HSBC Purchasing Managers' Index® Press Release

compiled by markit

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HSBC Turkey Manufacturing PMI™

Manufacturing operating conditions little changed during May

Summary

Turkey's manufacturing sector stagnated in May, with operating conditions little changed since April. New orders were slightly down, enabling companies to clear backlogs of work at a faster rate. Capacity was nonetheless expanded via a further, albeit slower, increase in staffing levels.

On the price front, cost pressures remained elevated, although showed some sign of easing, while output charges increased at the slowest rate for just under two years.

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 50.2 in May. That was down from 52.3 in April and signalled little change in operating conditions on the month.

May's survey indicated that new order volumes were down slightly. The fall was the third in four months as market conditions reportedly remained subdued. The slight decline in May was in contrast to a rise in new export orders, which was the strongest since January. The Middle East and the USA were noted as areas of demand growth.

A second successive monthly increase in manufacturing output was indicated in May, although the rate of growth was only slight as the soft underlying trend in new work weighed on production.

Manufacturers were subsequently able to focus resources in clearing any outstanding orders at their plants, with backlogs of work cut for a fifteenth successive month. The rate of contraction was sharp and the steepest recorded since February 2010.

Companies were also able to clear work outstanding at a faster pace due to workforce expansion. According to the latest data, staffing levels were increased further to extend the current period of growth to three years. However, the rate of expansion was the lowest for eight months, reflective of recent falls in new work.

Latest prices data showed that input cost inflation weakened to a three-month low in May. However, the recent strengthening of the US dollar reportedly raised the price of imports ensuring that costs continued to rise at an elevated pace.

Output charges were increased in response to a rise in input costs, but competitive pressures meant the rate of inflation was the weakest for 22 months.

Comment

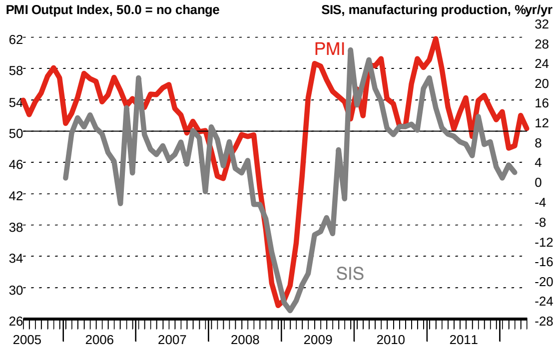
Commenting on the Turkey Manufacturing PMI® survey, Dr. Murat Ulgen, Chief Economist, Central & Eastern Europe and sub-Saharan Africa at HSBC, said:

"Manufacturing sector growth almost stalled in May, after a notable improvement in April due to a very subdued rise in output volumes and a minor contraction in new orders. New export orders, on the other hand, showed a slight improvement, suggesting that the slowdown in economic activity is driven more by moderating domestic demand, while Turkish exporters continue to successfully diversify geographies for trade. Employment still continued to improve at a decent clip, albeit at the slowest pace this year. Meanwhile, both input and output price inflation eased markedly in May. The latter has fallen below its long-term average for the first time this year. Overall, the May PMI survey indicates that the soft patch in production during the first quarter of this year may well extend into the second for two reasons; first weakening capital inflows due to the ongoing Eurozone crisis and, second, tightening of monetary conditions at home. While Turkey's strong fundamentals argue for still positive growth and further job creation, the pace could be lower than originally envisaged."

Key points

- Slight fall in new orders signalled as subdued market conditions weigh on demand
- Manufacturing output rises marginally; backlogs cleared at fastest rate in over two years
- Employment continues to grow, but at slowest pace for eight months

Historical Overview



Sources: Markit, HSBC, Ecowin

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Notes to Editors:

The HSBC 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™ (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 may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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