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HSBC Turkey Manufacturing PMI™

Output growth eased sharply in April. New export orders fell for the first time in two years.

Key findings:

- PMI at seven-month low.
- Expansions in both production and new business eased noticeably.
- Input price inflation moderated sharply.

The second quarter of 2011 began on a markedly different note to the start of the first quarter for Turkish manufacturers. While the year opened with strong expansions in most variables, the second quarter started with weakened growth in output, new business, employment and buying activity. Reports indicated that this slowdown partly reflected economic and political difficulties in Europe, the Middle East and North Africa.

The seasonally adjusted HSBC Turkey Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing industry – registered 52.7 in April, down noticeably from 56.1 in March. The latest reading was the lowest for seven months and signalled a much weaker improvement in the health of the sector.

New export orders contracted for the first time in two years and overall new business growth slowed sharply over the month to the weakest in the current seven-month sequence of expansion. Where new orders fell, firms reported economic difficulties in Europe and political problems in the Middle East and North Africa.

Reflecting a much slower expansion of new business, manufacturing production growth also moderated during the latest survey period. The latest increase was the least marked since September 2010 as a result.

Latest data suggest that Turkish manufacturers continued to

cope with their workloads in April. Outstanding business fell for the second month running, and at a slightly faster rate.

To accommodate production requirements, manufacturers continued to recruit staff and buy inputs in April. However, expansions in both employment and purchases slowed since March, in line with the weaker trend in new order growth.

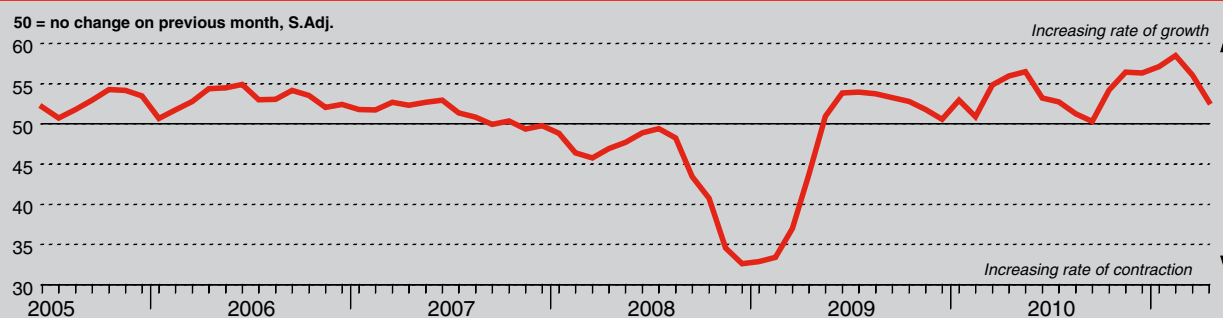
Reflecting further increases in buying activity, and in some cases lower production levels, input stocks at Turkish manufacturers rose in April. Meanwhile, finished goods holdings rose for the first time in more than two-and-a-half years. Reports show that this was partly because of delivery delays caused by disruptions in the Middle East and North Africa, but also partly due to poor sales levels.

Solid demand for inputs, as well as difficulties in sourcing raw materials, led to another deterioration in vendor performance during April. However, lead times lengthened at the slowest rate for six months.

Strong input price inflation persisted in the Turkish manufacturing sector in April, with firms attributing the increase to rising raw material and fuel costs, alongside unfavourable exchange rates. However, the rate of inflation eased sharply since March.

Turkish manufacturers passed through part of their increased cost burdens to customers by way of higher charges in April. Although the rate of output price inflation eased since March, it remained comfortably above the series trend.

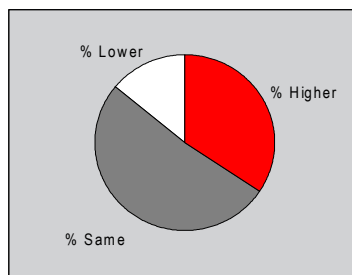
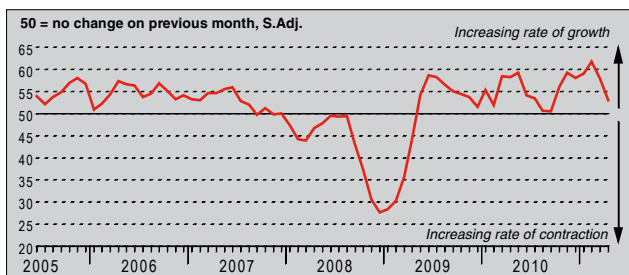
HSBC Turkey Purchasing Managers' Index (PMI™)



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

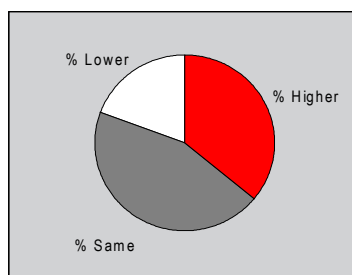
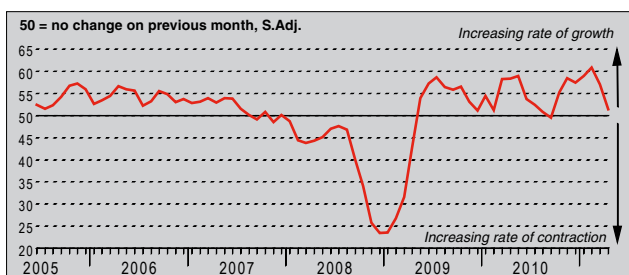
Q. Please compare your production/output this month with the situation one month ago.



Production growth at Turkish manufacturers eased sharply at the start of Q2, as shown by a steep drop in the seasonally adjusted Output Index. Although the rate of increase remained solid, it was the mildest since last September. Reports show that the slower rise in manufacturing activity principally reflected a much weaker expansion of new business.

New Orders Index

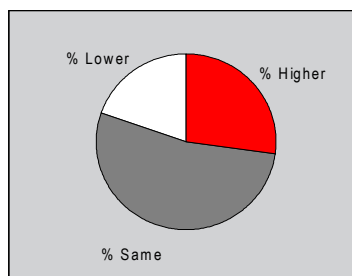
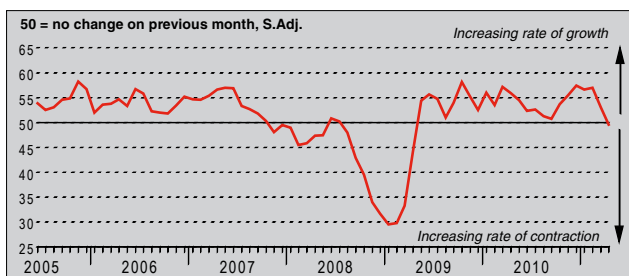
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



April's rise in new orders at Turkish manufacturers was noticeably weaker than in March. The rate of increase was the mildest of the current seven-month sequence of expansion, which firms partly linked to economic difficulties in Europe and political unrest in the Middle East and North Africa. Data suggest that the domestic market remained the key driver of growth, as new export business fell on the month.

New Export Orders Index

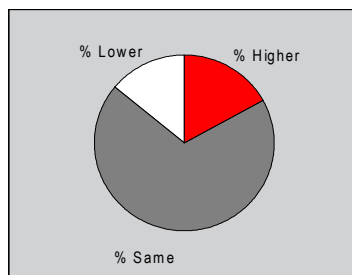
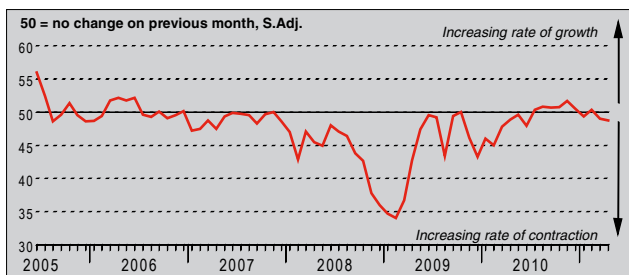
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders for Turkish manufactured goods fell in April. Although the rate of contraction was only marginal, it was the first drop recorded in the sector for two years. Respondents commented on lacklustre foreign demand and strong competition, as well as economic and political problems across Europe, North Africa and the Middle East.

Backlogs of Work Index

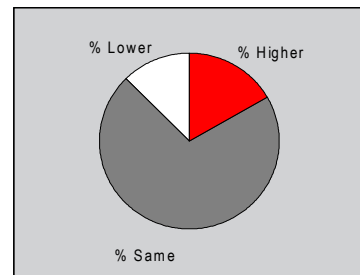
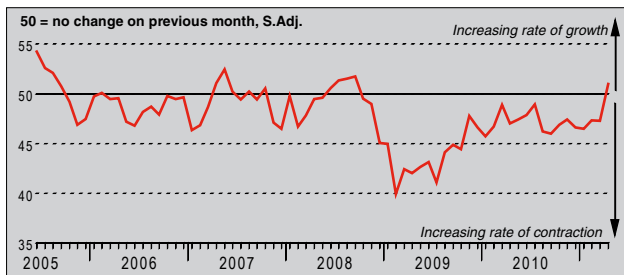
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



April data point to a degree of unused capacity across the Turkish manufacturing industry. Backlogs of work continued to fall, and at an accelerated rate. Outstanding business has now declined in three of the past four months, with the latest decrease the most pronounced since June last year.

Stocks of Finished Goods Index

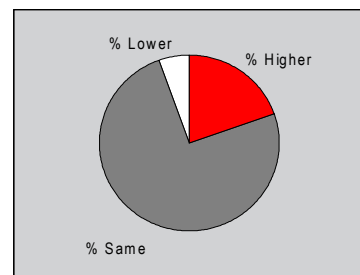
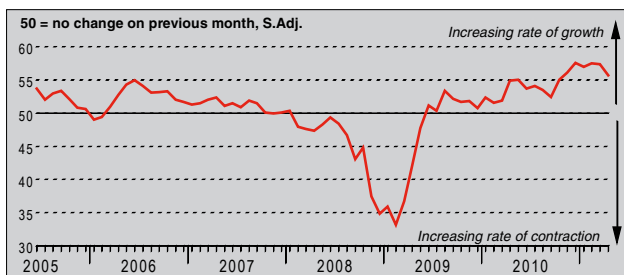
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



After two-and-a-half straight years of depletion, finished goods stocks at Turkish manufacturing units grew during April. In the 17% of cases where inventories accumulated, many companies commented on poor sales levels. Some reported delivery delays resulting from problems in North Africa and the Middle East.

Employment Index

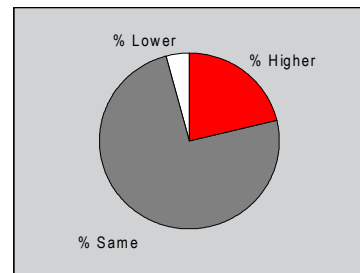
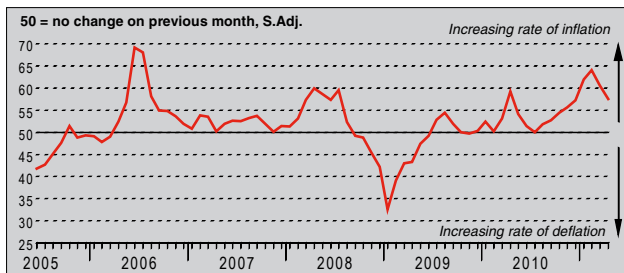
Q. Please compare the level of employment at your unit with the situation one month ago.



Turkish manufacturers continued to take on new staff during the latest survey period, bringing the current run of growth to nearly two years. However, April's increase was the least marked for six months. Companies that recruited additional workers frequently cited efforts to meet greater business requirements.

Output Prices Index

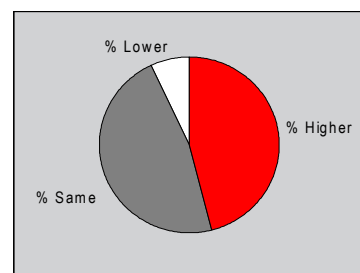
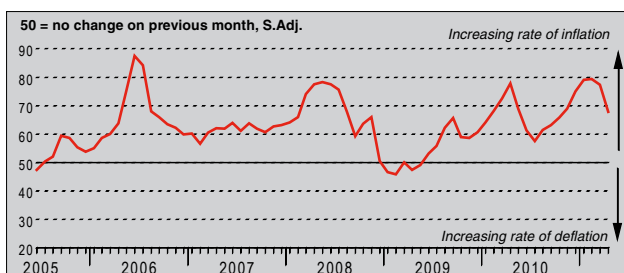
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Turkish manufacturers for their products continued to rise in April. Output prices have now increased for seventeen months running, with survey members linking the latest inflation to higher input costs. However, the rate of increase moderated on the month to the mildest since last December.

Input Prices Index

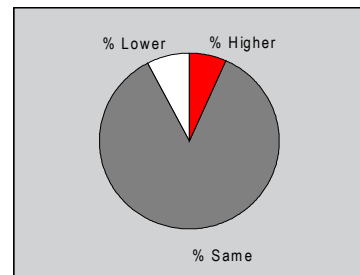
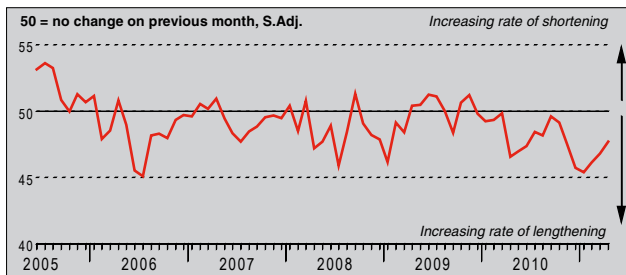
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Although still elevated by the historical standards of the survey, input cost inflation in Turkey's manufacturing sector moderated sharply during April. Highlighting this, the seasonally adjusted Input Prices Index slipped almost ten points since March to its lowest level since last October. Respondents stated that greater raw material and fuel costs, as well as unfavourable exchange rates, drove the latest rise in average input prices.

Suppliers' Delivery Times Index

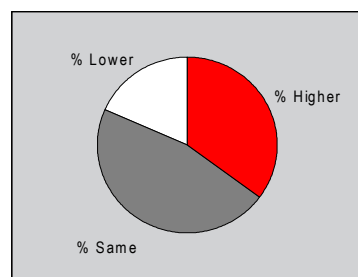
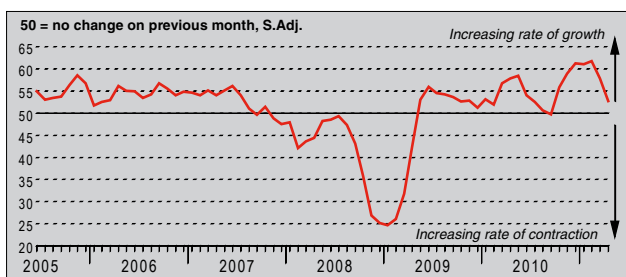
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Higher demand for inputs, as well as difficulties in sourcing raw materials, led to another increase in supplier delivery times during April. Average vendor performance has deteriorated for seventeen months in succession, although the latest rise in lead times was less marked than in each of the the previous five survey periods.

Quantity of Purchases Index

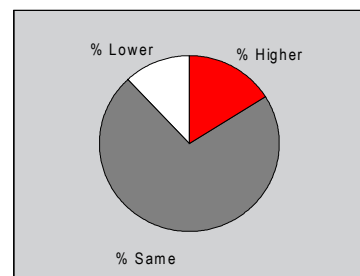
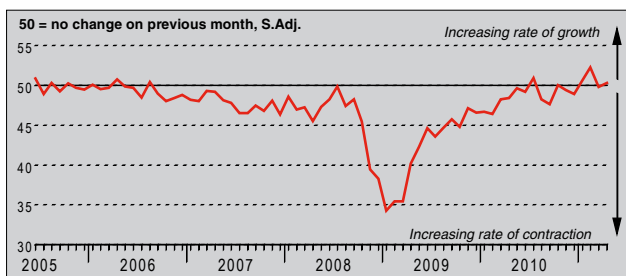
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Mirroring the downward trend in new business growth, buying activity at Turkish manufacturers rose at a much slower pace in April. The latest increase in input acquisitions was the weakest of the current seven-month sequence of expansion and below the average for 2010. Where purchases rose, panellists indicated that this was due to higher workloads.

Stocks of Purchases Index

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



Input holdings at Turkish manufacturing units accumulated in April for the third time in four months. However, the latest build-up was only marginal. Some companies that noted higher inventories commented on solid market demand and efforts to build stocks, though others mentioned lower production levels. Reduced stocks were mostly linked to fewer new orders.

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.

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