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## HSBC Turkey Manufacturing PMI™

Turkish manufacturing business conditions improved only slightly as number of new orders fell for the first time since April 2009.

### Key findings:

- Output growth weakened to a seventeen-month low...
- ... and rate of job creation continued to slow.
- Rate of input cost and output price inflation accelerated in September.

September's survey data, collected and compiled for HSBC by Markit, indicated marginal improvement in the health of the Turkish manufacturing sector. However, the recovery from the 2008-09 recession continued to lose momentum. Output growth weakened during the latest survey period, whilst the amount of new orders fell for the first time in seventeen months. Weaker manufacturing conditions were reflected in slower employment growth and lower purchasing activity by manufacturing firms.

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 in September registered 50.3 – only marginally above the 50.0 no-change threshold. The seasonally adjusted index fell from August's posting of 51.3 to a seventeen-month low.

Output growth weakened marginally from the previous month with a number of surveyed firms attributing this to stagnant markets. Meanwhile, the seasonally adjusted New Orders Index registered a fall during September for the first time since April 2009. The rate of decrease in overall new business was softened by continued growth in new export orders, although this was at a weak pace. Anecdotal evidence indicated the number of export orders increased because of successful investments.

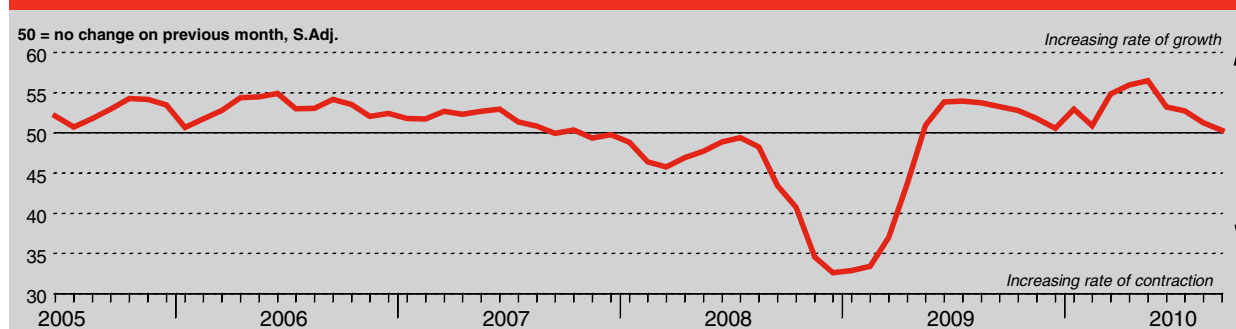
Given weaker output growth and falling new orders, the rate of job creation in the Turkish manufacturing sector continued to slow, hitting a six-month low. Subsequently, the amount of backlogged work increased, albeit at a marginal rate. However, some panellists reported using stocks of finished goods to supply some outstanding business. The seasonally adjusted Stocks of Finished Goods Index fell to the lowest value since January.

On the supply side, delivery times of inputs lengthened for the tenth month running. Anecdotal evidence suggested this was due to increased demand for scarce resources, transport delays and import problems. Monitored companies utilised existing stocks of inputs to compensate against longer delivery times. In addition, firms actively reduced stocks of purchases as stock holding policies changed.

The amount of pre-production goods purchased in September fell for the first time in seventeen months. Panellists reported this was due to a fall in the number of orders and lower output growth.

Input prices rose sharply since the last survey period with survey respondents particularly highlighting energy resources, metals, cotton and wheat as increasing in price. Panellists reported this was due to increased global demand and unfavourable exchange rates. Turkish manufacturing firms were partly successful in passing these higher cost burdens onto clients by raising the price of finished goods.

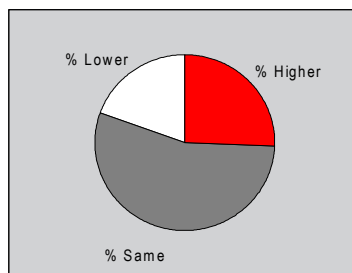
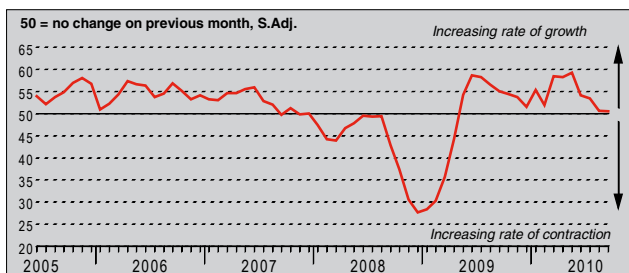
HSBC Turkey Purchasing Managers' Index (PMI™)



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

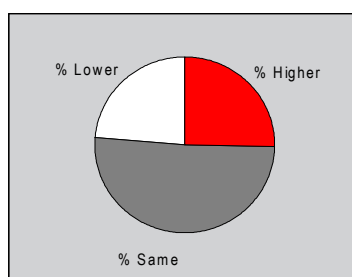
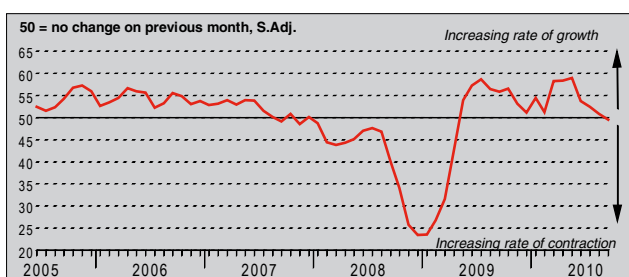
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index posted fractionally above the 50.0 no-change threshold in September. This indicated the output of Turkish manufacturing firms increased at a marginal rate, that was the slowest in the current seventeen-month sequence of growth. Anecdotal evidence suggested output growth was weak due to stagnant demand – export orders increased slightly whilst a number of respondents indicated demand from domestic markets stalled.

### New Orders Index

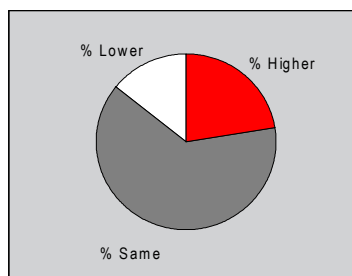
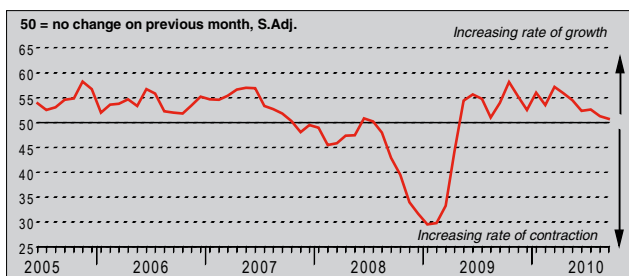
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



In September, the number of new orders received by Turkish manufacturing companies decreased for the first time since April 2009. However, the seasonally adjusted index registered only marginally below the 50.0 no-change level. Panellists attributed this fall in new orders to stagnant markets. Respondents suggested clients were still being affected by the 2008-09 recession and postponed manufacturing orders. Nevertheless, successful advertising increased orders for some monitored companies.

### New Export Orders Index

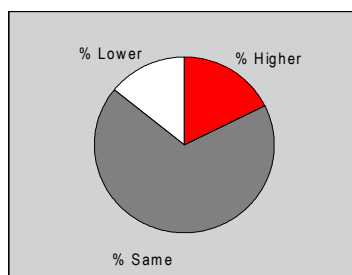
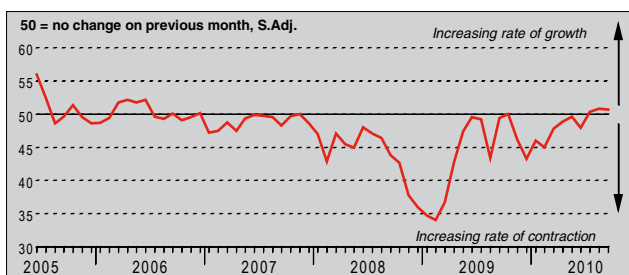
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export order growth continued to weaken during September, reaching a seventeen-month low. Anecdotal evidence from the latest survey indicated successful investments had helped increase the number of new export orders. However, some monitored companies raised finished goods prices to account for unfavourable exchange rates and consequently reported a decline in orders from abroad.

### Backlogs of Work Index

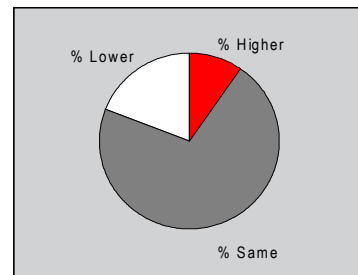
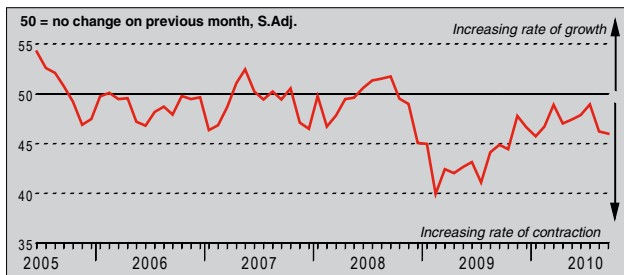
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The amount of outstanding orders within the Turkish manufacturing sector increased at a marginal rate in September. The seasonally adjusted Backlogs of Work Index posted fractionally above the 50.0 no-change threshold and was slightly down from the previous month. Surveyed firms accumulated backlogged work as production rose only slightly over the month. However, some respondents depleted stocks of finished goods in an attempt to reduce the level of order obligations.

### Stocks of Finished Goods Index

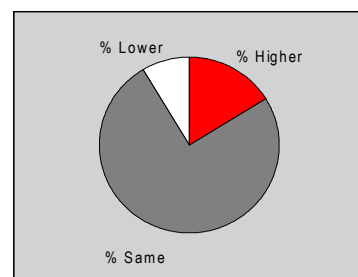
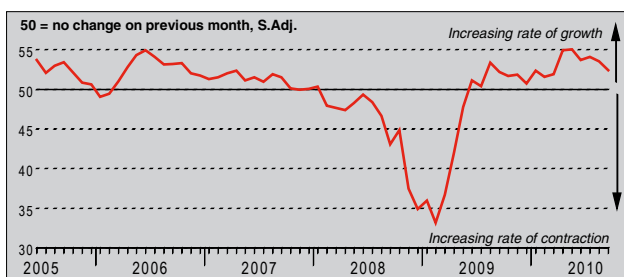
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The level of finished goods stock fell in September extending the current period of deterioration to two years. The latest seasonally adjusted index reading was the lowest since January. Anecdotal evidence indicated a number of firms used stocks of finished goods to fulfil outstanding orders. In addition, some surveyed companies commented on using stock to compensate for the weak production levels in September and supply any new orders received.

### Employment Index

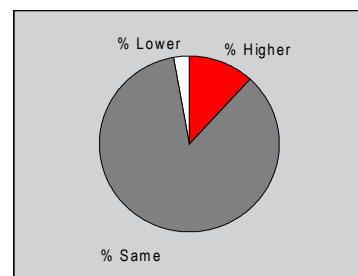
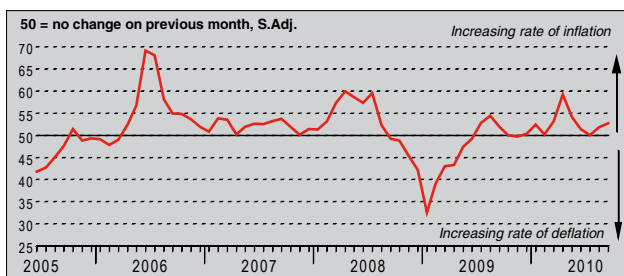
Q. Please compare the level of employment at your unit with the situation one month ago.



In September, the number of people employed in the Turkish manufacturing sector increased for the sixteenth consecutive month. Anecdotal evidence indicated the recent expansion of some departments, especially marketing, increased the need for additional employees in the latest survey period. However, September's seasonally adjusted index registered a modest fall from August reflecting weaker output growth and falling new orders.

### Output Prices Index

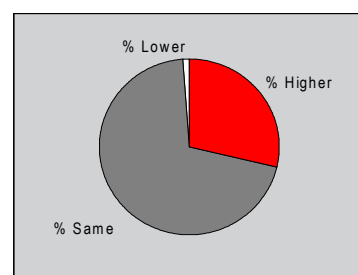
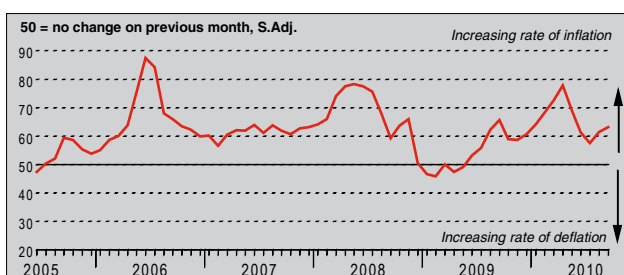
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted above the 50.0 no-change threshold in September. This continued the inflationary period that started in December 2009. Anecdotal evidence suggested respondents increased the price charged for finished goods in response to higher input costs for metals, cotton and wheat. Furthermore, a number of panellists reported increasing output prices to account for unfavourable exchange rate fluctuations.

### Input Prices Index

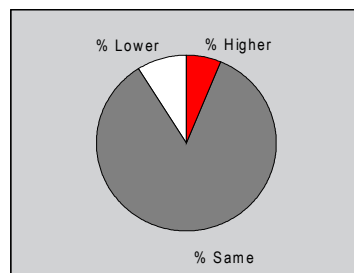
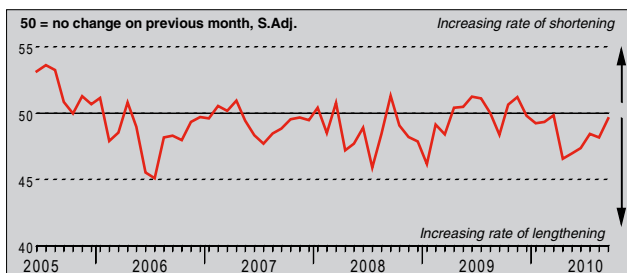
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The cost of inputs continued to rise in September, taking the current period of input price inflation to sixteen months. The rate of input cost inflation quickened since the previous survey period to be the fastest since May. A number of panellists reported price increases for energy resources, metals, cotton and food, with a particular emphasis on wheat. Anecdotal evidence indicated cost burdens increased due to unfavourable exchange rate fluctuations and strengthening global demand.

## Suppliers' Delivery Times Index

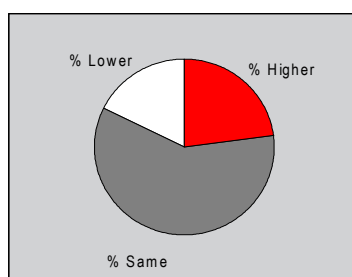
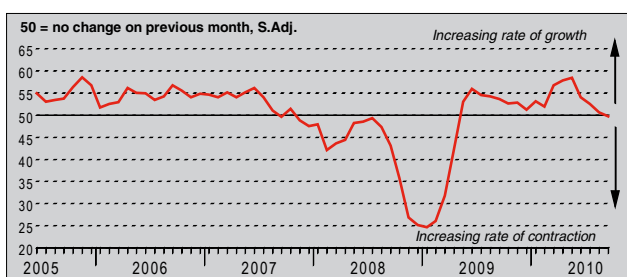
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened further in September. However, this was at a marginal rate with the rate of deterioration continuing to improve from April's fifteen-month low. Monitored companies attributed the lengthening of delivery times to increased demand for inputs, transport delays and import problems. Nevertheless, some surveyed firms suggested production capacity at vendors increased, improving delivery times.

## Quantity of Purchases Index

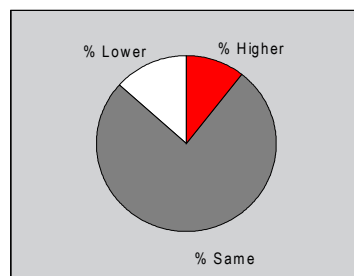
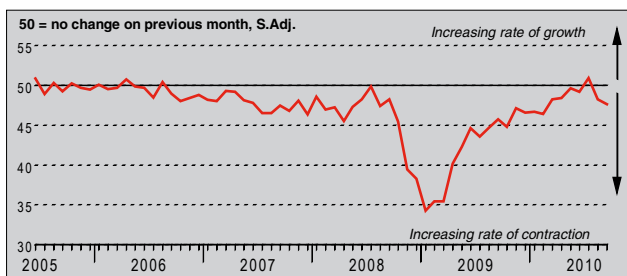
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



September's seasonally adjusted Quantity of Purchases Index posted below the 50.0 no-change level for the first time since April 2009, albeit only slightly. This indicated the amount of inputs purchased by manufacturing companies marginally decreased over the latest survey period. Anecdotal evidence suggested a number of firms reduced the amount of inputs purchased in response to falling new orders. However, some panellists suggested the rate of decrease was weak as higher export orders required a rise in input purchases.

## Stocks of Purchases Index

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



Stocks of purchases continued to be depleted in September, and at the fastest pace in seven months. Evidence from respondents indicated firms decided to utilise existing input stocks to avoid paying higher material costs. In addition, a change in stock holding policies for a number of manufacturing firms resulted in lower holdings of inputs. However, some panellists reported increasing their amount of stock in anticipation of faster order growth in the coming months.

## 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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