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## HSBC Turkey Manufacturing PMI™

Marked improvement in Turkish manufacturing sector as output growth reaches five-month high.

### Key findings:

- New orders recovered markedly from September's dip.
- Strong employment growth as Turkish manufacturers sought to expand production.
- Rate of input cost inflation quickened to five-month high.

October's survey data, collected and compiled for HSBC by Markit, suggested solid improvement in the health of the Turkish manufacturing sector. Marked growth in output and new orders encouraged firms to expand their production capacity by enlarging their workforces and increasing their purchasing activity. However, this was partly offset by persistent cost inflation and longer suppliers' delivery times.

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 October registered 54.3, up from 50.3 in September, indicating solid strengthening of the manufacturing sector. This was the fastest rate of improvement in five months and extended the current period to eighteen months.

During October, output rose at Turkish firms at the fastest rate in five months. Panellists attributed this to increased orders and improved economic conditions in both domestic and international markets. In particular, growth in new orders quickened to a five-month high and indicated a marked recovery from September's decline. New export orders also grew solidly with panellists attributing this to greater foreign demand and favourable exchange rates.

Despite output growth being faster than that of new orders, the amount of backlogged work rose during October. Anecdotal

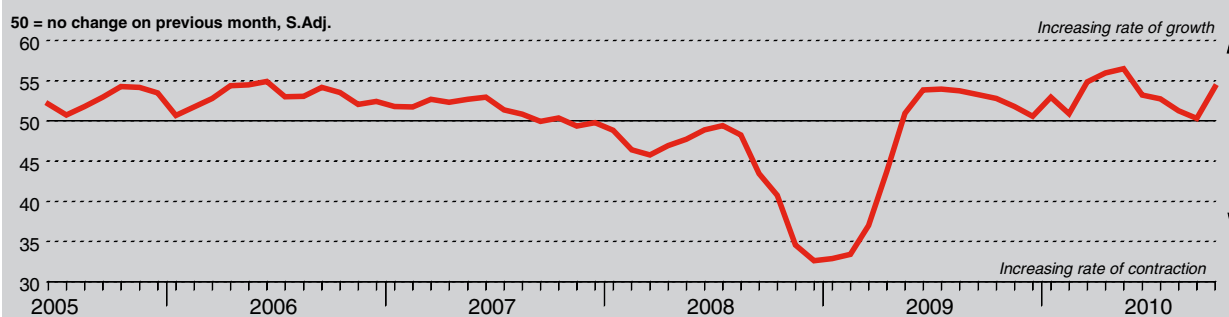
evidence suggested firms exhausted all spare capacity in the sector and were now facing production constraints. Given this, a number of respondents attempted to expand production capability by enlarging their workforces. Employment growth in October was the joint-strongest in the survey history and extended the current period of job creation to seventeen months.

Stocks of finished goods continued to be depleted during October. Panellists attributed this to stocks being used to supplement production and meet increased orders.

Reflective of increased output, the amount of inputs purchased by manufacturers rose at a marked pace during the survey period. Moreover, the level of stock holdings of purchases increased for the first time in three months. Surveyed firms commented on increasing stocks of purchases to mitigate higher input cost inflation and suppliers' delivery delays. Lead times continued to lengthen in October as demand for inputs increased. In addition, anecdotal evidence suggested suppliers' delivery times lengthened as vendors were working at full capacity and had difficulty in sourcing raw materials.

The scarcity of raw materials resulted in a faster rate of input cost inflation – the sharpest in five months. Panellists particularly highlighted cotton and oil as rising in price during October. Turkish firms attempted to pass these higher cost burdens on to clients by raising the prices they charged. The rate of output price inflation was the fastest since April.

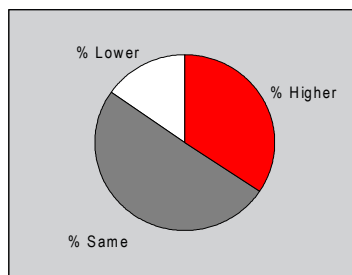
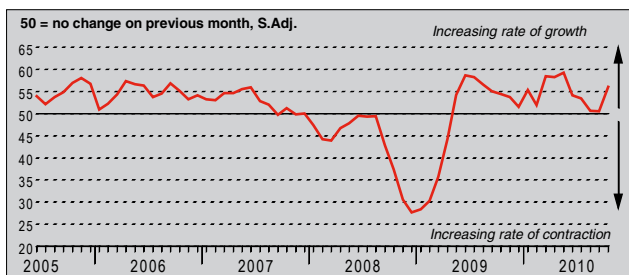
HSBC Turkey Purchasing Managers' Index (PMI™)



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

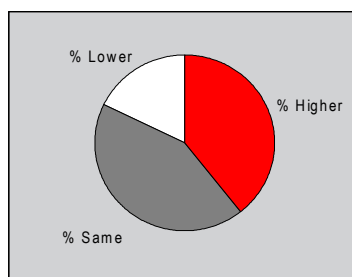
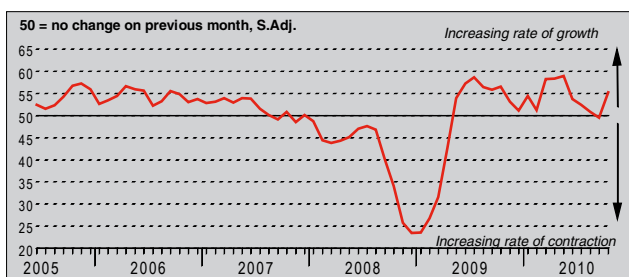
Q. Please compare your production/output this month with the situation one month ago.



Output at Turkish manufacturing firms rose substantially during October with the rate of growth being the fastest in five months. Moreover, the latest seasonally adjusted index reading indicated a marked improvement from September's seventeen-month low. Survey participants attributed higher output to increased orders and improved economic conditions. However, a number of companies commented that higher input costs and suppliers' delivery delays softened the rise in output.

### New Orders Index

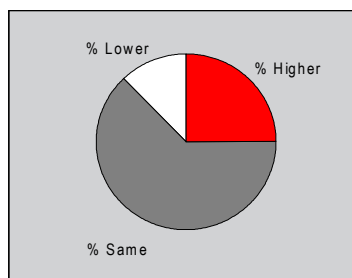
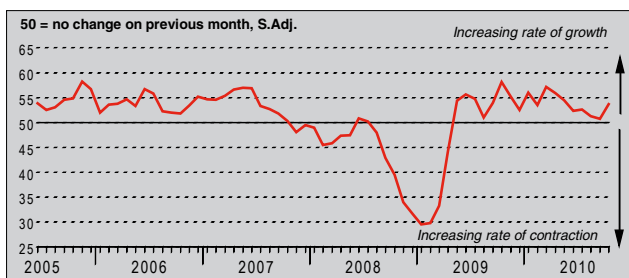
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



In October, the number of new orders made at Turkish manufacturing firms increased, recovering strongly from September's fall. The rate of expansion was marked with a number of respondents commenting on greater demand for Turkish products. Increased demand and faster new orders growth were experienced in both domestic and international markets, however anecdotal evidence suggested stronger growth was recorded in the Turkish market.

### New Export Orders Index

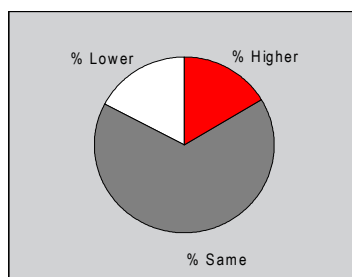
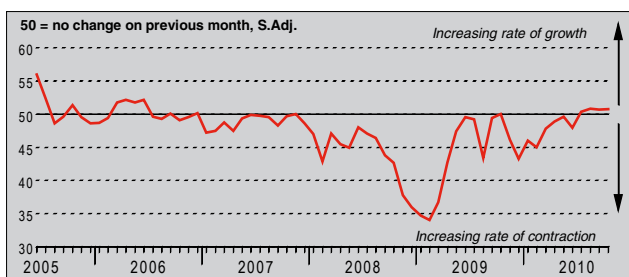
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index posted above the 50.0 no-change threshold for the eighteenth consecutive month in October. Moreover, the latest reading showed a strong improvement from September's seventeen-month low. Turkish manufacturers attributed increased export orders to greater foreign demand and favourable exchange rates. In addition, a number of monitored companies suggested the effects of the 2008-09 recession were easing for several trading partners.

### Backlogs of Work Index

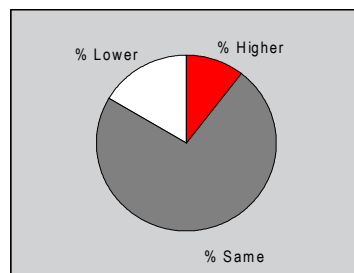
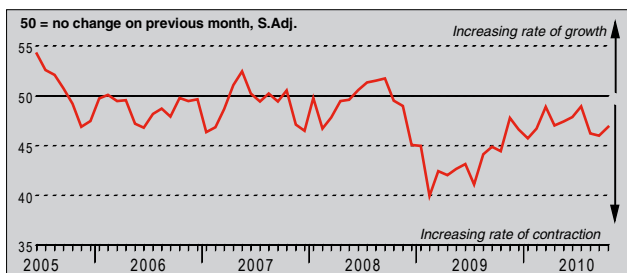
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The amount of outstanding order obligations increased for the fourth consecutive month during October. However, the rate of accumulation was at a mild pace and only marginally faster than September. Anecdotal evidence indicated firms struggled to meet increased orders as production capacity was limited. Conversely, a number of panellists commented on expanding production and were able to clear backlogs to some extent.

### Stocks of Finished Goods Index

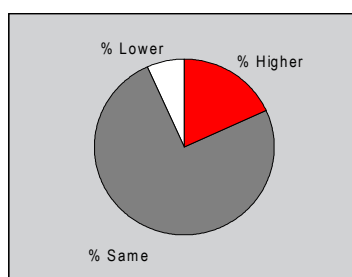
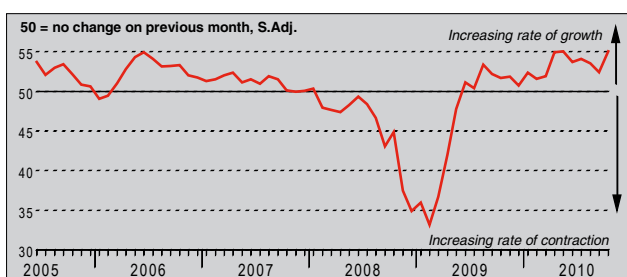
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index continued to post below the 50.0 no-change threshold in October. This indicated the amount of stock held at Turkish manufacturing firms fell, which has been the case for twenty-five months now. However, October's rate of depletion was the weakest in three months. Monitored companies reported stocks of finished goods were used to supplement production and meet increased orders.

### Employment Index

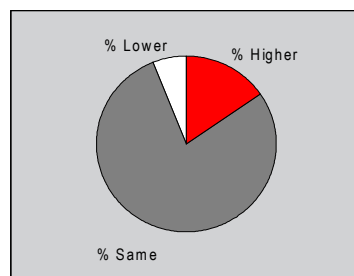
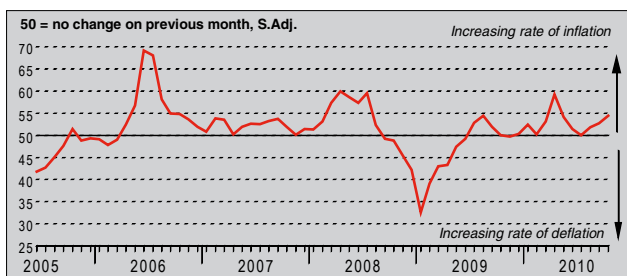
Q. Please compare the level of employment at your unit with the situation one month ago.



During October, the number of people employed within the Turkish manufacturing sector increased for the seventeenth consecutive month. Moreover, the rate of job creation quickened to the joint-fastest in the series history. Anecdotal evidence attributed the rise to increased orders and to manufacturers increasing production capability by expanding their workforces.

### Output Prices Index

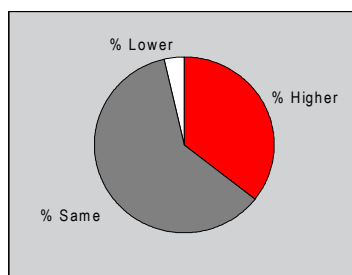
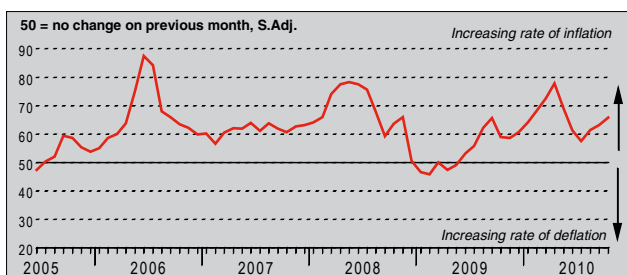
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The prices charged by Turkish manufacturers increased for the eleventh successive month in October. The seasonally adjusted Output Prices Index rose modestly from September to the highest level since April. Attempts to pass on higher input costs was the most frequent reason provided by survey panellists. In addition, a number of monitored companies also attributed the faster rate of charge inflation to exchange rate fluctuations.

### Input Prices Index

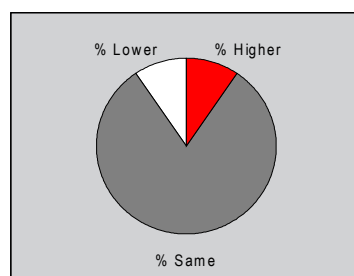
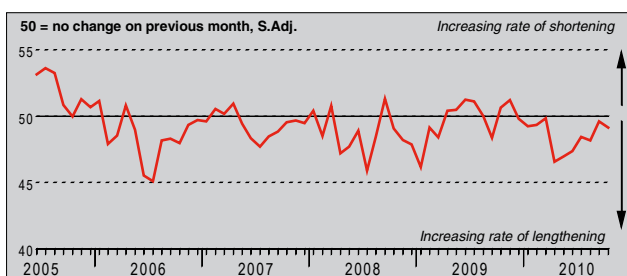
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



In October, the cost of inputs rose at a marked rate. Over 35% of respondents registered higher cost burdens during the survey period. Moreover, the rate of input price inflation rose modestly to a five-month high. Panellists commented on higher costs for raw materials, with cotton and oil mentioned in particular. Meanwhile, a number of firms suggested changes in purchasing policies provided an opportunity to limit the overall rise in costs.

## Suppliers' Delivery Times Index

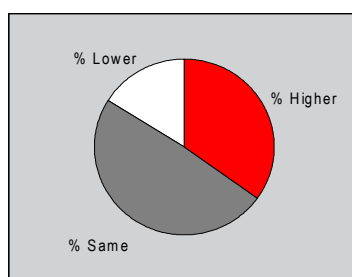
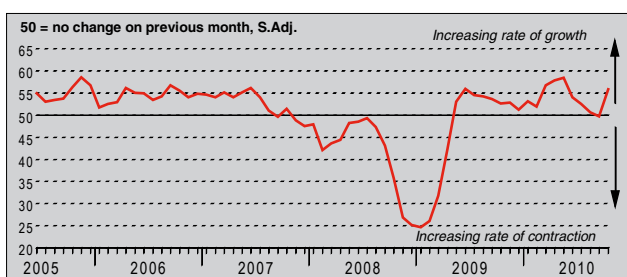
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times continued to lengthen in October, taking the current sequence to eleven months. However, this was at a marginal rate with the latest seasonally adjusted index reading only mildly below the 50.0 no-change level. Anecdotal evidence attributed this to greater demand for inputs that placed additional pressure on already stretched vendors. In addition, the scarcity of raw materials added to delivery delays during the survey period.

## Quantity of Purchases Index

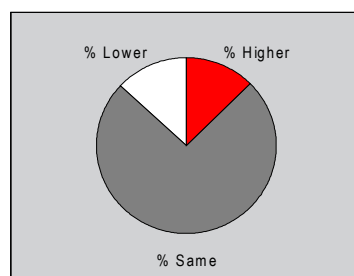
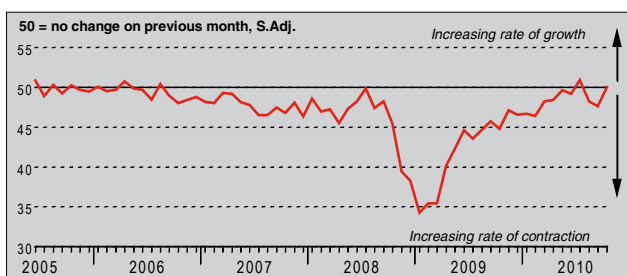
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In October, the amount of inputs purchased by Turkish manufacturing firms increased markedly from September. Moreover, growth in purchasing activity was the fastest since May as nearly 35% of respondents reported increased purchases than the previous survey period. Input buying has now grown in seventeen of the past eighteen months. Surveyed manufacturers attributed the rise in purchases to increased production.

## Stocks of Purchases Index

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



Stocks of purchases rose in October, ending a two-month period of depletion. Nevertheless, the rate of increase was only marginal with the seasonally adjusted index posting slightly above the 50.0 no-change threshold. Stock levels increased as panellists anticipated further growth in new orders. In addition, monitored companies suggested purchases were accumulated to hedge against both input cost inflation and suppliers' delivery delays.

## 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.

## Warning

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