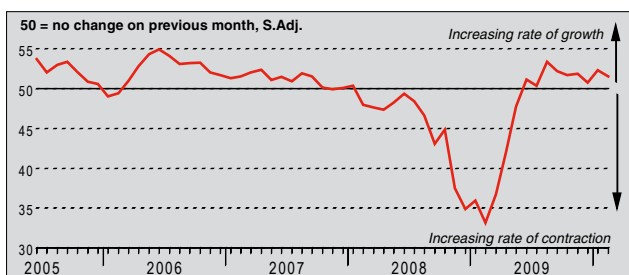
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods fell markedly during February, despite manufacturers reporting a further decline in backlogs. Panellists commented that the sustained decline in stocks of finished goods predominately reflected both a preference to operate with minimum stocks, and the rise in new order volumes seen. The latest rate at which stocks decreased was the second weakest in fifteen months, although remained faster than the historical average for the series.

Employment Index

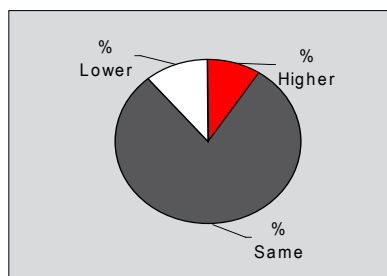
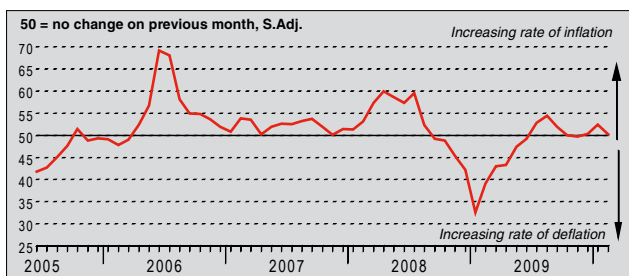
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Turkish manufacturing sector increased modestly in February. However, reflective of a lower rate of new order growth, the pace at which staffing levels increased during the month eased since January. Anecdotal evidence suggested that rising employment reflected higher output requirements, as well as initiatives to expand production capacity in light of positive expectations for output and sales.

Output Prices Index

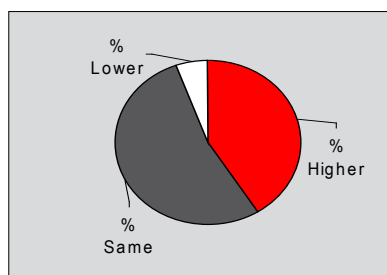
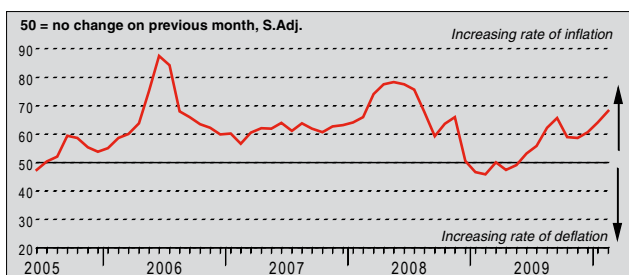
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted marginally above the 50.0 no-change threshold in February, indicating that there was a slight rise in manufacturers' charges. Panellists commented that they had increased output prices as input costs had rose further during the month. However, the rate at which charges increased was marginal, and slower than that reported in January, as strong competition for new business undermined pricing power.

Input Prices Index

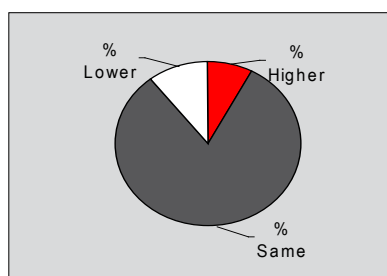
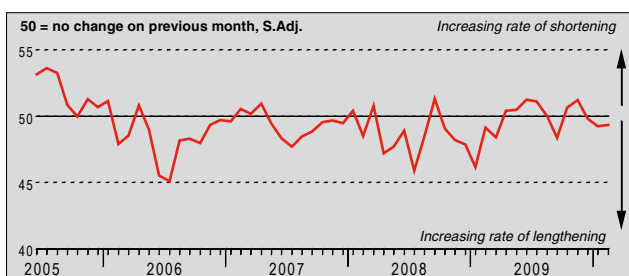
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by Turkish manufacturing companies increased substantially during February. Input costs have now risen in each of the past nine months, although the latest rate of increase was the strongest in that period and the highest since July 2008. Panellists noted that rising input costs reflected higher raw material prices, particularly for oil, cotton, plastic and iron. Additionally, unfavourable exchange rate variations were reported to have also inflated input costs during the month.

Suppliers' Delivery Times Index

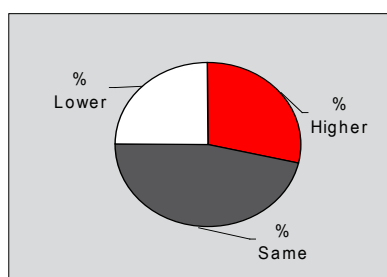
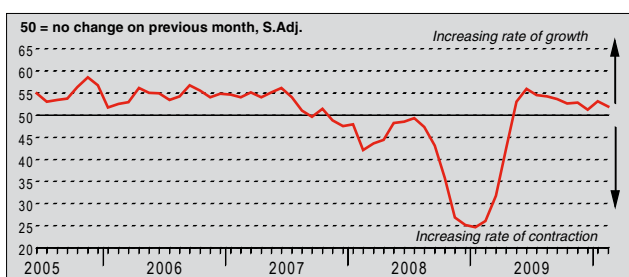
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened in February, although the extent to which lead times deteriorated was broadly unchanged since January. Longer delivery times reflected a number of factors: increased order volumes, difficulty in obtaining certain raw materials, limited capacity at suppliers, and cashflow problems. Suppliers' delivery times have now deteriorated for three successive months. Reflecting the marginal rate of decline, the majority of panellists (approximately 82%) reported that lead times were unchanged in February.

Quantity of Purchases Index

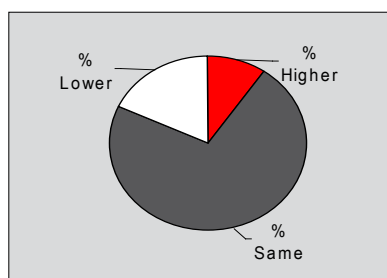
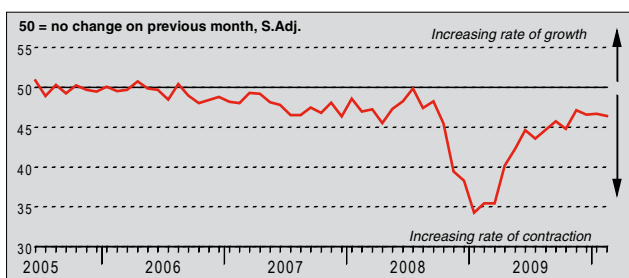
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



February data showed a modest rise in purchasing activity at Turkish manufacturing companies. Panellists commented that quantities of purchases increased principally due to higher production requirements. Some respondents noted that they were seeking to rebuild stocks, with further anticipated rises in input costs accelerating growth. However, the extent to which overall buying volumes increased was slower than January, in line with a lower rate of output growth and higher purchase costs.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Stocks of purchases fell solidly during February, as manufacturers utilised existing stocks to fulfil output requirements. Panellists commented that they had used existing stocks due to higher prices for new raw material purchases, financial constraints, and fewer new orders (resulting in lower output requirements). The rate at which pre-production inventories fell during February was marginally faster than the long-run average for the series.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Turkish Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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