



ISTANBUL  
CHAMBER OF INDUSTRY

# Turkey Industry Outlook



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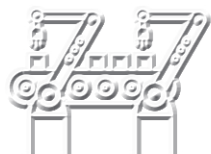
# 400+



**More than 400 Turkish  
manufacturers**



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



**Unique  
perspective**



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

## Turkey Industry Outlook

### What information is contained in the report?

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

We take the pulse of more than 400 manufacturing companies in Turkey 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 Turkish manufacturers' forecasts for new business sources, export sales volumes, digitisation spend and access to finance.

Finally, the survey asks Turkish 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.



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

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# Introduction

## Turkey Industry Outlook survey

*“Manufacturers are highly confident towards future business conditions, according to survey data collected in the Turkey Industry Outlook report. Greater export sales and rising domestic consumer spending are expected to help drive output growth. Cost pressures look set to prove a key challenge, but it is encouraging to see this has not prevented plans to increase business investment and staff hiring in the coming 12 months.*”

*“More than half of Turkish manufacturers plan to boost their production schedules*

*through the year ahead, while only one-in-ten anticipate a decline.*”

*“Manufacturers are backing up their positivity towards the demand outlook by looking to increase research and development budgets and digitisation spending. These investments should help to deliver a sustainable growth path for the manufacturing sector, and help to cushion pressures on margins arising from higher raw material prices.”*

**Tim Moore**

**Associate Director at IHS Markit**

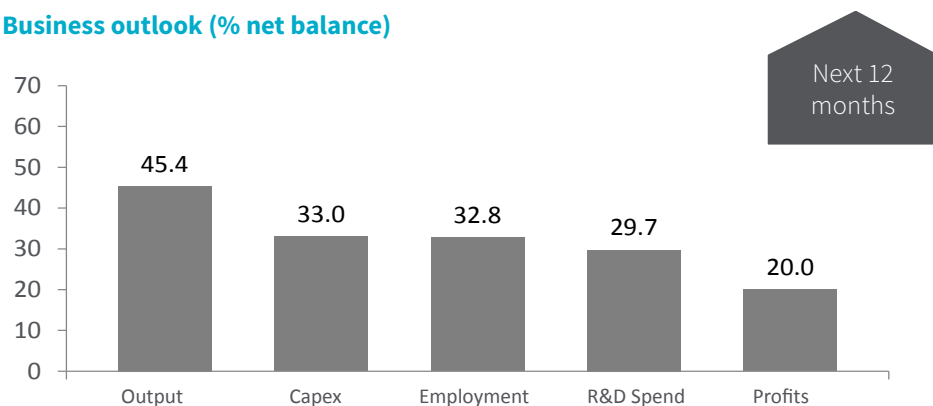




# Key findings

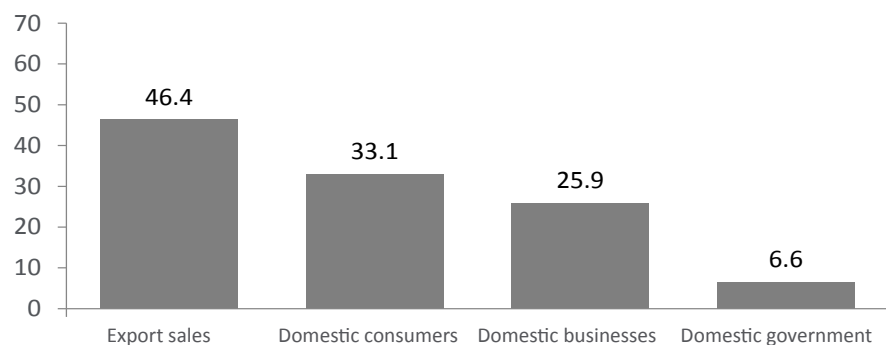
Despite challenges in financing, the Turkish manufacturing sector is upbeat about business outlook

## Business outlook (% net balance)



Source: IHS Markit

## Sources of new business (% net balance)



Source: IHS Markit

New survey data compiled for the Istanbul Chamber of Industry by IHS Markit reveals strong business confidence at Turkish manufacturing firms, particularly in relation to output growth, export sales and capex plans, despite challenges in financing.

Profits are also expected to rise over the course of 2018, but the prospect of higher imported raw material costs is a key concern.

March data shows that more than five times as many Turkish manufacturers (55%) anticipate a rise in production volumes over the year ahead as those that expect a decline (10%). At +45.4% in March, the resulting net balance signals widespread confidence regarding output prospects in the next 12 months among goods-producers.

Positive expectations for business activity are underpinned by forecasts of higher levels of new work from both domestic and export clients in the next 12 months.

At +46.4% in March, the net balance of manufacturers anticipating a rise in new work from abroad is well inside positive

territory. Survey respondents are also particularly upbeat about the outlook for domestic consumer demand (net balance at +33.1%).

Manufacturers plan to meet greater sales by boosting their production capacity in the year ahead. Around 40% of the survey panel expect to increase their staffing numbers, while only 8% foresee a decline.

March data highlights that goods-producers intend to increase both capital spending and their research and development budgets. A positive net balance (+29.2%) also forecast a rise in digitalisation spending at their plants.

Turkish manufacturers are generally upbeat about access to finance (net balance +21.0%), although respondents note concerns about the cost of finance.

Meanwhile, profit forecasts are positive, but survey respondents generally expect rising raw material costs over the year ahead. Higher prices for imported items are expected to negatively influence firms, with exchange rates the most commonly cited factor likely to impact on business performance.



# Employment and demand

Positive expectations reported for order books and staff hiring

**Manufacturers appear confident that new orders will pick up in the coming 12 months, helped by greater export sales and domestic consumption in particular.**

**In response to hopes of improved order books, staff hiring is firmly on the agenda across the manufacturing sector.**

Turkish manufacturers are optimistic that incoming new work will expand across all four key segments monitored by the survey in March.

Export sales appear set to provide a key source of new order growth, with the net balance at +46.4% in March. This is followed by new business from domestic consumers (+33.1%) and domestic non-government businesses (+25.9%).

Of those firms expecting to generate sales from government spending, around 14% anticipate a rise while only 7% foresee a reduction over the year ahead. At +6.6% in March, the resulting net

balance was inside positive territory.

Improved order flows are set to encourage greater business investment and efforts to expand long-term production capacity. Reflecting this, manufacturers

**+46.4%** net balance  
expecting  
greater exports

generally expect to increase their payroll numbers in the coming 12 months. Around five times as many survey respondents (40%) plan to boost staff hiring as those that anticipate a reduction (8%).

Around 31% of the survey panel note that issues with skilled labour availability will have a negative impact on their business performance in the year ahead.





# Profitability and working capital

## Profits expected to rise in next 12 months

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

Manufacturers are upbeat about the outlook for profits, but a sizeable proportion are concerned about longer payment times from customers.

Almost 39% of the survey panel forecast a rise in their profits during the year ahead, while only 19% anticipate a reduction. At +20.0 in March, the resulting net balance indicates a positive outlook for profits across the Turkish manufacturing sector.

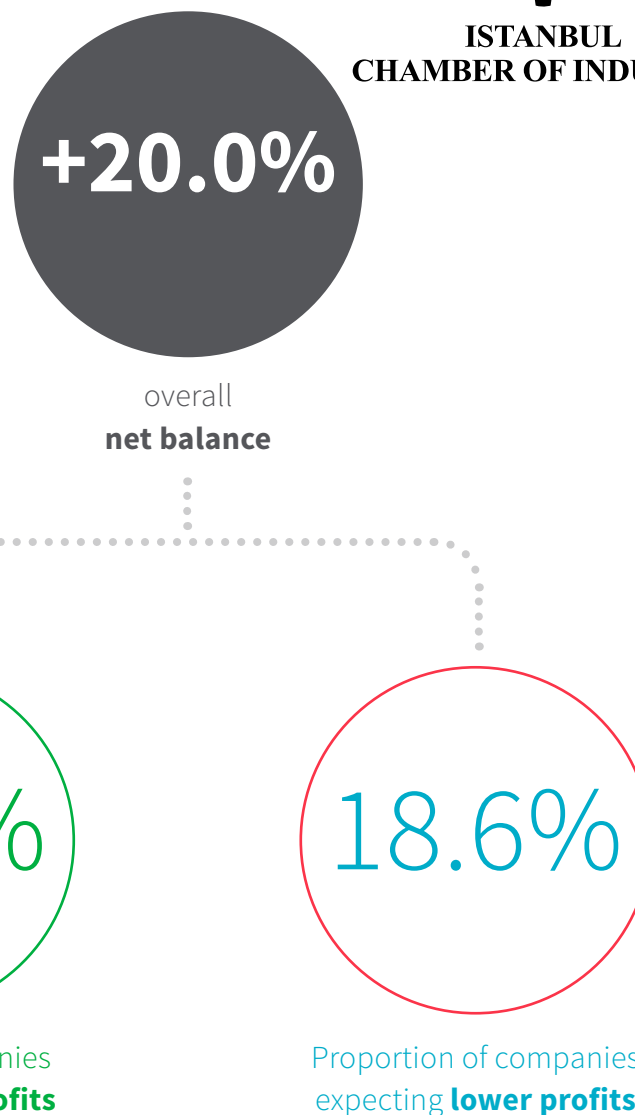
The prospect of improved profitability appears to have been helped by the positive forecasts for output and incoming new business among manufacturing companies.

However, around 38% of monitored firms cite worries about cash flow as a factor likely to impact on their business performance over the year ahead (only 17% foresee a positive outlook for cash flow).

Negative expectations about cash flow may reflect pressure to increase working capital at manufacturing companies. In particular, survey respondents intend to boost their warehouse inventories (net balance of +16.4% in March) in the next 12 months.

Longer payment times from customers are also likely to drive increased working capital provision.

Around 41% of the survey panel cite customer payment times as a factor set to exert a negative influence on business performance, while only 9% foresee positive developments for cash collection from clients.

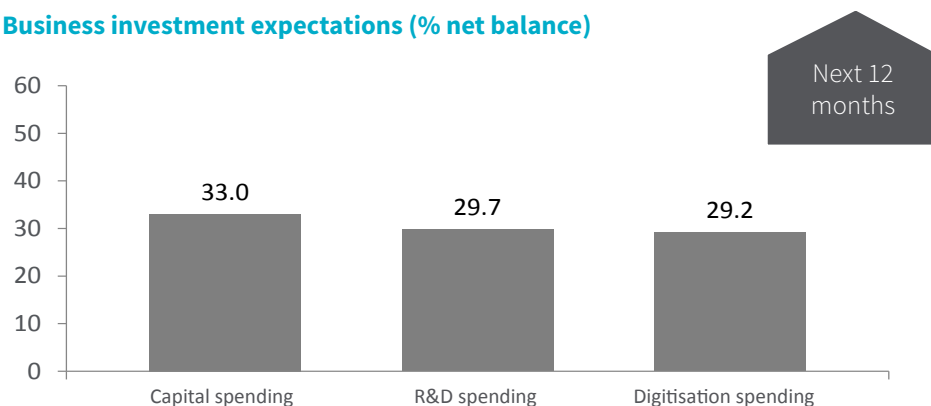




# Investment and finance

Strongly positive expectations for investment spending

**Business investment expectations (% 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 Turkish manufacturers' expectations regarding access to finance and the cost of obtaining credit.

March data reveals that manufacturers in Turkey plan a broad-based increase in business investment over the coming 12 months.

Around 42% of the survey panel forecast a rise in capital expenditure, while only 9% expect a decline. At +33.0 in March, the net balance for capex is the highest of the three aspects of business investment monitored by the survey.

More than one-third of manufacturers intend to increase their research and development spending in the year-

ahead, while only 7% anticipate a reduction. This meant a net balance of +29.7% for research and development spending in March.

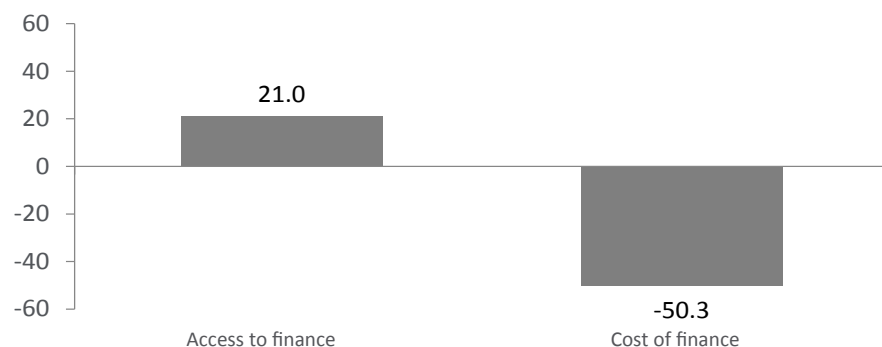
Digitisation spending also appears firmly on the agenda for Turkish manufacturing companies. March data shows that 33% of survey respondents expect to increase their business investment on digital technology, while only 4% plan a reduction.

There were mixed views from manufacturing companies about their outlook for financial conditions.

On a positive note, survey respondents generally expect an improvement in their access to finance over the next 12 months (net balance at +21.0% in March).

However, there were widespread concerns about the cost of finance. Around 60% of survey respondents cite a negative outlook for finance costs, while only 10% are optimistic. This meant the net balance for cost of finance was -50.3% in March.

**Financial conditions outlook (% net balance)**



Source: IHS Markit





# Inflation expectations

## Manufacturers expect strong cost pressures ahead

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

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

March data suggests that manufacturers are braced for higher average cost burdens over the year ahead, driven by rising raw material prices and greater staff salaries.

Survey respondents also cite concerns about the impact of exchange rates on their business operations, partly due to the prospect of increased costs for imported raw materials.

Around 58% of the survey panel forecast a rise in non-staff input costs during the next 12 months, while only 4% anticipate a reduction. At +53.8% in March, the

resulting net balance indicates that manufacturers widely expect higher raw material prices.

At the same time, close to 57% of survey respondents forecast an increase in staff costs and only 3% expect a fall.

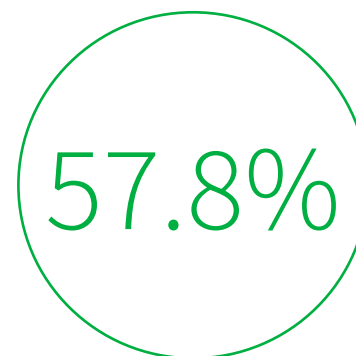
Manufacturers appear set to increase their factory gate charges in response to higher operating expenses and ongoing pressure on margins.

The net balance of manufacturers intending to increase their output charges was +49.3% in March.

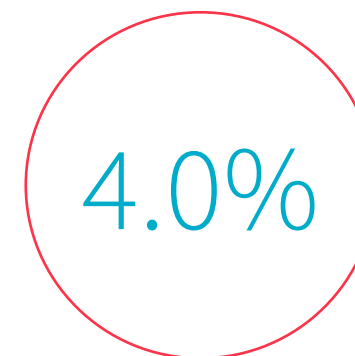
Meanwhile, around three-quarters of the survey panel (76%) cite exchange rates as likely to have a negative impact on their business operations in the year ahead, reflecting concerns about the prospect of higher prices for imported materials. These results indicate that inflationary pressures on the manufacturing sector are likely to remain elevated going forward.



overall  
net balance



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



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



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# Summary data

## Turkey 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	54.9%	35.5%	9.5%	<b>+45.4%</b>
Employment	40.4%	52.0%	7.6%	<b>+32.8%</b>
Capital Expenditure	41.8%	49.5%	8.8%	<b>+33.0%</b>
Research & Development Spending	36.5%	56.8%	6.8%	<b>+29.7%</b>
Digitisation Spending	32.6%	63.9%	3.5%	<b>+29.2%</b>
Access to Finance	27.6%	65.7%	6.6%	<b>+21.0%</b>
Profits	38.6%	42.7%	18.6%	<b>+20.0%</b>
Inventories	32.8%	50.8%	16.4%	<b>+16.4%</b>
Non-staff Costs	57.8%	38.3%	4.0%	<b>+53.8%</b>
Staff Costs	56.9%	40.2%	2.9%	<b>+53.9%</b>
Output Charges	51.0%	47.4%	1.6%	<b>+49.3%</b>

## 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	51.9%	42.6%	5.5%	<b>+46.4%</b>
Domestic Consumers	43.5%	46.2%	10.4%	<b>+33.1%</b>
Domestic Businesses	35.7%	54.5%	9.8%	<b>+25.9%</b>
Domestic Government	13.6%	79.4%	7.0%	<b>+6.6%</b>

## 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	11.1%	11.4%	77.5%	<b>-66.3%</b>
Exchange rate	11.9%	12.6%	75.5%	<b>-63.6%</b>
Cost of finance	9.7%	30.2%	60.1%	<b>-50.3%</b>
Supplier payment times	12.2%	59.9%	28.0%	<b>-15.8%</b>
Customer payment times	9.2%	49.7%	41.1%	<b>-31.9%</b>
Cash flow	17.2%	45.2%	37.6%	<b>-20.5%</b>
Skilled labour availability	20.3%	48.8%	30.9%	<b>-10.6%</b>



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# Istanbul Chamber of Industry

[www.iso.org.tr](http://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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