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HSBC Turkey Manufacturing PMI™

Output growth reached a sixteen-month low, as demand showed signs of faltering in August.

Key findings:

- New products helped raise new orders and production for the sixteenth consecutive month.
- Prolonged input price inflation picked up in August, as raw materials availability remained limited.
- Firms continued active stock reduction policies to combat escalating cost burdens.

August's survey data, collected and compiled for HSBC by Markit, indicated the continued loss of growth momentum in the Turkish manufacturing sector. Output, new orders and employment all rose at slower rates as client demand showed signs of faltering. However, supply-side conditions remained tight, with delivery times lengthening again amid global raw material shortages. Input prices subsequently continued to rise, and at a marked pace.

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 51.3 in August, falling from July's value of 52.8 and to a six-month low. Nevertheless, the Turkish manufacturing sector continued to grow at a solid rate and has now expanded for sixteen-months in a row.

New orders also increased for the sixteenth consecutive month as manufacturing firms released new products and designs. This was particularly successful with foreign clients. However, the rate of increase in total new business was only marginal and the slowest in the current sequence of growth. A number of firms suggested markets had stagnated which reduced the pressure to raise production. Output subsequently increased only marginally in August.

Anecdotal evidence also suggested firms attempted to balance

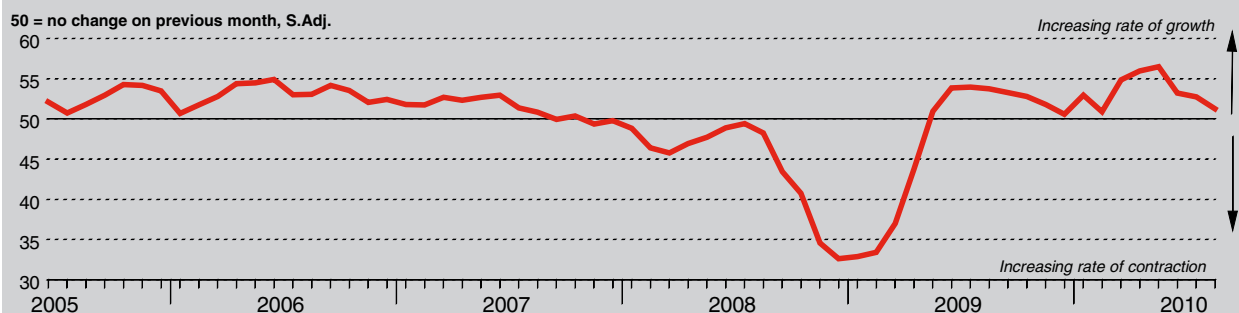
the need to expand production with efforts to control escalating costs, as input prices continued to markedly increase. Surveyed firms reported higher input prices were caused by increased demand and the scarcity of raw materials. Changes in the global economy, such as Russia banning grain exports, contributed to higher prices. Chemicals, metals and wheat were particularly highlighted as inputs which had increased in price. Data suggested the marked rise in input price inflation encouraged firms to utilise existing stocks of inputs rather than purchasing additional items. Stocks were also reduced to combat supply-side shortages, as average lead times for the delivery of inputs continued to lengthen in August.

Meanwhile, in parts of the manufacturing sector, survey participants indicated that capacity remained under pressure. Consequently, a number of panellists reportedly used finished goods from stock piles to meet orders.

Monitored companies attempted to pass on prolonged input price inflation to clients by raising their prices charged for finished goods. However, exchange rates movements prevented charges from rising faster than recorded.

Finally, Firms continued to expand production capability in August, primarily through an increase in their workforces. A number of respondents also introduced new staff to marketing and sales. However, the growth in job creation fell slightly from July's rate.

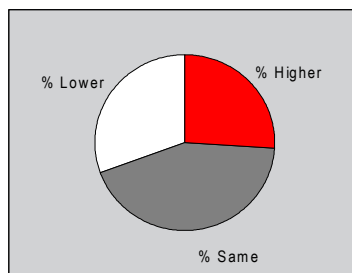
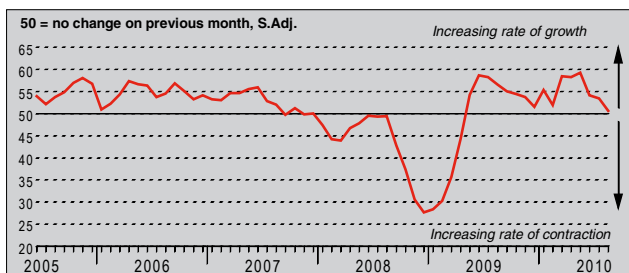
HSBC Turkey Purchasing Managers' Index (PMI™)



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

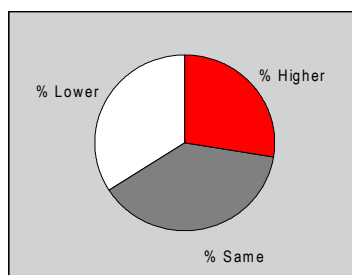
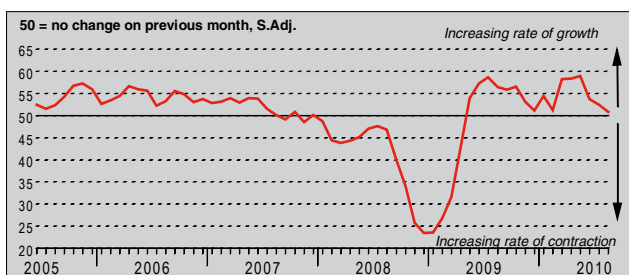
Q. Please compare your production/output this month with the situation one month ago.



Output increased for the sixteenth successive month in August, although the seasonally adjusted index was only marginally above the 50.0 no-change level and signalled the slowest rise in production in the current sequence of expansion. Surveyed companies indicated increased orders, particularly those from abroad, was the main driver of growth. However, in some instances, market activity was reported to have slowed to near stagnation, and subsequently reduced the need to increase production.

New Orders Index

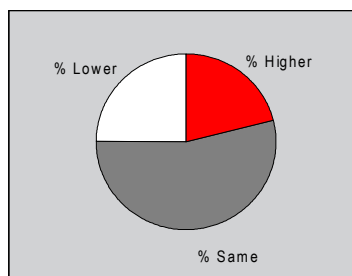
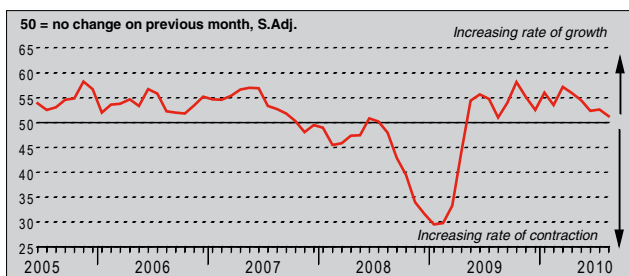
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



The seasonally adjusted New Orders Index was only mildly above the 50.0 no-change mark in August, and continued to fall from May's series high. Some firms that reported higher sales, noted better market conditions and a greater level of orders from foreign clients. This said, over a third of all respondents stated a decline in the number of new orders over the past month. A number of survey participants commented on increased competition and difficult pricing decisions as the main causes of weaker new order growth.

New Export Orders Index

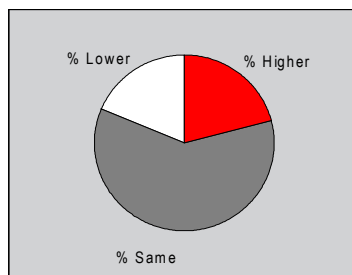
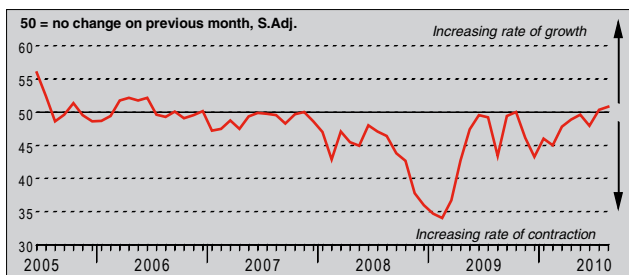
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Exports continued to grow in August albeit at a much weaker rate than March's peak. New products and designs contributed to firms increasing their export orders. However, some firms indicated that intense price competition had made new business harder to secure. Also, anecdotal evidence suggested firms lost business because of delivery delays of finished goods to clients.

Backlogs of Work Index

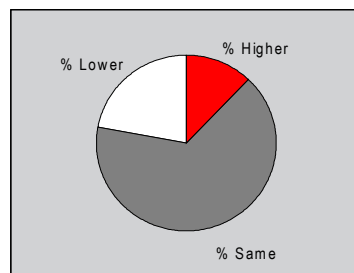
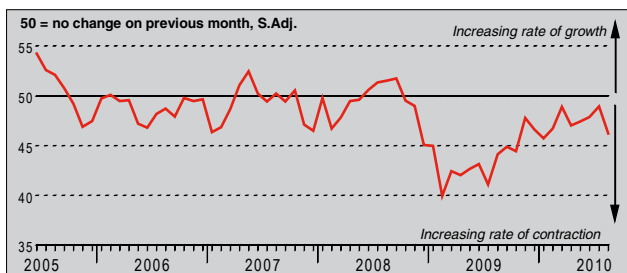
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The amount of backlogged work increased for the second consecutive month in August, showing a slight acceleration from the previous month's growth amid some reports of new order volumes rising at a faster pace than output. However, the seasonally adjusted index remained only marginally above the 50.0 no-change mark. With a number of firms reporting stagnant market conditions softer demand helped to ease production strains.

Stocks of Finished Goods Index

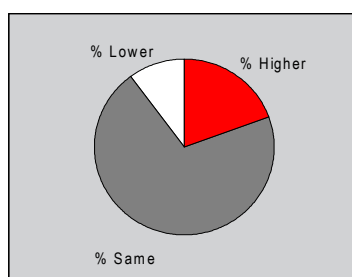
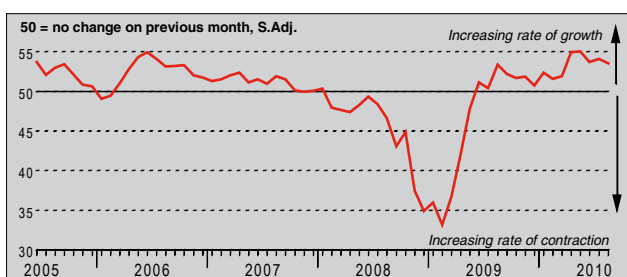
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods were depleted for the twenty-third successive month in August, and at the sharpest pace since January. A number of panellists reported growth in sales was greater than the rise in production, resulting in the utilisation of stocks to supply some orders. Surveyed companies also reported difficulties in obtaining pre-production stocks which further exacerbated the difference between orders and production. Where respondents indicated a rise in stock, finished goods awaiting delivery was the main reason provided.

Employment Index

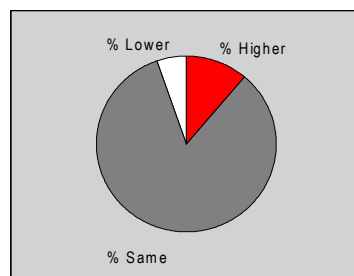
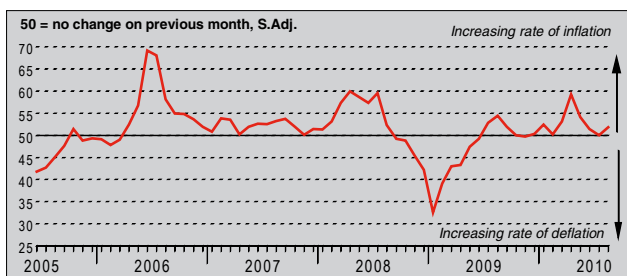
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment continued to increase in August with nearly 20% of monitored companies reporting a rise in payroll staff numbers. Firms expanded their workforce to raise production and meet higher client demand. Some survey participants also introduced new departments and investments which required additional personnel. The seasonally adjusted Employment Index fell slightly from July's level, but still signalled a solid rate of job creation.

Output Prices Index

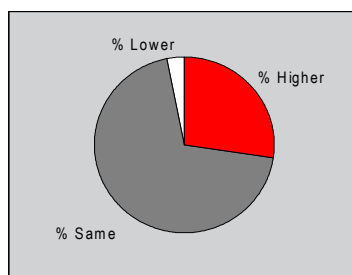
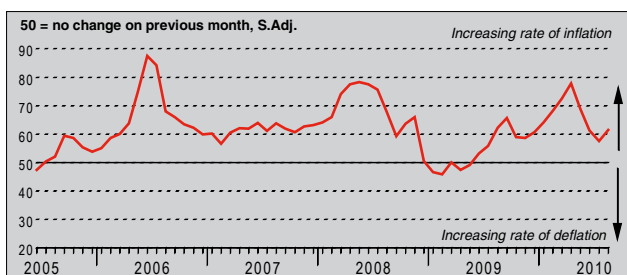
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged for finished goods increased for the ninth month running, with the rate of inflation the fastest in three months. Output prices rose in August as firms attempted to pass on higher production costs arising from larger wage bills and higher prices for raw materials such as iron and wheat. Anecdotal evidence suggested, however, that firms benefited from favourable exchange rates, which prevented a faster rise in charges.

Input Prices Index

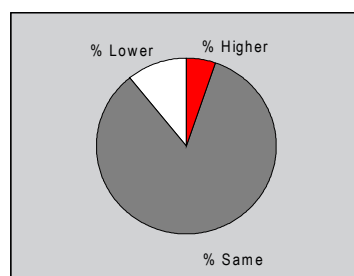
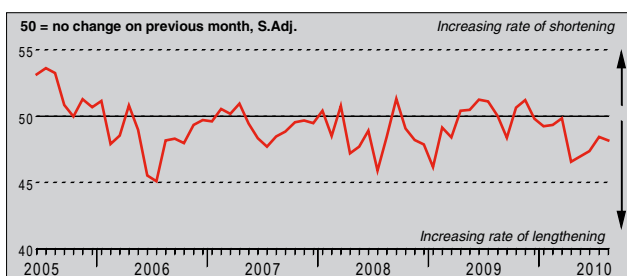
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Price Index continued to run markedly above the 50.0 no-change level. August data represented the fifteenth successive monthly rise in input prices. Changes in the global economic environment, such as Russia banning grain exports, added to the already limited supply of raw materials. Consequently, the price of inputs such as chemicals, metals, cotton and wheat increased. Panellists also reported exchange rate fluctuations raised the cost of importing some pre-production goods.

Suppliers' Delivery Times Index

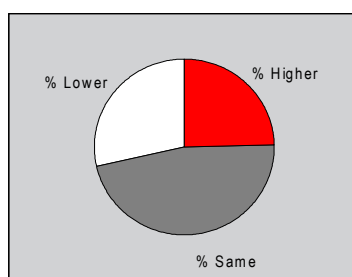
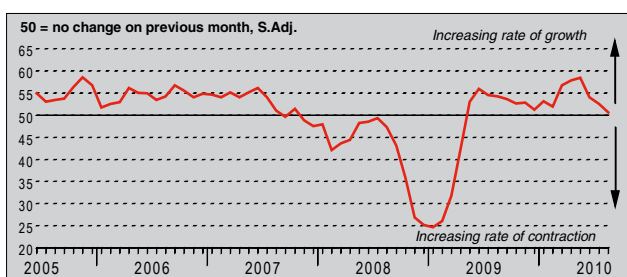
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened in August, with the seasonally adjusted index slightly down on last month's value. Participants indicated the level of inputs demanded had increased over the last survey period as production was raised. However, anecdotal evidence suggested full capacity had already been reached by vendors who were unable to supply inputs to the previous timeframes. Furthermore, survey data indicated vendors also faced difficulty in importing the required production materials.

Quantity of Purchases Index

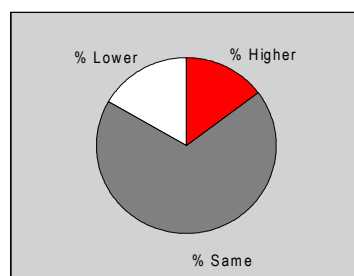
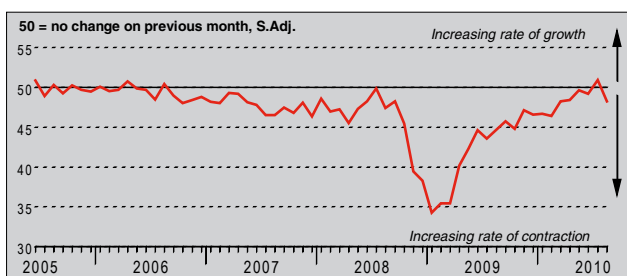
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The amount of inputs purchased by manufacturing firms increased slightly in August, although the rate of growth was the weakest in the current sixteen-month sequence. The total amount bought from vendors grew to cover increased production requirements. Despite this, the seasonally adjusted index value posted only marginally above the no-change level and continued to fall from May's peak. Anecdotal evidence indicated this largely reflected slower gains in new orders.

Stocks of Purchases Index

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



The amount of inputs stored by firms decreased in August, following a marginal increase in stock levels last month. Of the 17% of respondents that registered a depletion of pre-production stocks, the majority of firms undertook active policies to reduce current holdings. Despite this, monitored companies attempted to balance the need for additional inputs required for production and higher input costs, leaving the overall seasonally adjusted index only modestly below the 50.0 no-change mark.

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. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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