HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

Embargoed until: 10:00 (ANKARA), 1 February 2012

HSBC Turkey Manufacturing PMI™

Business conditions continue to improve, albeit at increasingly slower rate

Key findings:

- Headline PMI reading remains above 50.0, despite falling for third successive month
- Overall new order growth slows to a marginal pace
- Depletion of backlogs provides support for production

January data showed a continued improvement in operating conditions in the Turkish manufacturing sector. Rising headcounts and falling backlogs of work helped support production levels at business units, with output growth quickening to a moderate pace. In contrast to an upturn in new export orders from foreign clients, companies reported a slowing rate of overall incoming new business over the month. Firms also continued to face rising cost pressures. The rate of input price inflation far exceeded that of charges, putting further strain on profit margins. In an attempt to limit costs, manufacturers left stocks of purchases broadly unchanged, and reduced inventories of finished goods.

After adjusting for seasonal variation, the HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.7 in January, fractionally down from December's reading of 52.0. While the headline index continued to signal a modest improvement in business conditions, it has fallen in each of the last three months.

Manufacturing production in Turkey increased again during January. Some panellists attributed growth to company policies to reduce backlogs and an increase in headcounts.

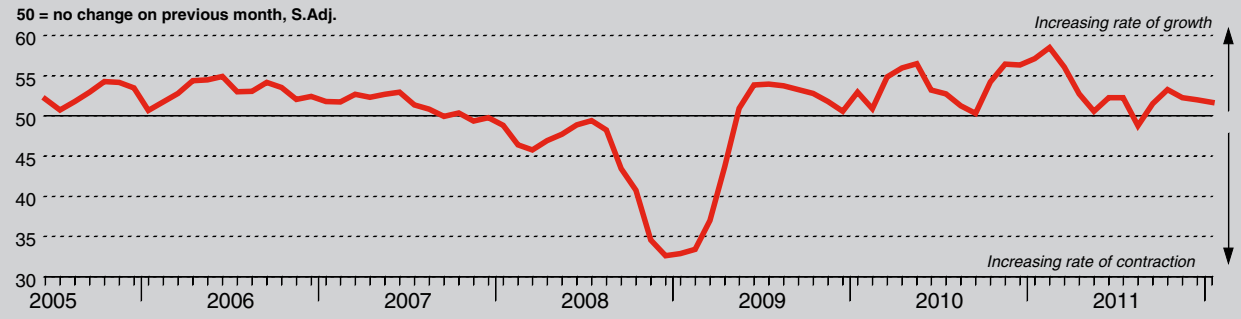
Employment at Turkish manufacturing units increased at a robust rate in January. Despite slowing from December's eight-month high, the rate of growth was quicker than the average for 2011. Hiring also helped with the depletion of outstanding business, which accelerated over the month to the quickest pace for almost two years.

Albeit easing to a marginal pace, overall new business received by Turkish manufacturers continued to grow in January. The slower expansion was attributed to subdued expectations and market uncertainty, according to the latest anecdotal evidence provided by survey respondents. The opposite trend was registered for new export orders, however, as panellists perceived a strengthening in foreign client demand. The rate of increase in new business from abroad surged to an 11-month high during the latest survey period.

Input costs faced by manufacturing firms in Turkey increased further at the start of 2012, as panellists cited unfavourable exchange rates and higher utility costs among the causes. However, marked cost inflation was not fully passed on to clients. Output price inflation eased to a five-month low, with the majority of survey respondents leaving charges unchanged from December.

To help combat price rises, many companies implemented stock reduction policies in January, according to anecdotal evidence. Stocks of finished goods were reduced at an accelerated rate, while input inventory growth was only fractional.

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.

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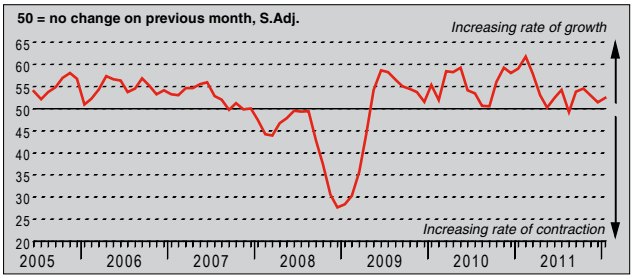
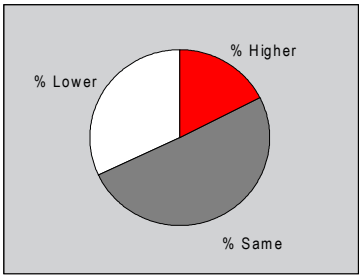
Output Index

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

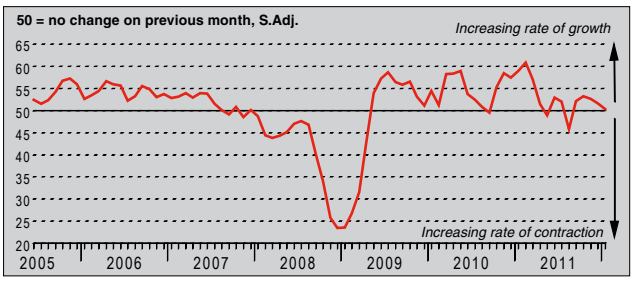


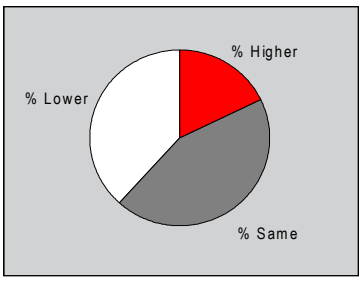


Having adjusted for seasonal variations, latest data showed that production at Turkish manufacturing companies increased solidly in January, extending the current sequence of expansion to five months. The rate of output growth quickened from the previous survey period, pushing the index above its long-run average. A number of firms cited a depletion in backlogs of work, in addition to new order growth, as a cause of rising output.

New Orders Index

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

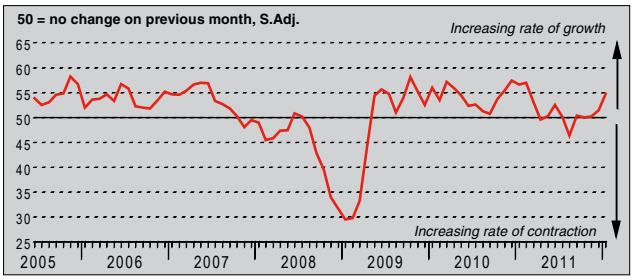


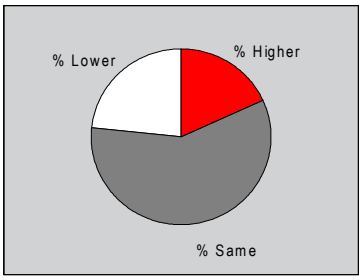


New business received by manufacturers in Turkey grew only marginally in the latest survey period. January was the third successive month in which the rate of increase has slowed, as the seasonally adjusted New Orders Index fell to its lowest level in the current five-month period of expansion. Slower growth was attributed to subdued expectations and market uncertainty, according to the latest anecdotal evidence provided by panellists.

New Export Orders Index

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

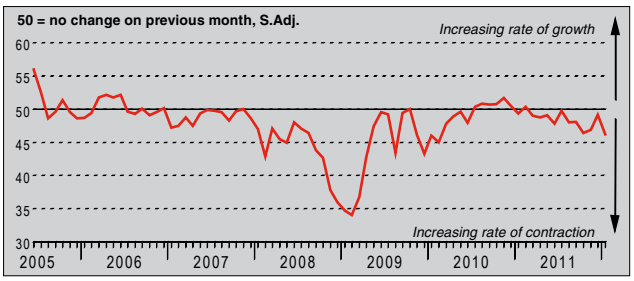


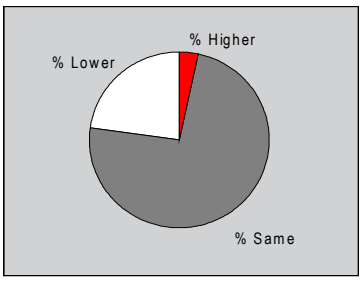


New export orders at Turkish manufacturers rose robustly during the first month of 2012, as survey members perceived a strengthening in demand from foreign clients. The seasonally adjusted New Export Orders Index hit an 11-month high, and signalled a marked improvement from the weak readings recorded throughout the second half of 2011. Growth was also faster than the series' long-run trend.

Backlogs of Work Index

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





Outstanding business held by companies in the Turkish manufacturing sector was depleted at a strong rate in January. The rate of decline quickened from December, indicated by a drop in the seasonally adjusted Backlogs of Work Index to a near two-year low. Outstanding business has only been accumulated in 18 months throughout the seven-year history of the survey.

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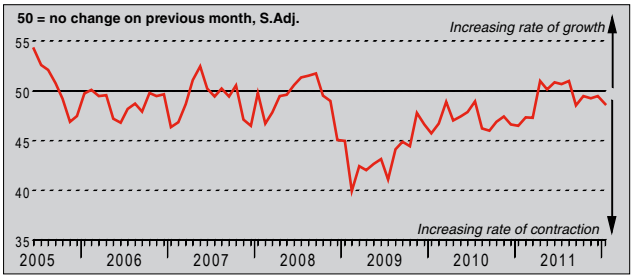
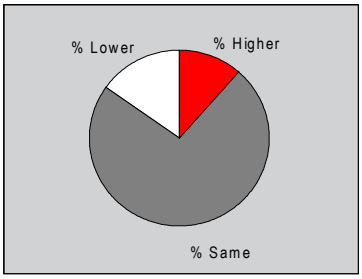
Stocks of Finished Goods Index

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

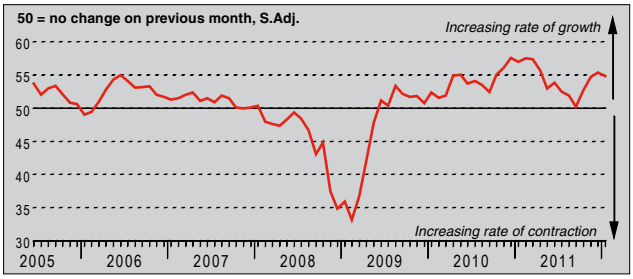


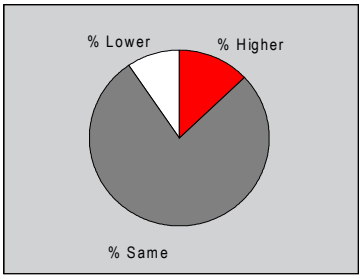


Post-production inventories at Turkish manufacturers continued to fall in January. While the rate of decline accelerated to a four-month high, the moderate pace of contraction was slower than the series average. Of the 15% of panellists that registered a reduction in stocks of finished goods, some put this down to a rise in sales.

Employment Index

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

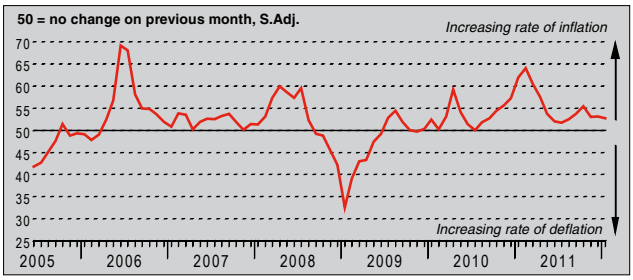


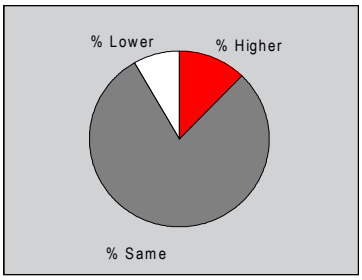


Turkish manufacturing companies continued to increase staff levels at their business units in January. While the rate of job creation eased from the previous month, it remained strong and well above the long-run average for the series. Survey members predominantly attributed the increase in employment to rising demand, particularly from abroad. Headcounts have risen in each of the last 32 months.

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.

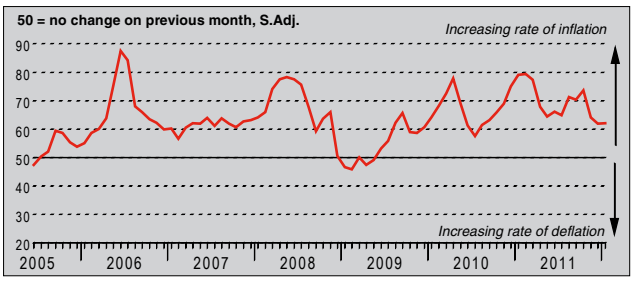


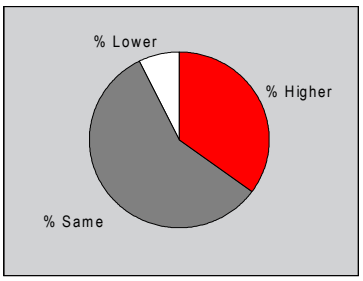


Factory gate prices for Turkish manufacturers increased at a solid rate in the first month of 2012. Over 12% of respondents noted a rise in their charges, a number of whom suggested that they were forced to by rising input prices. However, the rate of output price inflation eased to a five-month low.

Input Prices Index

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

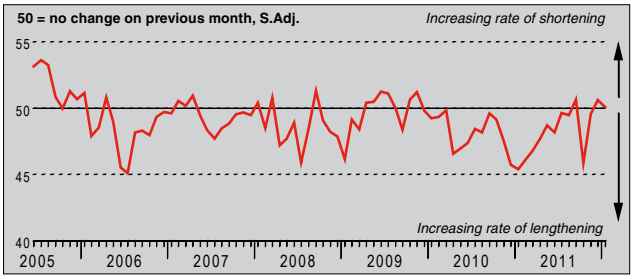


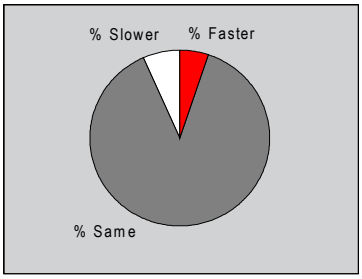


Manufacturing companies in Turkey continued to record strong cost inflation in January, as exactly 35% of survey members reported a rise in input prices. The seasonally adjusted Input Prices Index was broadly unchanged from December, remaining considerably below the average for 2011. Unfavourable exchange rates and higher electricity prices were among the most commonly cited reasons given by panellists for increased costs.

Suppliers' Delivery Times Index

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

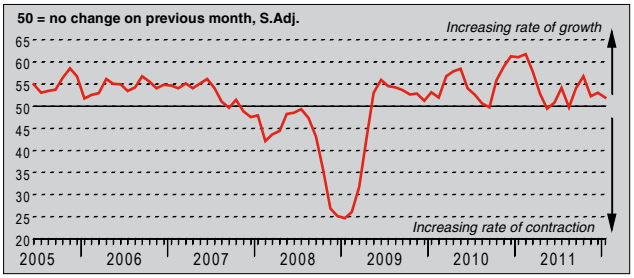


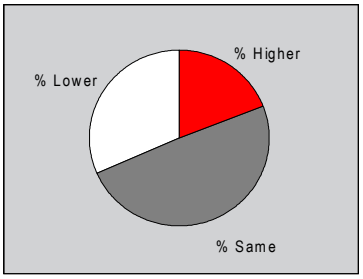


Suppliers' delivery times were broadly unchanged in January, as the majority of panellists (88%) recorded the same length of lead times as during the previous survey period. This followed a slight improvement in vendor performance at the end of 2011.

Quantity of Purchases Index

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

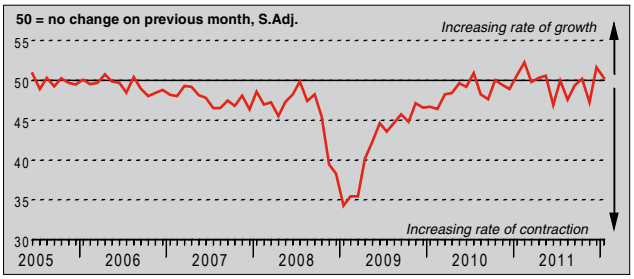


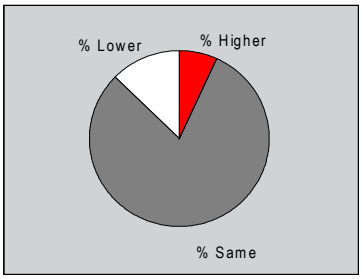


Latest data showed that Turkish manufacturers acquired additional inputs at the start of the 2012. Panellists attributed the rise in purchasing activity to a combination of new order and production growth. The latest rise in purchases was modest, having eased from December to the slowest pace recorded since the current sequence of growth began in September.

Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index signalled that pre-production inventories remained broadly unchanged during January. The stagnation followed a moderate increase in input holdings in December. The latest index reading continued the trend seen in 2011, where the headline number fluctuated around the 50.0 no-change threshold.

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 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.

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