

Embargoed until: 10:00 (ANKARA), 1 June 2011

## HSBC Turkey Manufacturing PMI™

Output growth weakest in over two years as new order levels dipped in May.

### Key findings:

- Manufacturing production growth eased to near-stagnation.
- New business contracted for first time in eight months.
- Job creation solid, but slowest since last September.

Latest figures point to a weaker improvement of business conditions across the Turkish manufacturing sector in May. New export orders rose, but overall new business fell for the first time in eight months. Activity levels were supported by a combination of backlog clearance and stock building. Meanwhile, job creation remained solid. With regard to price pressures, both input and output price inflation eased since April.

Falling further from February's series record, 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 manufacturing industry – posted 50.6 in May, its lowest reading since September last year. May's figure signals only a marginal monthly improvement in the health of Turkey's manufacturing industry.

Total new order receipts at Turkish manufacturers fell marginally during the latest survey period. Respondents indicated that uncertainty surrounding upcoming elections, difficulties in Japan and the MENA region, alongside high prices all underlay the decline in domestic demand. On the other hand, new export orders rose slightly.

Supported by a combination of backlog depletion and stock building, output levels continued to rise in May, despite a fall in

new business. However, the rate of expansion moderated to the slowest in over two years.

With new order levels in decline, Turkish manufacturers cut buying activity and focused their efforts on the completion of existing contracts. Both purchasing and outstanding business fell as a result.

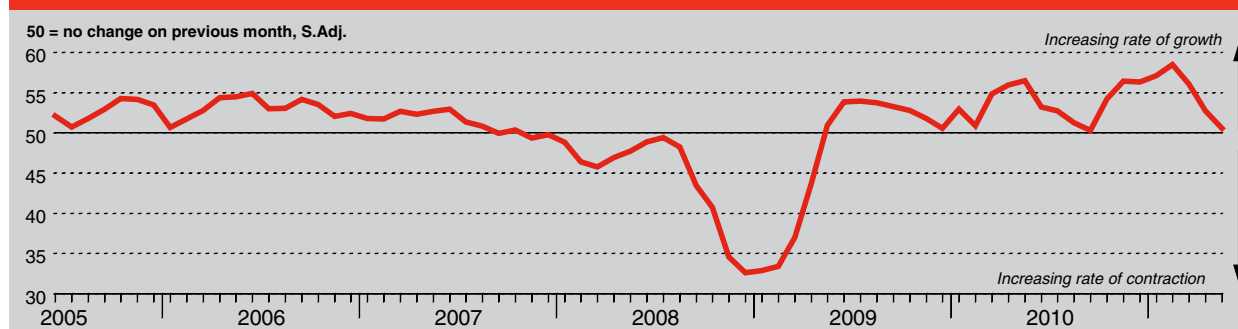
Despite lower demand for inputs, supplier delivery times lengthened again in May. Respondents linked delays to difficulties sourcing raw materials and supply chain disruptions resulting from problems in Japan and MENA.

Input holdings rose again in May, but only fractionally. Where inventories increased, companies commented on slower production growth.

Staffing levels at Turkish manufacturers grew solidly in May as firms accommodated company expansions and attempted to increase capacity. However, the rate of increase slowed since April to the mildest for eight months.

Both input and output price inflation moderated in May. Nevertheless, each measure remained above its long-run series average. Panel members attributed both higher input costs and charges to rising fuel and raw material prices. Increased prices for oil, metals, chemicals and rubber were mentioned in particular.

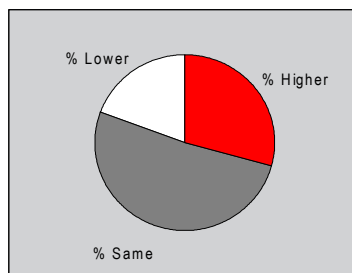
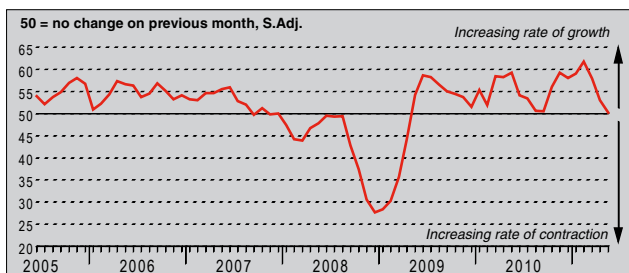
HSBC Turkey Purchasing Managers' Index™ (PMI™)



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. 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

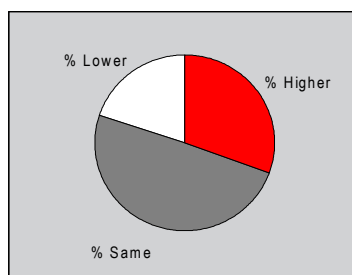
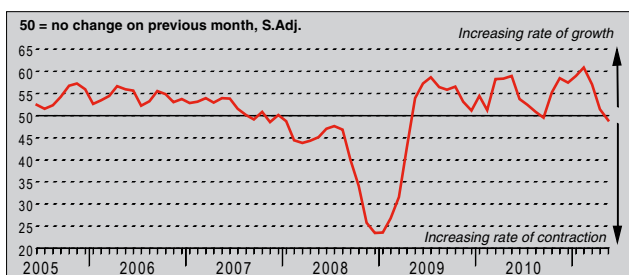
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index slipped to its lowest level in over two years in May, signalling a further slowdown in Turkish manufacturing production growth. The latest increase was only marginal. Where output expanded, firms commented on backlog depletion and stock building. Meanwhile, lower production was commonly linked to falling new order levels.

## New Orders Index

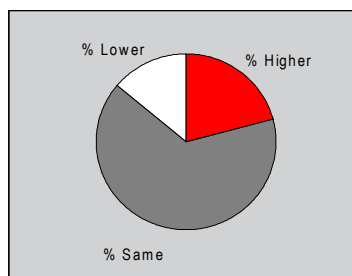
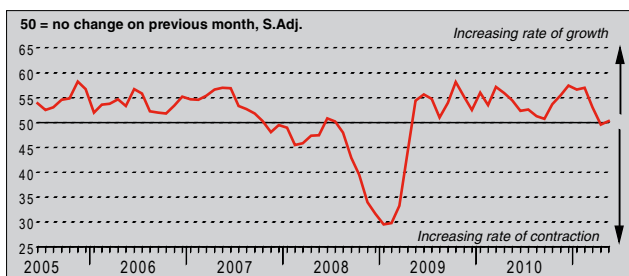
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



Uncertainty surrounding upcoming elections, disruptions due to difficulties in Japan, the Middle East and North Africa, as well as high prices, all combined to dampen demand for Turkish manufactures in May. Consequently, total new business receipts fell on the month. Data suggest that contraction was centred on the domestic market, as new export orders rose.

## New Export Orders Index

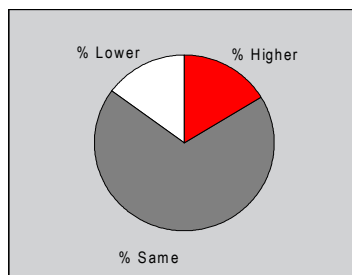
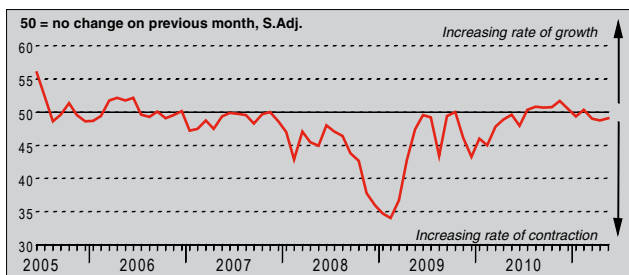
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After falling slightly in April, incoming new work from abroad to Turkish manufacturers grew marginally during May. The rise was the twenty-fourth recorded in the past twenty-five months. Higher foreign demand was the main reason for the increase in new export orders, according to respondents.

## Backlogs of Work Index

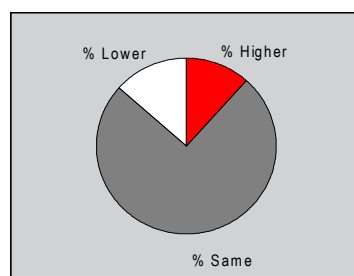
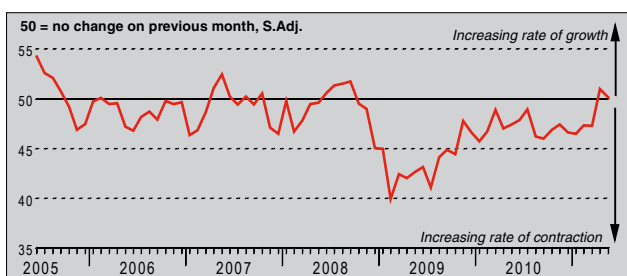
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Turkish manufacturers continued to clear backlogs during the latest survey period, albeit at a weaker rate than in April. Unfinished work has now decreased for three straight months. Survey participants stated that work-in-hand was depleted both to clear existing contracts and to support activity levels as new orders fell.

### Stocks of Finished Goods Index

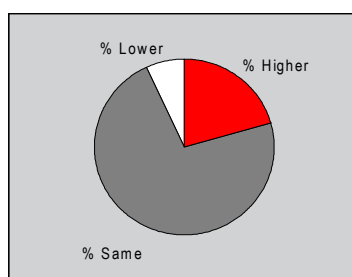
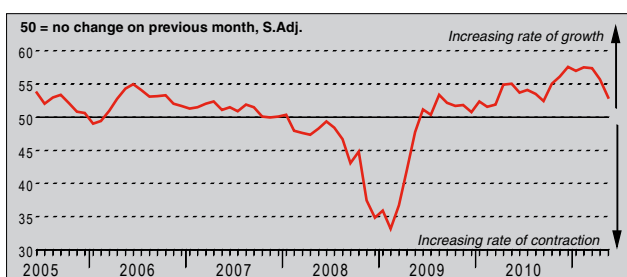
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production holdings at Turkish manufacturers were broadly unchanged in May, as shown by the seasonally adjusted Stocks of Finished Goods Index registering close to the no-change mark of 50.0. Higher stocks were mostly attributed to lower sales, while lower holdings were linked to destocking.

### Employment Index

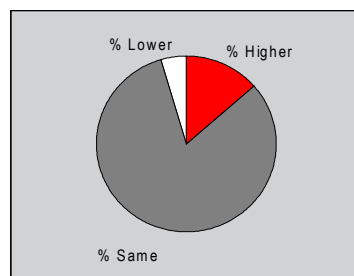
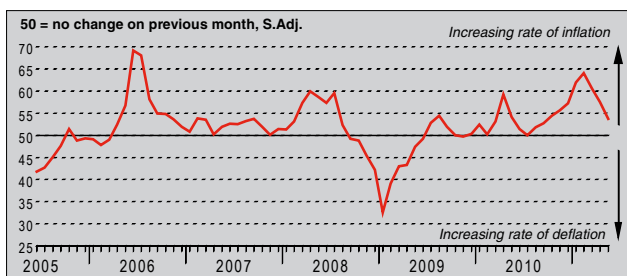
Q. Please compare the level of employment at your unit with the situation one month ago.



Job creation at Turkish manufacturers slowed during May to the mildest pace since September last year. Nevertheless, the rate of growth remained solid and above the series trend. Firms indicated that additional staff were required to accommodate company expansions and increase capacity.

### Output Prices Index

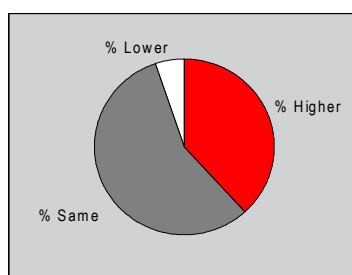
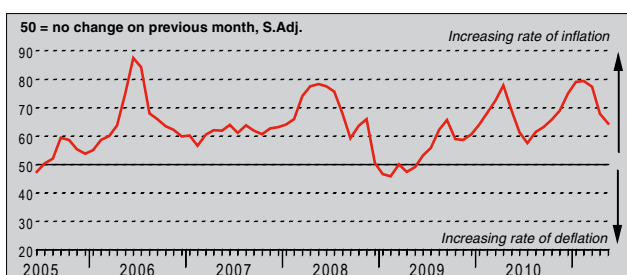
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged for Turkish manufactures rose again in May, bringing the current run of output price inflation to a year-and-a-half. Survey participants stated that tariffs were raised in order to compensate for higher input costs. However, the rate of increase slowed markedly since April to the weakest since last September.

### Input Prices Index

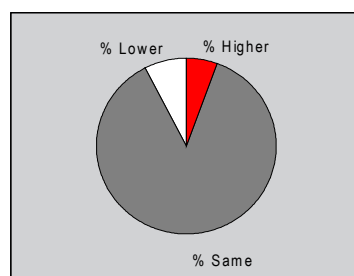
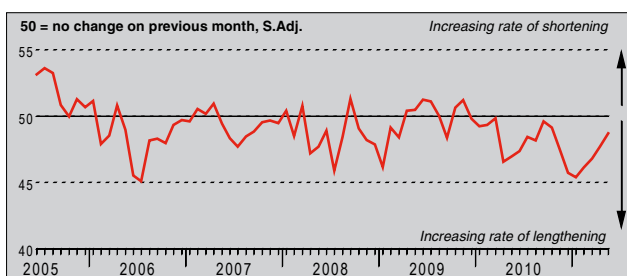
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Despite moderating to an eight-month low, input price inflation across the Turkish manufacturing sector was sharp during May and above the series trend. Higher fuel and raw material costs were identified by respondents as the key drivers of inflation. Firms made particular reference to rising prices for oil, metals, chemicals and rubber.

## Suppliers' Delivery Times Index

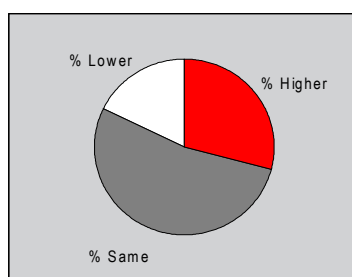
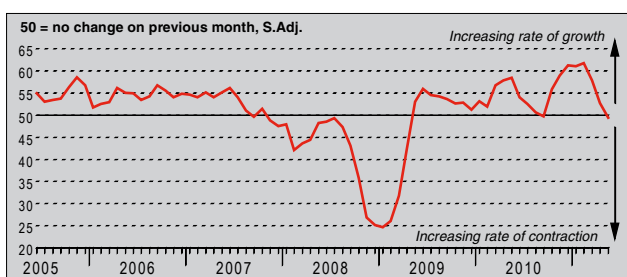
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Turkish manufacturers continued to report longer lead times in May, despite lower demand for inputs. Problems in sourcing raw materials and supply chain disruptions caused by difficulties in Japan and the Middle East underlay the latest delivery delays, according to panel members. However, the rate of deterioration in vendor performance was the slowest since October last year.

## Quantity of Purchases Index

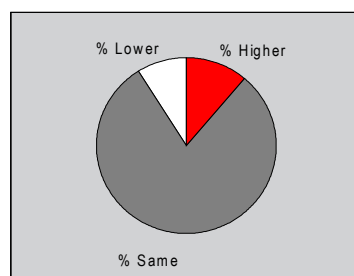
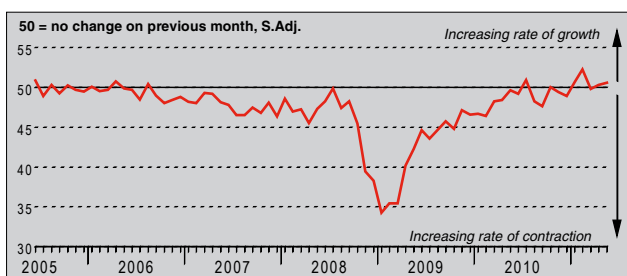
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In line with the decline in new orders, buying activity at Turkish manufacturers fell during May. This followed seven months of expansion. Nevertheless, the seasonally adjusted Quantity of Purchases Index signalled just a marginal rate of reduction. The drop in input buying was only the second in the past twenty-five months.

## Stocks of Purchases Index

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



Holdings of raw materials and semi-finished goods at Turkish manufacturers accumulated again in May, although the rate of increase remained only marginal. Where stocks rose, reports show that slower production growth was the principal reason. Inventories have increased in four of the past five months.

## 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 approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the United Arab Emirates economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to 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 July be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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