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# HSBC Turkey Manufacturing PMI™

Modest expansion of Turkish manufacturing sector in September

## Key findings:

- New orders return to growth, output increases at faster pace
- Stocks of finished goods rise for first time since March
- · Input cost inflation accelerates further

After being unchanged in the previous month, operating conditions in the Turkish manufacturing sector improved for the first time in three months during September. New orders returned to growth following two successive monthly falls, and output increased at a faster pace. Meanwhile, the rate of cost inflation accelerated again but firms were only able to raise output prices marginally.

The seasonally adjusted HSBC Turkey Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing industry – posted 52.2 in September, up from a reading of 50.0 in August and signalling the first improvement of business conditions in the sector since June.

New orders increased during September after falling in July and August. However, the rate of expansion was only marginal. Where new business rose, this was linked to signs of rising client demand. An expansion of new export orders was also recorded. New business from abroad has increased in ten of the past 11 months.

Higher new orders was one of the reasons for a second successive monthly increase in production. That said, output was also supported by a depletion of outstanding business and efforts to accumulate stocks of finished goods. The rate of growth in production was solid, and the fastest since October 2011.

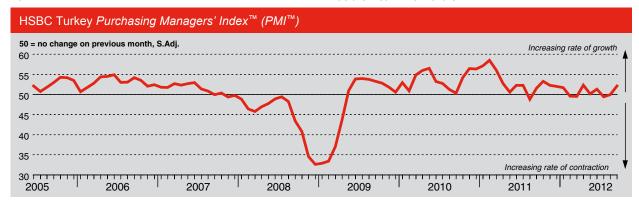
Backlogs of work decreased, as has been the case in each month since March 2011. However, the rate of depletion slowed again and was the weakest in seven months. Manufacturers took on extra staff in support of rising production. Moreover, the rate of job creation picked up and was the sharpest since April. Employment has now risen in each of the past 40 months.

The rate of input cost inflation accelerated again in September, but remained slower than the series average. Higher oil and raw material costs had reportedly been behind the latest rise in cost burdens, while unfavourable exchange rate fluctuations were also a factor.

Manufacturers were only able to pass on part of the rise in input costs to their clients in September as demand remained fragile. Although charges increased for the first time in three months, the rate of inflation was marginal.

Increased production requirements led to a rise in purchasing activity, with the rate of growth the fastest since April. Rising demand for inputs contributed to longer suppliers' delivery times. Moreover, the latest lengthening of lead times was the most marked since October 2011.

Expectations of growth of output and new orders led manufacturers to accumulate stocks of purchases in September. Post-production inventories also increased as output growth outpaced that of new orders. The rise in stocks of finished goods was the first in five months.



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 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.

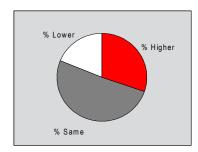




## **Output Index**

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

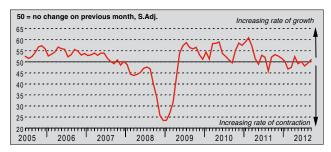


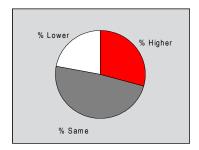


Turkish manufacturing output increased for the fifth time in the past six months during September. The rate of expansion was solid, and the fastest since October 2011. Although the rise in production partly reflected higher new orders, data suggested that the depletion of backlogs of work and attempts to build up stocks of finished goods had also supported 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.



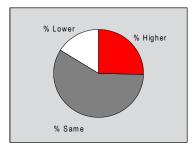


New orders increased in September, ending a two-month sequence of decline. That said, the rise in new business was only slight. Some panellists indicated that growth of new orders reflected signs of improving client demand. However, there were still reports that economic conditions remained broadly stagnant, thereby restricting the rate of expansion in new business.

# New Export Orders Index

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



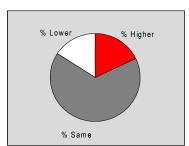


September data signalled a third successive monthly expansion of new export business at Turkish manufacturing firms, with the modest increase broadly in line with that seen in the previous month. According to respondents, there had been some improvements of demand in export markets, although economic difficulties in Europe remained a negative influence.

## Backlogs of Work Index

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

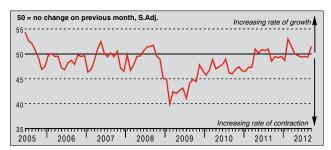


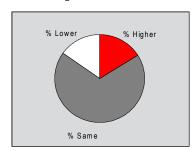


With growth in new orders only slight, Turkish manufacturers used higher output to support further reductions in work outstanding during September. Outstanding business declined for the nineteenth successive month, albeit at the slowest pace since February. The latest fall was also weaker than the series average.

## Stocks of Finished Goods Index

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



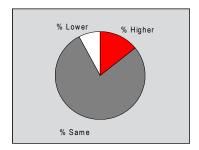


Post-production inventories at Turkish manufacturing firms increased for the first time since March during September. However, the pace of accumulation was only slight. Panellists reported that weak sales growth and a faster expansion of output were the main reasons for the rise in stocks. More than 16% of respondents signalled higher post-production inventories, against 15% that posted a reduction.

#### Employment Index

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

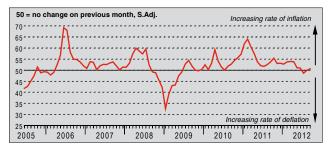


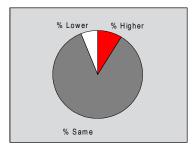


Employment continued to increase in September, extending the current sequence of job creation to 40 months. Furthermore, the latest rise in stafing levels was solid, and the fastest since April. Anecdotal evidence suggested that extra staff had been hired in order to support the expansion in production. More than 14% of panellists recorded an increase in employment, against 8% that reduced staffing levels.

# 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.



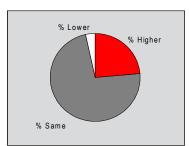


For the first time in three months, Turkish manufacturers raised their output prices during September. However, the rate of inflation remained only marginal and was weaker than the series average. Where firms did increase their prices charged, this was mainly linked to the passing on of greater cost burdens. However, a fragile demand environment prevented a faster rate of output price inflation.

## Input Prices Index

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

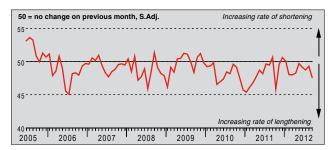


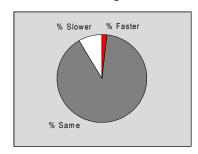


As has been the case in each month since June 2009, input prices in the Turkish manufacturing sector increased during September. The rate of inflation accelerated for the third succesive month to the fastest since April, but was still slower than the series average. Those respondents that noted a rise in input costs linked this to higher oil and raw material costs, as well as unfavourable exchange rate fluctuations.

## Suppliers' Delivery Times Index

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



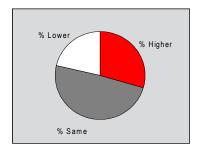


Average lead times for the delivery of inputs to Turkish manufacturers continued to lengthen during September. Latest data marked the eighth successive month that vendor performance has deteriorated, with September's lead time lengthening the sharpest since October 2011. Manufacturers commonly reported that increased demand for inputs had led to longer lead times.

# Quantity of Purchases Index

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

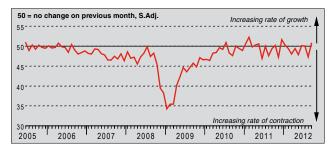


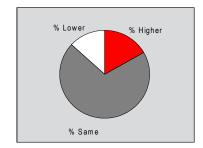


Purchasing activity increased for a fourth successive month in September. Growth was solid and the sharpest since April, with 30% of companies recording a rise since the previous month. Panellists principally increased their purchasing activity in response to higher production requirements and expectations of growth.

# Stocks of Purchases Index

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





With purchasing activity rising, companies were able to add to their inventories of raw materials and semi-manufactured goods in September. The rate of increase was only marginal, however. Where an increase in stocks was registered, panellists largely attributed inventory accumulation to expectations for ongoing growth of new orders and output.

# 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'  $Index^{TM}$  ( $PMI^{TM}$ ) 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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