



ISTANBUL
CHAMBER OF INDUSTRY

Istanbul Industry Outlook



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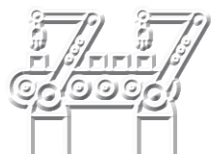
300+



**Istanbul
manufacturers**



**Representative data from Purchasing
Managers Index® (PMI®) survey panels**



**Unique
perspective**



**Business outlook
indices compiled in
18 countries around
the world**

Istanbul Industry Outlook Survey | April 2018

Istanbul Industry Outlook

What information is contained in the report?

This survey is designed to reveal how confident Istanbul manufacturing companies feel about their business prospects for the next 12 months.

We take the pulse of more than 300 manufacturing companies in Istanbul on a quarterly basis.

The samples are based on respondents to the Istanbul Chamber of Industry's widely-watched Purchasing Managers' Index® (PMI®) surveys.

The key indices include expectations for Business Activity, Employment, Inventories, Capital Expenditure, Research and Development Spending, Input Prices, Output Prices and Profits.

In addition, the survey questionnaire has been designed to monitor changes in Istanbul manufacturers' forecasts for new business sources, export sales volumes, digitisation spend and access to finance.

Finally, the survey asks Istanbul manufacturers to cite factors likely to impact either positively or negatively on business performance over the coming 12 months, such as exchange rates and customer payment times.

The survey uses net balances to indicate the degree of optimism or pessimism for each of the survey questions. These net balances vary between -100 and 100, with a value above 0.0 signalling a positive outlook for the coming 12 months.

The research is compiled by IHS Markit and is part of the Global Business Outlook series.

Comparable manufacturing outlook data are collected in the US, Japan, Brazil, Russia, India, China, Austria, France, Germany, Greece, Ireland, Italy, Poland, Spain, the Netherlands, the Czech Republic and the United Kingdom.



Contents

How confident are manufacturing companies in Istanbul? **1**

What do manufacturers expect in terms of new business and staff recruitment? **2**

Which factors may impact working capital, investment and finance? **3**

To what extent are inflationary pressures expected to change in the next 12 months? **4**





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Introduction

Istanbul Industry Outlook survey

“A clear finding from the report is that Istanbul manufacturers have strong confidence towards the year ahead business outlook, particularly in terms of production volumes and new orders from export clients. Positive sentiment is reinforced by widespread plans to boost investment in critical areas such as digital technology and research budgets, which will help manufacturers to maintain a competitive edge in international markets.”

“Manufacturers in Istanbul overwhelmingly expect to increase their output in the next

12 months, while only a small minority forecast a decline in production.”

“Export sales are seen as a key growth driver, alongside greater demand from domestic consumer markets. A challenge will be pressure on margins from higher raw material prices. Positive projections for business investment are the most encouraging aspect of the survey, with research and development, capital expenditure and digitisation spend all expected to rise in the year ahead.”

Tim Moore

Associate Director at IHS Markit

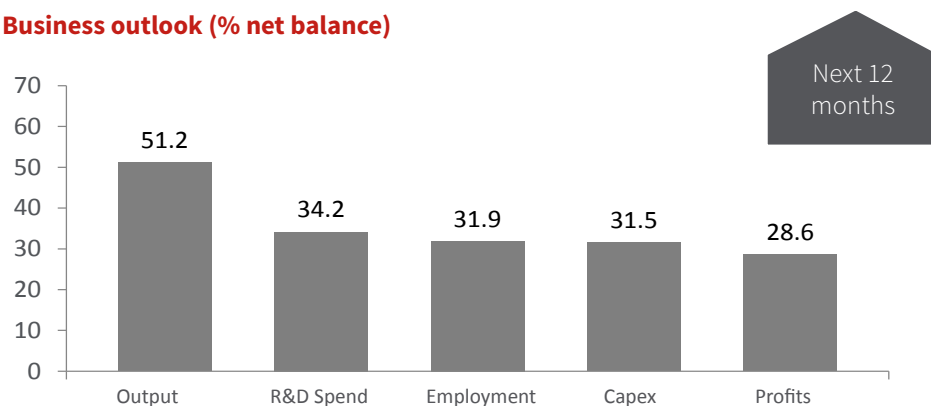




Key findings

Despite challenges in financing, manufacturers upbeat about business outlook

Business outlook (% net balance)



Source: IHS Markit

New survey data compiled for the Istanbul Chamber of Industry by IHS Markit indicates a strong level of optimism towards the coming year in the manufacturing sector. Indeed, output, R&D spending and employment are all set to rise, underpinning expectations of increasing profits.

However, inflationary pressures are forecast to increase in the sector, driven in part by higher raw material prices.

The majority of survey panellists (57%) forecast an expansion in output compared to 6% that expect a fall. With a net balance of +51.2%, goods-producers appear confident that business activity will increase at their plants over the coming year.

Expectations of higher output were based on forecasts of increased new business. Firms are optimistic that demand will strengthen over the next 12 months. In particular, export orders and

sales to domestic consumers are predicted to rise.

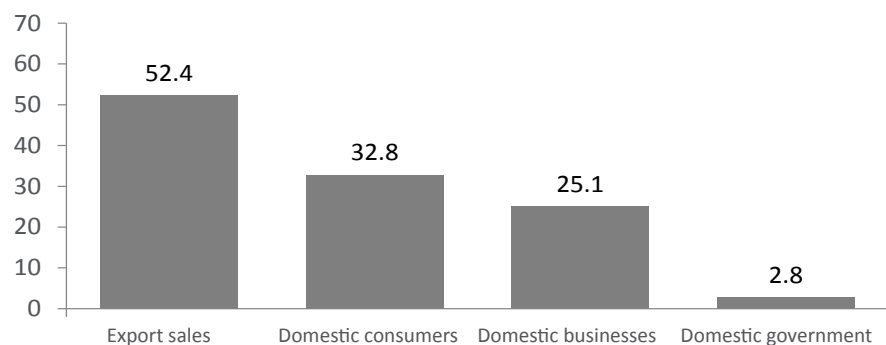
Survey data also signalled the prospect of rising profits, with a net balance of +28.6%.

Companies expect to react by expanding their operating capacity over the year. Workforce numbers are set to increase as highlighted by a net balance of +31.9%. Furthermore, 29% of firms predict an increase in warehouse inventories compared to 13% that expect a decline.

March survey data indicates expectations of rising investment in the manufacturing sector. Firms plan to increase their research and development spending, as well as capital expenditure budgets and business investment in digital technology.

However, cost burdens are likely to increase, with the majority of companies expecting to observe a rise in both staff pay and non-staff costs over the coming 12 months. The prospect of higher cost burdens is leading firms to plan increases to their average selling prices, with a net balance of +47.5% recorded in March.

Sources of new business (% net balance)



Source: IHS Markit



Employment and demand

Manufacturers confident that new orders will expand

Goods producers are optimistic that volumes of incoming new business will increase over the coming year in March. Positive sentiment was underpinned by expectations of stronger demand from both foreign and domestic sources.

Consequently, manufacturers forecast a rise in staffing levels over the coming 12 months.

March survey data indicated that Istanbul's manufacturers expect incoming new work to increase over the coming 12 months, bolstered by expansions across all four monitored sources of new business.

Goods-producers appear confident that exports will be a key driver of growth, with the majority of firms expecting to achieve an increase in foreign sales. According to survey data, domestic consumers will also provide a boost to demand (net balance of +32.8%).

A number of manufacturers foresee demand strengthening from domestic businesses, with this net balance at +25.1% in March.

Amid expectations of stronger client demand and higher volumes of new

+52.4% net balance
expecting
greater exports

orders, goods producers in Istanbul expect staff hiring to increase over the coming year. This is in line with efforts to expand operating capacity.

In fact, around four times as many manufacturers (42%) are expecting workforce numbers to expand than those predicting a decline over the year ahead (10%).





Profitability and working capital

Upbeat profit forecasts reported by manufacturers

This section looks at goods-producers' expectations for profits, inventories, cash flow and customer payment times during the next 12 months.

Despite some worries surrounding cash flow, manufacturers appear confident that their underlying profits will increase in the year ahead.

With 44% of survey respondents predicting an expansion in profits over the coming year, compared to around 16% that expect a reduction, the latest survey data indicate a strong level of optimism in the manufacturing sector.

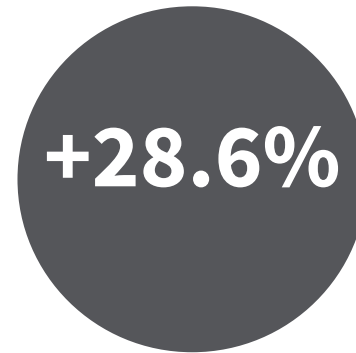
Firms' predictions of increased production and incoming new business appear to have underpinned positive sentiment towards the outlook for profitability.

Meanwhile, manufacturers expect to

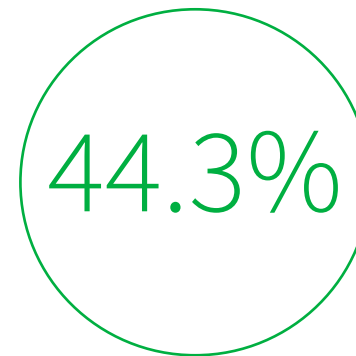
increase their warehouse inventories over the coming year, as signalled by a net balance of +16.3% in March.

Latest data reveals that companies have negative expectations about customer payment times, with around 39% of the survey panel citing this as likely to have a negative impact on business performance.

A combination of inventory building and longer customer payment times in the next 12 months may exert pressure to increase working capital provision at manufacturing firms. As a result, a number of survey respondents (38%) report that the outlook for cash flow will have a negative impact on business performance over the coming year.



overall
net balance



Proportion of companies predicting **higher profits**



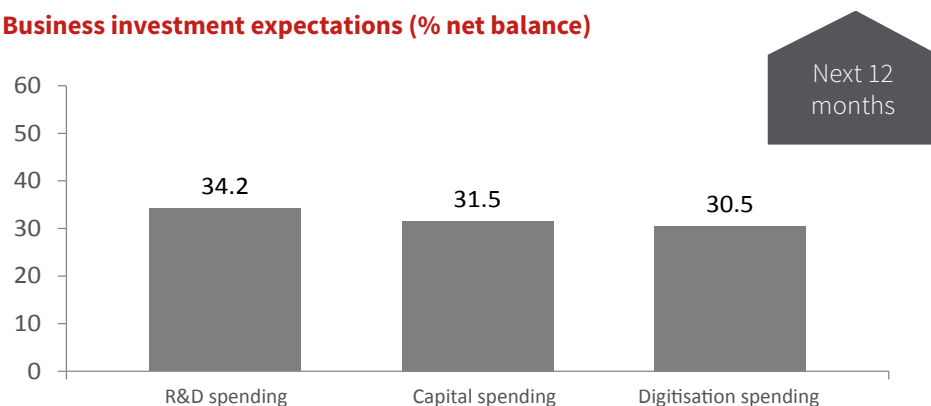
Proportion of companies expecting **lower profits**



Investment and finance

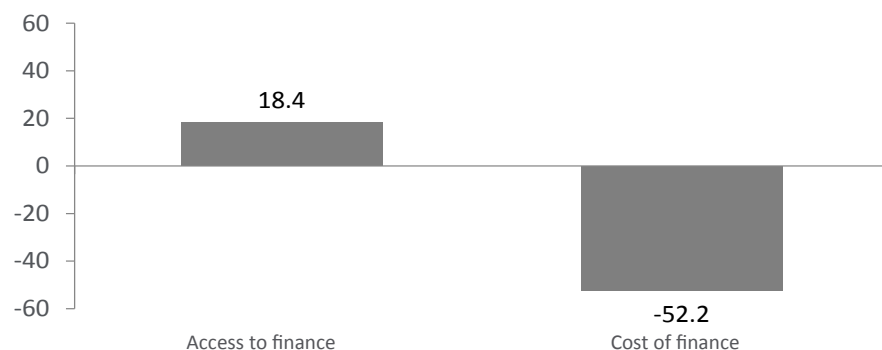
Manufacturers plan to boost investment spending in the next 12 months

Business investment expectations (% net balance)



Source: IHS Markit

Financial conditions outlook (% net balance)



Source: IHS Markit

This section looks at business investment plans for the next 12 months, including capital spending, research and development, and digitisation spending.

The survey also assesses Istanbul manufacturers' expectations regarding access to finance and the cost of obtaining credit.

Istanbul's manufacturers foresee an increase in spending across the three key investment areas, according to the latest survey data.

With a net balance of +34.2% in March, the outlook for research and development spending is predicted to be the most positive over the next 12 months. Indeed, around six times as many firms (42%) expect a rise in research and development budgets as those that envisage a contraction (7%).

Capital expenditure plans are also firmly

in expansion territory, with almost four times as many businesses (42%) expecting an increase over the coming year as those predicting a contraction (11%).

March survey data indicate that digitisation spending is a growing area of investment for Istanbul's manufacturers. In fact, exactly 35% of the survey panel expect to increase their spending on digital technology over the coming year, against only 4.5% that predict a fall.

Meanwhile, manufacturing companies have mixed views with regard to the outlook for financial conditions over the year ahead.

Survey respondents are confident overall that they will experience greater access to finance (net balance +18.4%).

However, the majority of firms (64%) cited concerns that the cost of finance will have a negative impact on their business performance in the next 12 months.



Inflation expectations

Rising cost burdens anticipated by manufacturers

This section is designed to monitor the outlook for input costs, staff salaries and factory gate charges across the Istanbul manufacturing sector.

The survey also assesses business sentiment in relation to exchange rates and raw material prices in the coming 12 months.

March survey data signalled that firms in Istanbul's manufacturing sector expect a broad-based increase in costs over the coming year. Survey evidence suggests the rise in cost burdens will be the result of both higher input costs and average staff wages.

The net balance of firms expecting to face an increase in non-staff input prices over the next 12 months was +52.9% in March.

Moreover, around 72% of survey respondents cited raw material

prices as a factor likely to have a negative impact on their business performance over the coming year.

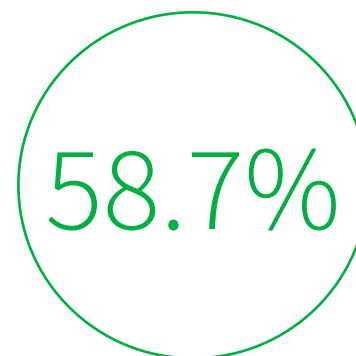
Latest survey data also suggests concerns surrounding imported raw material prices, with 71% of firms predicting that exchange rates will have a negative impact on business performance over the next 12 months.

Meanwhile, the majority of manufacturers (57%) expect an increase in average staff costs at their business units, whereas just 5% foresee a fall.

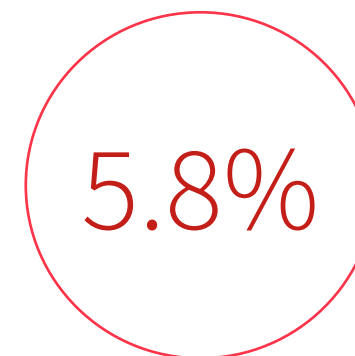
At +52.6% in March, the resulting net balance for staff costs was well inside positive territory, which indicates that higher wages are likely to exert upward pressure on operating expenses.



overall
net balance



Proportion of companies predicting **higher non-staff costs**



Proportion of companies expecting **lower non-staff costs**



Summary data

Istanbul Industry Outlook

Q. Please state whether you expect the following to be higher, the same or lower at your company in 12 months time compared to current levels.

Index	Higher	Same	Lower	Net balance
Business Activity	57.3%	36.5%	6.2%	+51.2%
Employment	41.9%	48.1%	10.0%	+31.9%
Capital Expenditure	42.4%	46.8%	10.8%	+31.5%
Research & Development Spending	41.6%	51.1%	7.4%	+34.2%
Digitisation Spending	35.0%	60.5%	4.5%	+30.5%
Access to Finance	26.5%	65.3%	8.2%	+18.4%
Profits	44.3%	39.9%	15.8%	+28.6%
Inventories	29.2%	57.9%	12.9%	+16.3%
Non-staff Costs	58.7%	35.4%	5.8%	+52.9%
Staff Costs	57.3%	37.9%	4.7%	+52.6%
Output Charges	50.5%	46.6%	2.9%	+47.5%

Sources of new business

Q. Please indicate how you expect the following sources of new business to change over the coming year:

Index	Higher	Same	Lower	Net balance
Export sales	59.3%	33.9%	6.9%	+52.4%
Domestic Consumers	40.4%	52.0%	7.6%	+32.8%
Domestic Businesses	37.4%	50.3%	12.3%	+25.1%
Domestic Government	11.3%	80.3%	8.5%	+2.8%

Business impacts

Q. Please indicate how the following are likely to impact on your business performance over the coming year:

Index	Positive Impact	No impact	Negative impact	Net balance
Raw material prices	13.3%	15.2%	71.6%	-58.3%
Exchange rate	19.0%	10.0%	71.1%	-52.1%
Cost of finance	11.3%	25.1%	63.5%	-52.2%
Supplier payment times	15.6%	55.7%	28.8%	-13.2%
Customer payment times	15.2%	46.2%	38.6%	-23.3%
Cash flow	17.0%	45.1%	37.9%	-20.9%
Skilled labour availability	23.8%	42.7%	33.5%	-9.7%



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Istanbul Chamber of Industry

www.iso.org.tr

Driving strength from her members' contributions to Turkish economy and since her foundation in 1952, Istanbul Chamber of Industry (ICI) stands out as Turkey's largest chamber of industry and one of the most powerful representatives of Turkish industry.

The added value generated by ICI members represents more than 40% of the total added value propagated by Turkish industry. ICI members actualize approximately 35% of production of Turkish industry. 36% of Turkey's Top 500 Industrial Enterprises consists of ICI members.

ICI promotes the sustainable development of Turkish industry and contributes the improvement of her competitiveness via offering innovative services to her members. For this purpose, she develops new projects and services to the use of

industrialists in crucial fields such as; innovation, technology development, university-industry cooperation, vocational training, international relations, environment and energy with local and international partnerships.

Generating and conducting economic researches together with gathering data, ICI holds the widest knowledge on Istanbul industry whilst giving direction to Turkish industrialists and providing intense contribution for shaping economic and industrial policies.

About IHS Markit

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency

and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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For further information please contact:

Nesrin Akçay, Istanbul Chamber of Industry

T: +90 212 252 29 00

E: nakcay@iso.org.tr

Gabriella Dickens, Economist, IHS Markit

T: +44 1491 461008

E: gabriella.dickens@ihsmarkit.com