

HSBC Turkey Manufacturing PMI™

Manufacturing operating conditions little changed during May

Key findings:

- 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

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.

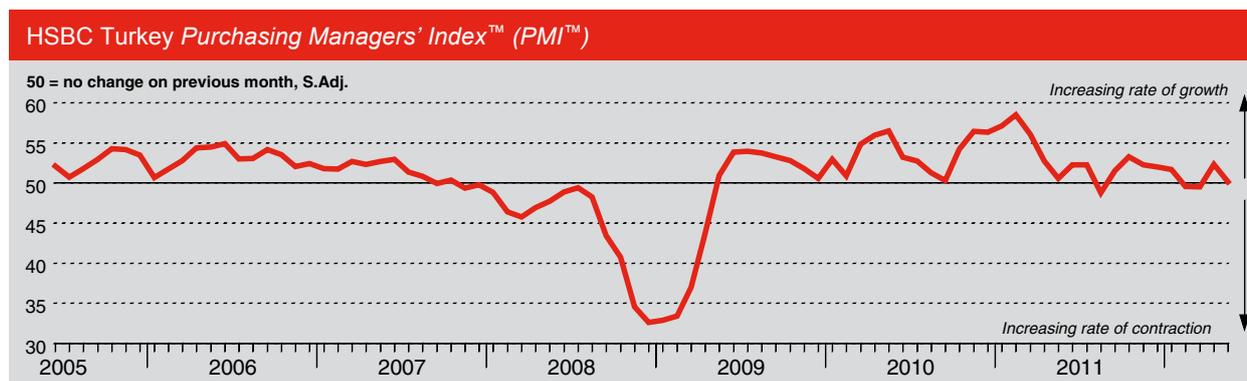
Companies were also able to clear work outstanding at a faster pace due to workforce expansion. According to the latest data, staffing levels were increased further to extend the current period of growth to three years. However, the rate of expansion was the lowest for eight months, reflective of recent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

On the purchasing front, Turkish manufacturers reduced their input buying for a third time in four months during May. Lower purchasing activity reflected weaker new order volumes, which also encouraged companies to utilise stocks of inputs in production wherever possible.

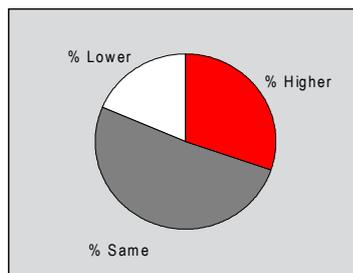
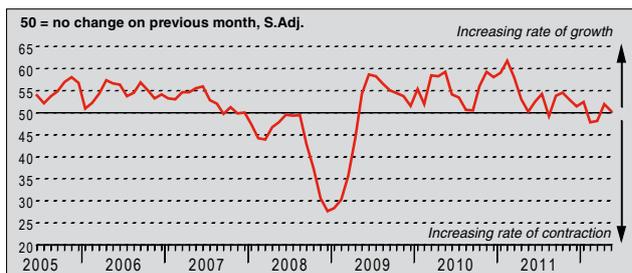
Finally, average lead times for the delivery of purchases were broadly unchanged in May. Any lengthening of lead times reflected vendor difficulties in sourcing materials.



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

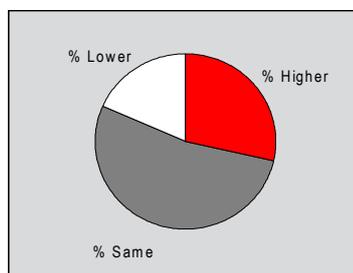
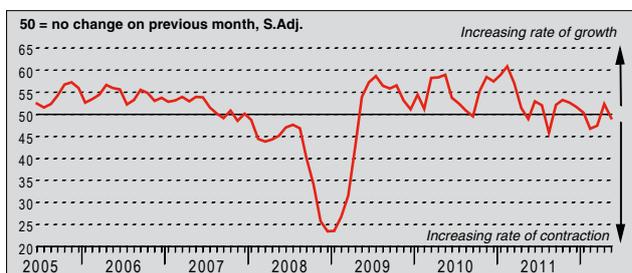
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Turkey rose for a second successive month, although the rate of growth was marginal and slower than the solid pace seen in April. A subdued trend in volumes of incoming new orders weighed on production in May, with the latest data implying that any rise in production generally reflected efforts to deal with backlogs of work.

New Orders Index

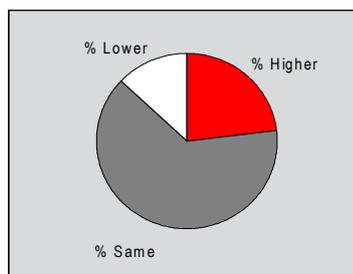
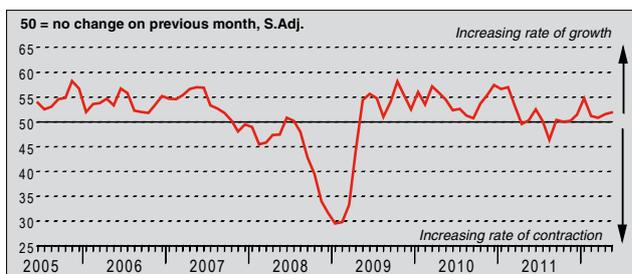
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



Following solid growth in April (the first since January), volumes of new orders received by Turkish manufacturers were down slightly in May. Panellists reported that market conditions were subdued, and that demand had stagnated during the latest survey period. A number of companies blamed the ongoing global financial crisis.

New Export Orders Index

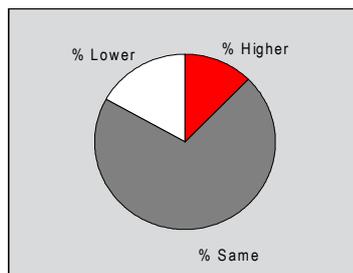
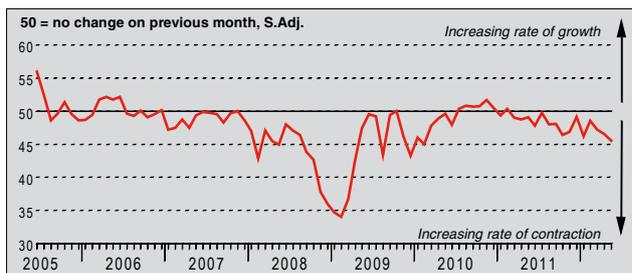
Q. Please compare the level of new export orders received this month with the situation of one month ago.



In contrast to the trend in total new orders, a modest increase in new export orders was registered during May. Moreover, the rate of growth improved slightly to reach the highest level since January. Panellists attributed growth in part to the quality of their products. The Middle East and the USA were noted as growth markets in May.

Backlogs of Work Index

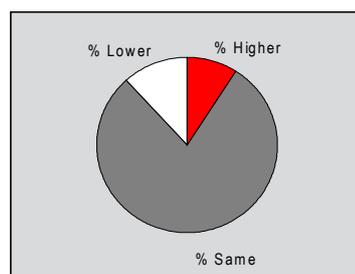
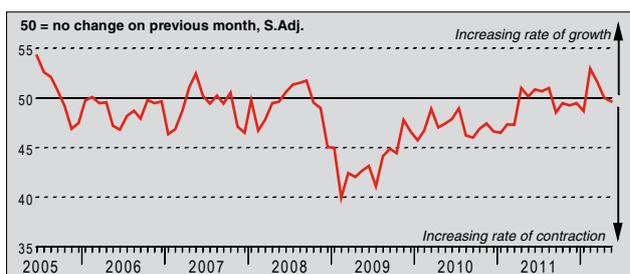
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work outstanding continued to be eroded during May, extending the current period of contraction to 15 successive months. Panellists reported that a combination of sufficient capacity at their plants and a slight drop off in new orders had led to the reduction in work outstanding in the latest survey period.

Stocks of Finished Goods Index

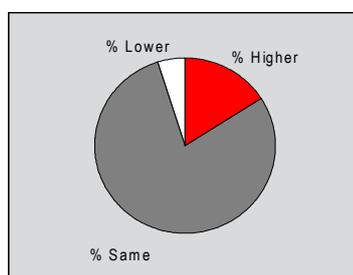
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



For the first time in four months, stocks of finished goods held by Turkish manufacturers were reduced in May. That said, the rate of decline was only marginal with nearly 80% of panellists indicating no change in inventory levels. A number of respondents commented that, wherever possible, sales had been met directly from warehouse stocks.

Employment Index

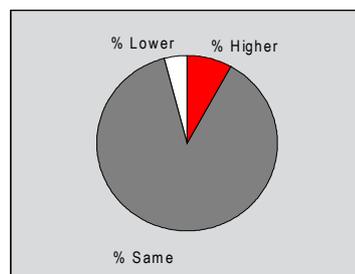
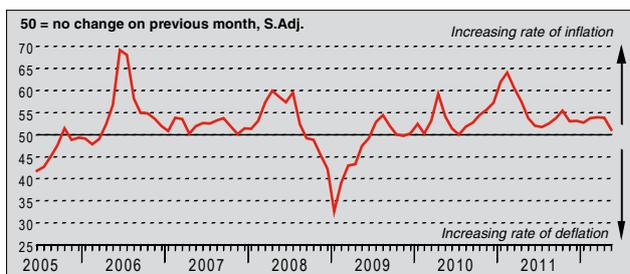
Q. Please compare the level of employment at your unit with the situation one month ago.



May's survey indicated that staffing levels in the Turkish manufacturing sector continued to increase, extending the current period of growth to three consecutive years. Panellists signalled that additional workers had been hired as part of efforts to expand capacity. However, with a relatively subdued trend in order books, the increase in employment was the slowest for eight months.

Output Prices Index

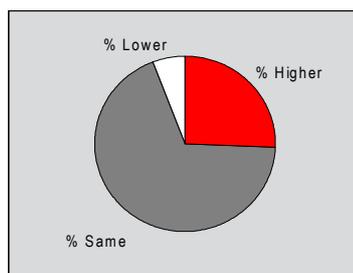
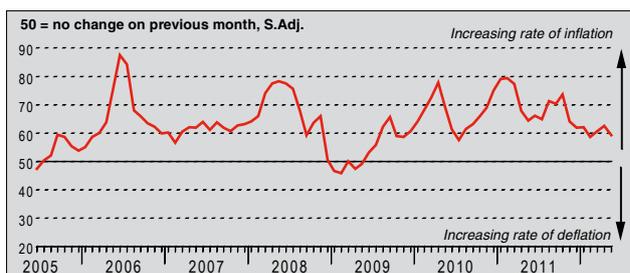
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index remained above the 50.0 no-change mark for the thirtieth consecutive month. Higher output charges were reportedly reflective of an increase in input costs and continued efforts to protect margins. However, with competitive pressures and a slower rise in input costs, output charges increased in May at the weakest pace for 22 months.

Input Prices Index

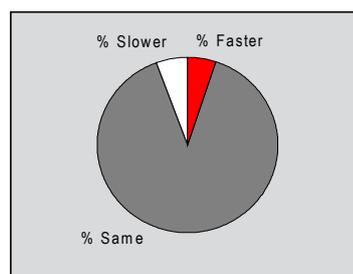
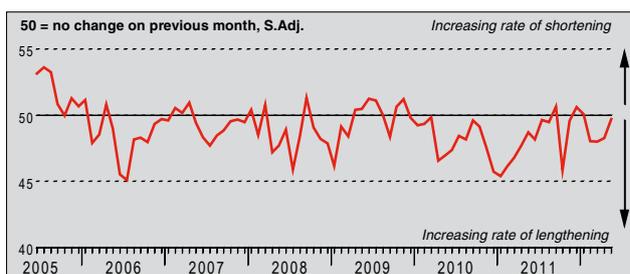
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation eased on April's five-month high to the lowest since February, though nonetheless remained elevated with over a quarter of the survey panel indicating an increase in input costs. Respondents principally blamed inflation on a stronger US dollar and the subsequent impact of increased import prices.

Suppliers' Delivery Times Index

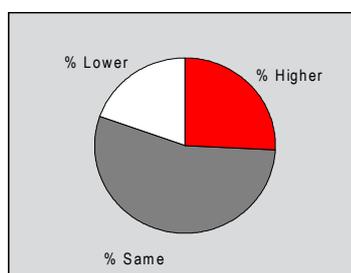
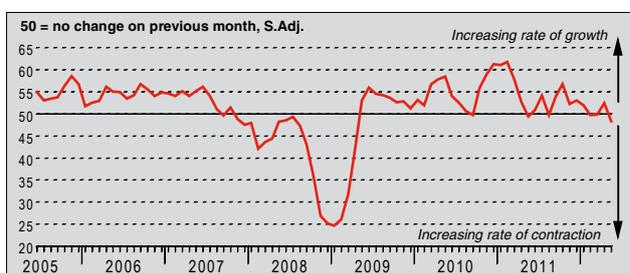
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were little changed in May, with the respective seasonally adjusted index posting a reading just below the 50.0 no-change mark. The majority of panellists reported that average vendor performance was unchanged since April although, where a lengthening of times was recorded, this was principally attributed by panellists to suppliers struggling to source raw materials.

Quantity of Purchases Index

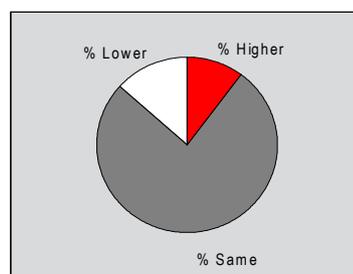
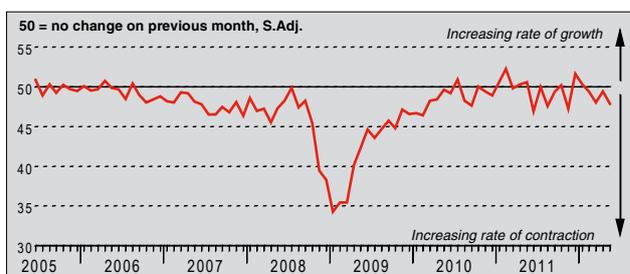
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Posting below the 50.0 no-change mark for the third time in the past four months, the seasonally adjusted Quantity of Purchases Index indicated that purchasing activity in the Turkish manufacturing sector fell in May. The modest reduction in input buying was largely in response to lower sales and slower growth of output.

Stocks of Purchases Index

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



May's survey indicated that inventories of raw materials and semi-manufactured goods were reduced for a fourth successive month. Moreover, the rate of decline accelerated to the steepest seen for six months. Panellists indicated a preference for utilising existing stock in production over purchasing new inputs given the weaker trend in order books.

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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