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HSBC Turkey Manufacturing PMI™

PMI registers seven-month high in October, but remains below the peaks seen in Q1

Key findings:

- PMI rises for second month running
- Output and new order growth strongest for seven months
- Input cost and output price pressures intensify

Turkish manufacturing output, new business and employment all rose at faster rates at the start of Q4, contributing to the strongest improvement in operating conditions since March. Meanwhile, price pressures in the sector increased.

The seasonally adjusted HSBC Turkey Manufacturing *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of the performance of the sector – continued to climb in October, reaching a seven-month high of 53.3 (up from 51.5 in September). The latest reading signalled a stronger improvement in manufacturing business conditions. However, the headline index remained well below the series record highs reached in the first quarter of the year.

New order receipts at Turkish manufacturers rose at a solid and accelerated rate in October. The latest increase was the most pronounced for seven months, with panellists linking growth to favourable market conditions and improved demand. Meanwhile, new export order levels were unchanged, after rising in September. Reports showed that economic problems across Europe had partly contributed to subdued foreign demand.

Responding to overall new order growth, Turkish manufacturers raised production, purchased additional inputs and increased the

size of their workforces in October. Rates of increase in both output and buying activity were the fastest since March, while job creation was the most pronounced since June. Increased output requirements and company expansion plans were also reasons for raised staffing levels, according to panellists.

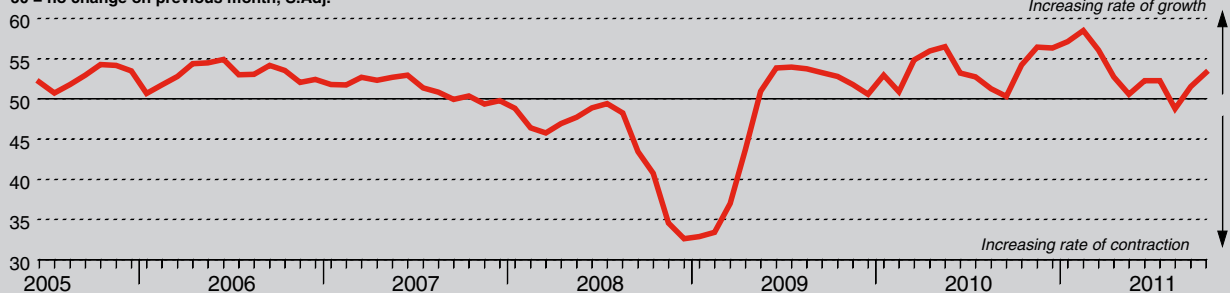
The latest rise in purchases was sufficient to build input stocks in October, albeit only marginally. This was the first accumulation of pre-production inventories for five months. Meanwhile, employment growth helped manufacturers to clear backlogs of work. Unfinished business was depleted for the eighth month running, and at a sharper pace.

Input price pressures faced by Turkish manufacturers intensified during the latest survey period. Inflation has now been recorded in the sector for 29 straight months, with the latest increase the sharpest since March. Driving the latest rise in input costs were higher raw material and fuel prices, as well as unfavourable exchange rate, according to respondents.

To compensate for higher input costs, manufacturers raised their own rates in October. Selling prices increased at a marked pace that was the strongest for six months.

HSBC Turkey *Purchasing Managers' Index™ (PMI™)*

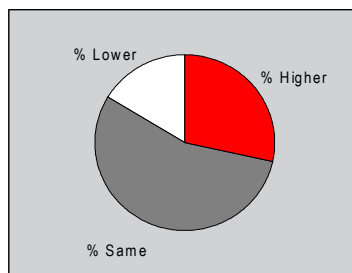
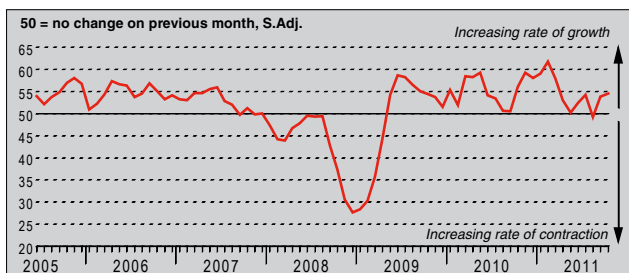
50 = no change on previous month, S.Adj.



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. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

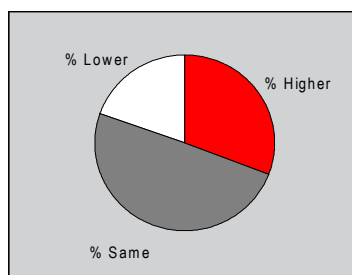
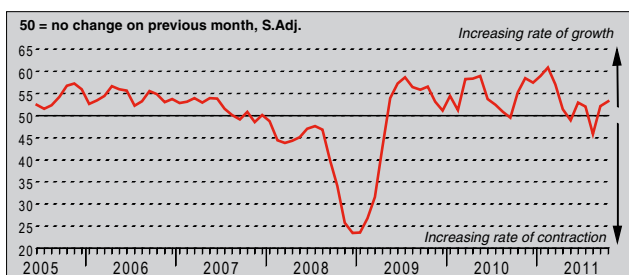
Q. Please compare your production/output this month with the situation one month ago.



Turkish manufacturers raised production again at the start of Q4. Furthermore, the rate of increase accelerated to a seven-month high. Output in the sector has expanded in 29 of the past 30 survey periods (August saw a slight fall). Respondents stated that activity grew in response to gains in new orders.

New Orders Index

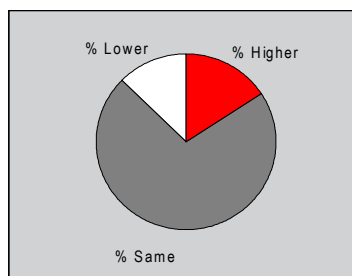
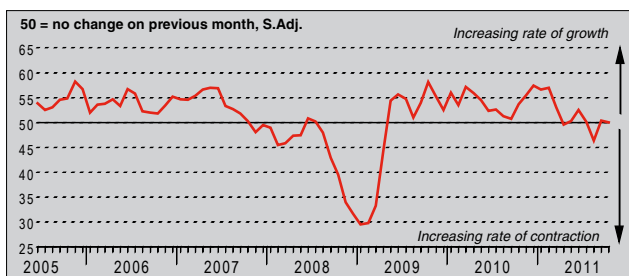
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



Rising since September, the seasonally adjusted New Orders Index registered a seven-month high in October. This signalled a stronger increase in new business received by Turkish manufacturers. Even so, the rate of expansion remained below the series 12-month average. Companies indicated that new work grew as a result of improved market conditions and solid demand.

New Export Orders Index

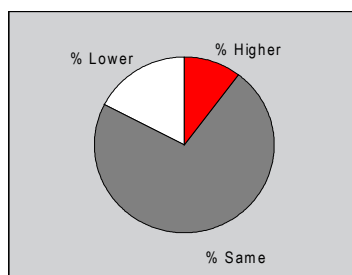
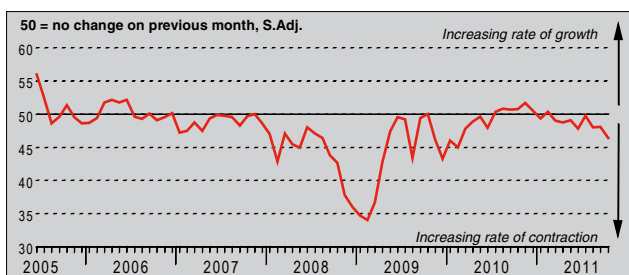
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Takings of new export orders were unchanged during the latest survey period, after a marginal increase in September. Where an improvement in new work from abroad was recorded, firms commented on successful advertising campaigns and stronger demand. Meanwhile, uncertainty surrounding economic difficulties in Europe contributed to a drop in new export orders at some firms.

Backlogs of Work Index

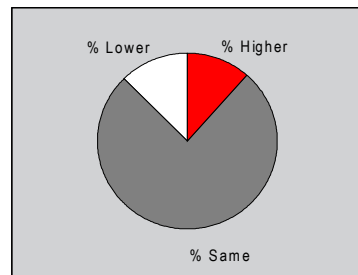
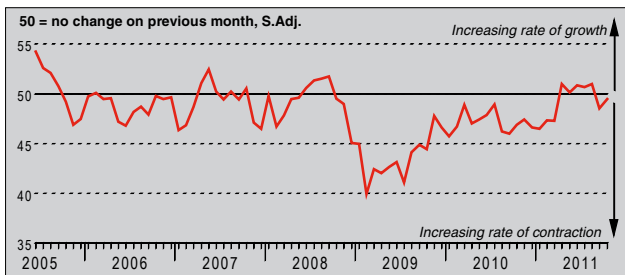
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Turkish manufacturers stepped up their efforts to clear backlogs during October, with employees working overtime in some cases. Consequently, unfinished business fell at an accelerated pace that was the sharpest for 20 months. Over 17% of panel members posted a reduction in work-in-hand, against 10% that registered a build-up.

Stocks of Finished Goods Index

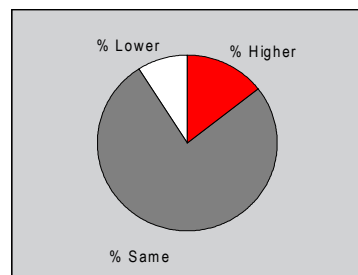
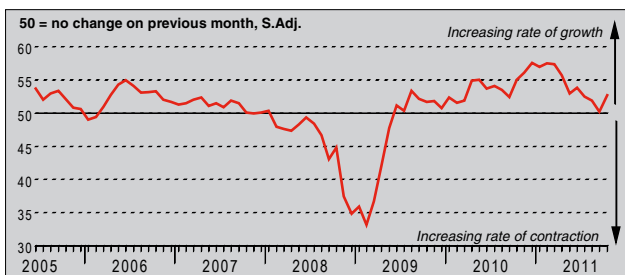
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Finished goods stocks at Turkish manufacturers fell for the second consecutive month in October, albeit at a slower rate than during September. Reports showed that greater-than-expected sales levels, alongside faster deliveries to customers, were the principal factors behind lower holdings.

Employment Index

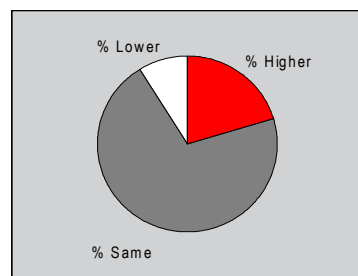
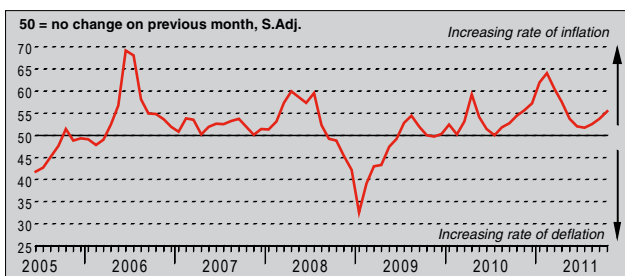
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Turkish manufacturing industry rose for the twenty-ninth successive month in October. Growth was solid and the strongest since June, with over 14% of monitored companies recruiting additional staff. Higher production levels and company expansions were cited by panellists as reasons for job creation.

Output Prices Index

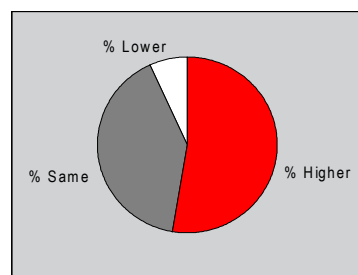
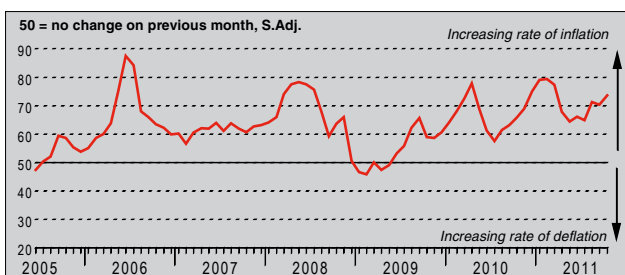
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged for Turkish manufactures rose at an accelerated pace at the start of Q4. This was shown by the seasonally adjusted Output Prices Index climbing to a six-month high, signalling a marked rate of inflation. Higher input costs led to the increase in tariffs, according to respondents.

Input Prices Index

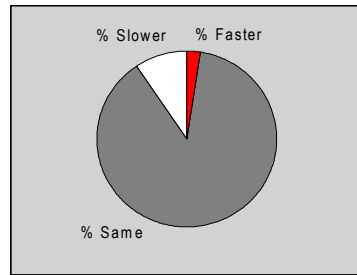
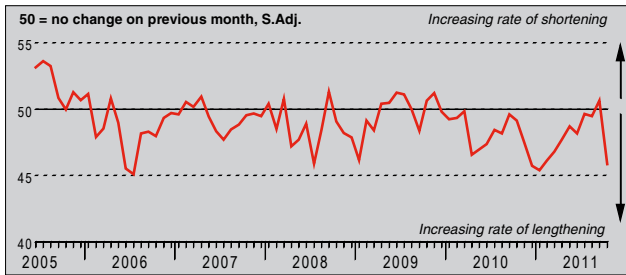
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Turkish manufacturers recorded another increase in their average purchase costs in October, bringing the current run of inflation to 29 months. Moreover, the rate of increase picked up to a considerable pace that was the steepest since March. Anecdotal evidence indicated that higher raw material and fuel prices, as well as unfavourable exchange rate movements, drove up input costs.

Suppliers' Delivery Times Index

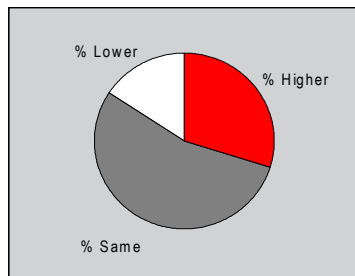
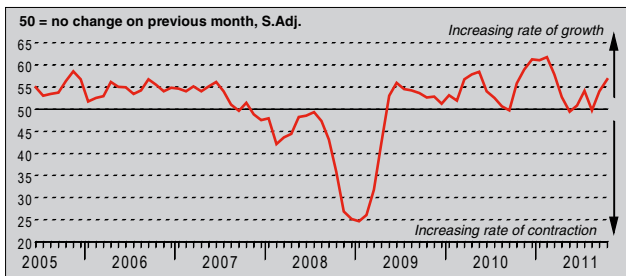
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times lengthened solidly during October, after a slight improvement in September. Turkish manufacturers have reported input delivery delays in 22 of the past 23 months. The latest deterioration in vendor performance was the most marked since January and faster than the long-term series average.

Quantity of Purchases Index

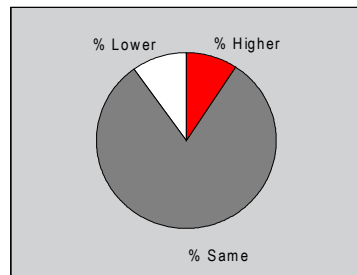
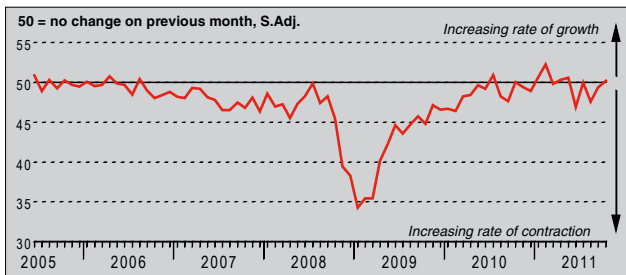
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In response to new order growth, as well as efforts to restock, buying activity increased in October. The latest rise was marked and the sharpest since March. Approximately 30% of the survey panel raised their input buying since September, against less than 16% that reduced their purchases.

Stocks of Purchases Index

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



In order to keep pace with market demand, as well as to guard against supplier delivery delays, Turkish manufacturers raised their holdings of pre-production goods in October. This followed two straight months of contraction. However, data pointed to only a marginal accumulation of input stocks.

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 industry contribution to Turkish GDP. 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: 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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