HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC Turkey Manufacturing PMI™

Operating conditions improve for first time in three months

Key findings:

- PMI rises to five month high
- Moderate growth of output and new orders
- Input prices rise at quickest pace since last November

The second quarter of 2012 began on a more positive note compared to the end of the first quarter for Turkish manufacturers. Declines were recorded across a number of monitored variables during February and March, but April data showed that output, new business, and buying activity all returned to growth. Reports indicated that the rise in activity reflected stronger demand, amid an improved economic environment.

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 52.3 in April, moving above the 50.0 no-change threshold for the first time since January. The latest reading indicated a moderate improvement in the operating conditions of the Turkish manufacturing sector.

Overall new business expanded for the first time since the beginning of Q1. Furthermore, the rate of increase was the sharpest since last November, despite being only moderate. Where new orders rose, panellists generally attributed this to strengthening demand. New export orders also increased, and at a faster pace.

Reflecting the trend in new business, manufacturing production increased for the first time in three months in April. Output growth was moderate on the month.

Despite the rise in new orders, the latest data suggested that Turkish manufacturers continued to operate with a degree of spare capacity. Outstanding business fell for the fourteenth month in succession, and at a solid rate.

To accommodate production requirements, manufacturers continued to recruit staff in April. Headcounts rose at an accelerated pace, that was above the long-run series average.

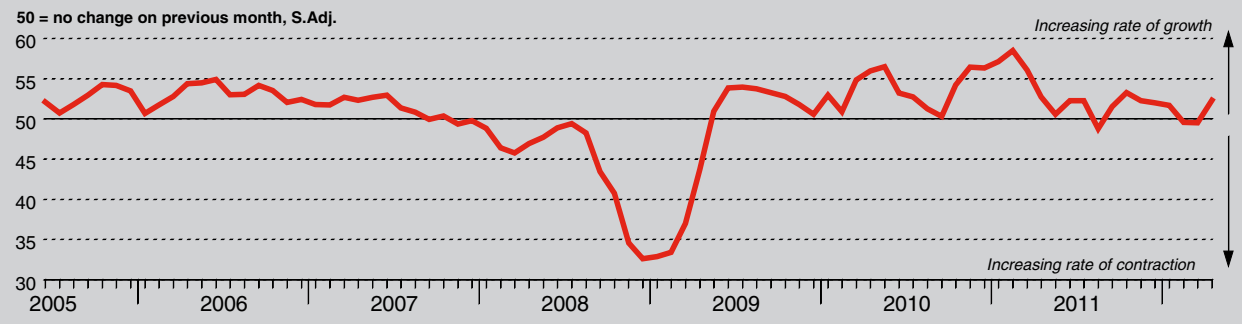
Buying activity also rose moderately over the month, in line with the expansion in new orders. As a result, stocks of purchases held by Turkish manufacturers were depleted at only a marginal rate. Meanwhile, finished goods holdings were left unchanged. This marked a difference to the previous two months, in which post-production inventories had increased.

Stronger demand for inputs, as well as difficulties in sourcing raw materials, led to another deterioration in vendor performance during April. Lead times lengthened at a slight pace, and faster than the long-run series trend.

Strong input price inflation persisted in the Turkish manufacturing sector in April, with firms predominantly attributing the latest increase to rising raw material and fuel costs. The rate of inflation recorded was the sharpest for five months.

Turkish manufacturers passed through part of their increased cost burdens to customers by way of higher charges in April. The rate of output price inflation appeared to be stabilising, however, remaining broadly unchanged from February and March.

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.

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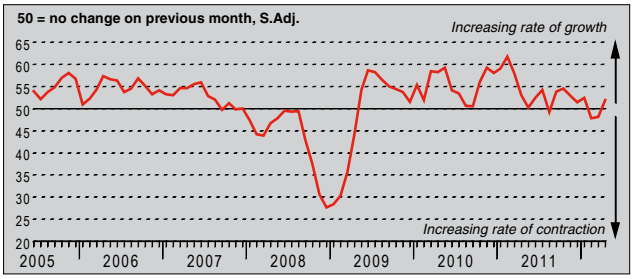
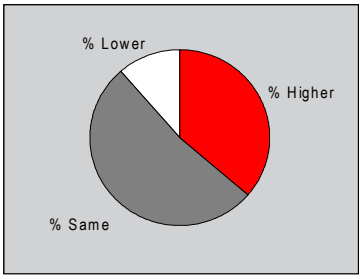
Output Index

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

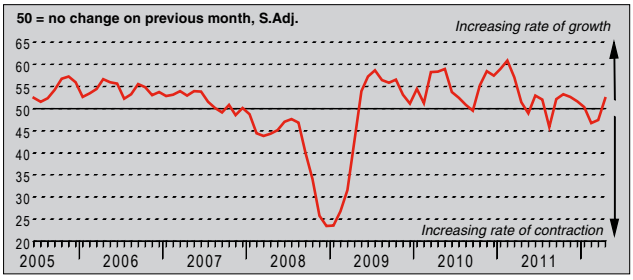


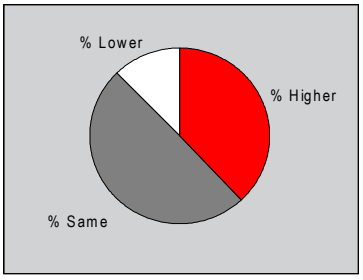


Production at Turkish manufacturers increased for the first time in three months at the start of Q2. Rising above the 50.0 no-change threshold, the seasonally adjusted Output Index indicated a moderate rate of growth that was fractionally above the long-run average for the series. Reports showed that the rise in manufacturing activity principally reflected an expansion of new business as economic conditions appeared to improve.

New Orders Index

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

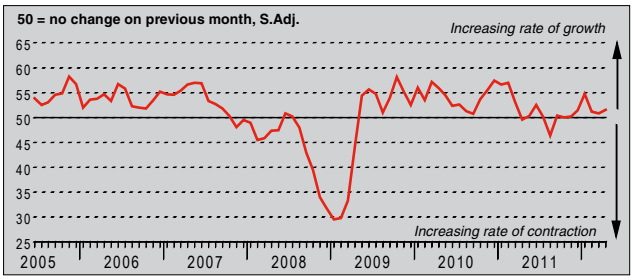


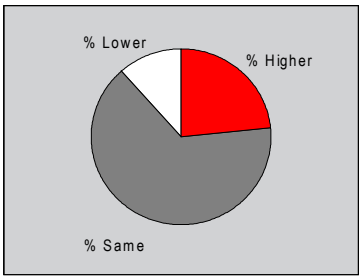


April's rise in new orders at Turkish manufacturers was the first since January, and followed two months of solid declines. The rate of increase was solid, and the quickest in five survey periods. A number of monitored companies reported that the business environment had improved since March, with some commenting that demand had picked up to a similar level to the latter half of last year.

New Export Orders Index

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

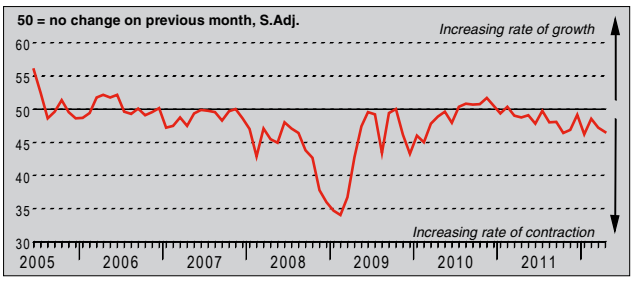


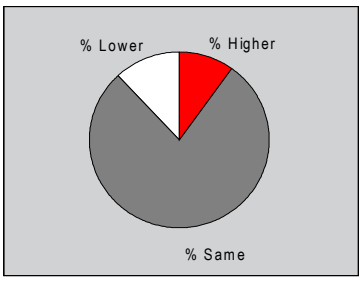


New export orders for Turkish manufactured goods increased in April. Although the rate of expansion was only moderate, it was the quickest since January and above the series average. Respondents noted that while foreign demand had showed indications of strengthening, it remained lacklustre due to continued uncertainty and fragility in European markets.

Backlogs of Work Index

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

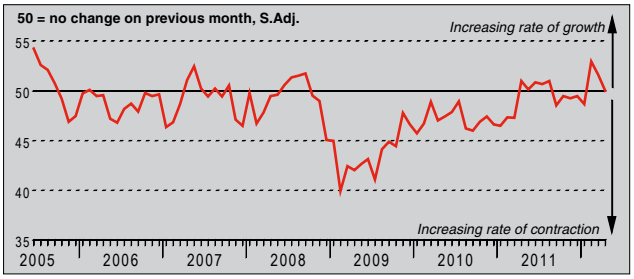


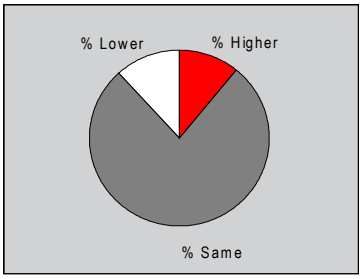


April data pointed to a degree of unused capacity across the Turkish manufacturing industry. Backlogs of work continued to fall, and at an accelerated rate. Outstanding business has now declined in each of the last 14 months. The latest decrease in work-in-hand was solid, and the most pronounced since January.

Stocks of Finished Goods Index

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

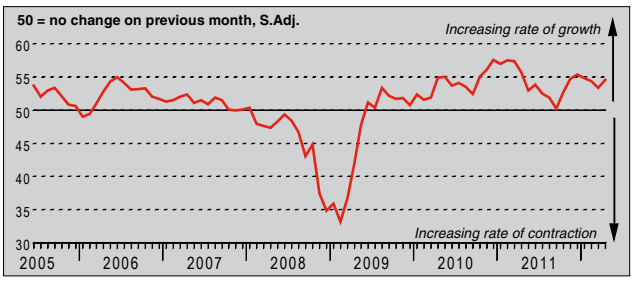


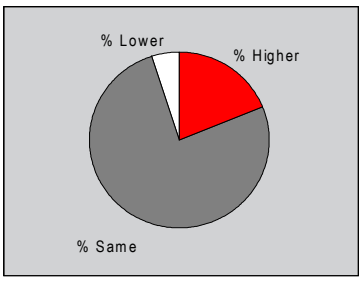


After two months of successive increases, post-production inventories were left unchanged by Turkish manufacturers during April. This was indicated by the seasonally adjusted Stocks of Finished Goods Index registering at the 50.0 level which separates expansion from contraction. That said, the index was still above its long-run average.

Employment Index

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

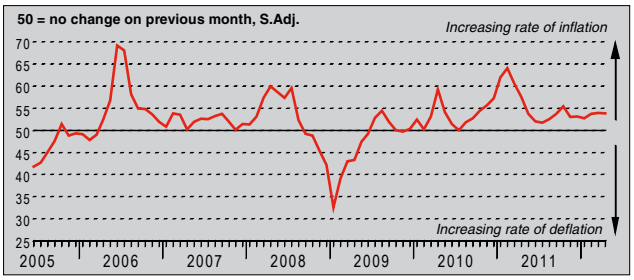


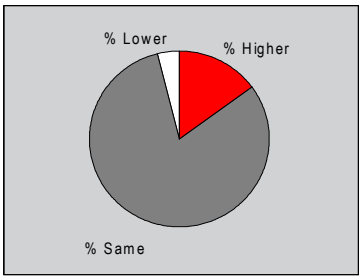


Turkish manufacturers continued to take on new staff during the latest survey period, bringing the current run of growth to nearly three years. Furthermore, April's increase was the strongest for three months. Companies that recruited additional workers frequently cited efforts to meet an increase in 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.

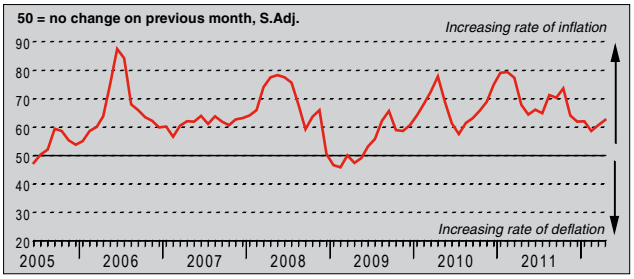


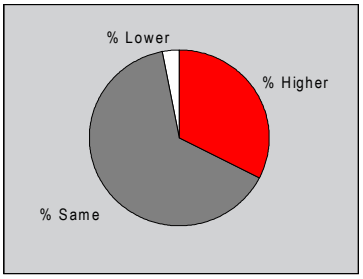


Prices charged by Turkish manufacturers for their products continued to rise in April. Output prices have now increased for 29 months running, with survey members linking the latest inflation to higher input costs. However, the rate of increase showed signs of flattening out, remaining broadly similar to these recorded in the previous two months.

Input Prices Index

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

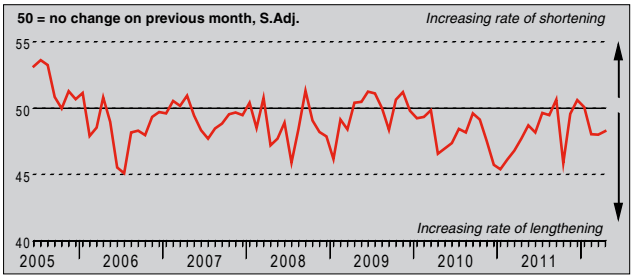


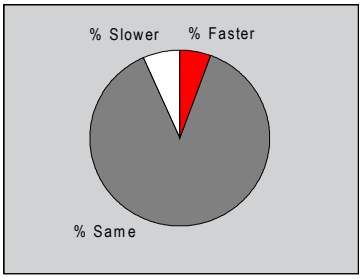


Although still below the survey's historical average, input cost inflation in Turkey's manufacturing sector accelerated for the second successive month during April. The rate at which costs increased was marked, and the quickest since November 2011. Respondents stated that greater raw material and fuel costs, accompanied by a strengthening in demand, 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.

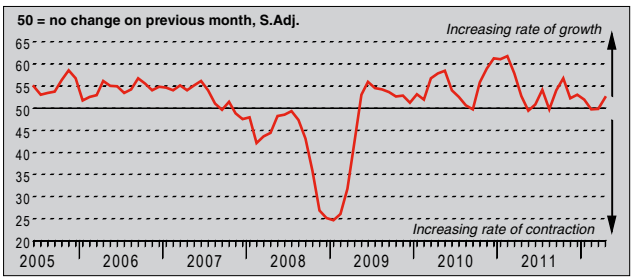


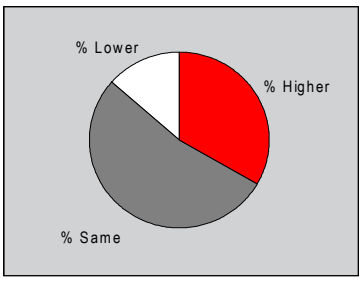


Higher demand for inputs, as well as reports of difficulties in sourcing raw materials, led to a moderate lengthening in suppliers' delivery times during April. Average vendor performance has deteriorated for three months in succession, although the latest rise in lead times was fractionally less marked than in either of the previous two survey periods.

Quantity of Purchases Index

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

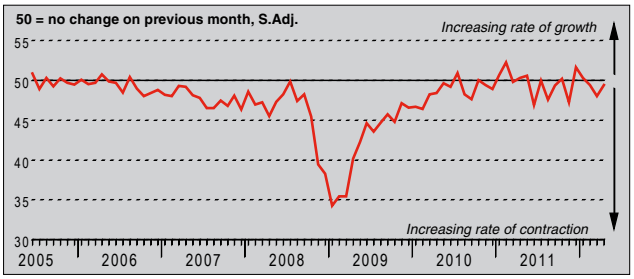


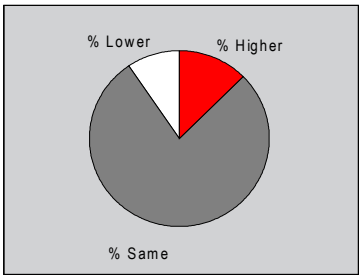


Mirroring the upward trend in new business, buying activity at Turkish manufacturers rose for the first time in three months in April. The latest increase in input acquisitions was modest, but nevertheless at a quicker pace than then average for the series. Exactly one-third of monitored companies recorded an expansion in buying activity, while around 14% recorded a fall. 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 firms were depleted for the third successive survey period in April. However, the latest reduction was only marginal, easing from that seen in March. Some companies that noted lower inventory holdings commented that new purchases had been put to immediate use in the production process as market demand strengthened. Where higher stocks were recorded, this was mostly linked to positive expectations regarding future activity levels.

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.

Warning