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HSBC Turkey Manufacturing PMI™

Production increases but underlying demand remains fragile

Key findings:

- Solid increase in production
- New orders rise fractionally, after falling in May; backlogs cut at sharper pace
- Marked slowdown in input cost inflation

Business conditions in the Turkish manufacturing sector continued to improve modestly in June, but economic difficulties in Europe impacted negatively on firms' operations. Input cost inflation slowed markedly, while companies raised their output prices at a modest pace.

The seasonally adjusted HSBC Turkey Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing industry – posted 51.4 in June, up from a reading of 50.2 in May. This pointed to a slight improvement in operating conditions in the sector.

After decreasing marginally in May, new business at Turkish manufacturers increased fractionally during June. Some respondents indicated that demand had strengthened over the month, but others highlighted the negative impact of the ongoing European sovereign debt crisis. This was a key factor in the first reduction of new export orders since August 2011.

Higher new orders encouraged firms to raise production levels in June. Output increased for the third consecutive month, and at a solid pace that was the sharpest since November 2011.

As growth of new business was only fractional, firms used spare resources to work through existing projects. Backlogs of work again decreased markedly, and have fallen in each month since March 2011.

Turkish manufacturers took on extra staff for the thirty-seventh

successive month in June, with panellists linking the latest rise in employment to higher production requirements. That said, the rate of job creation was the slowest since September last year.

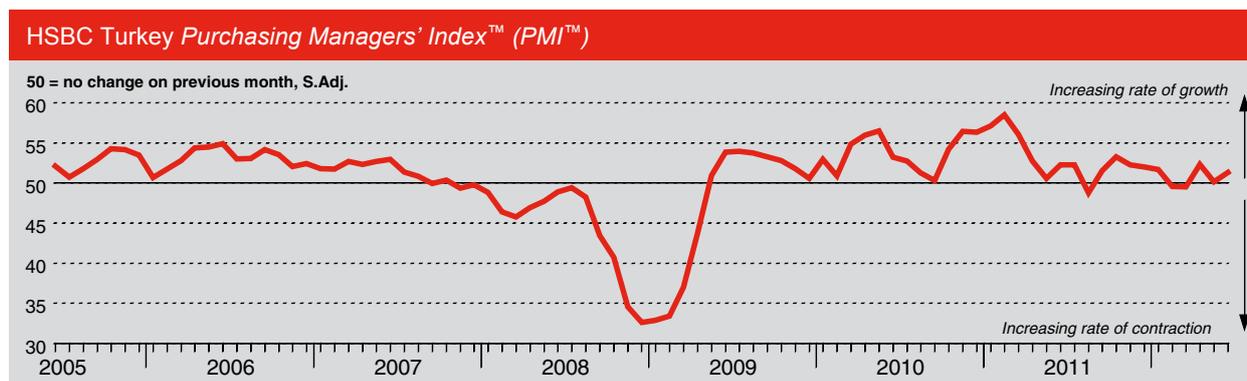
The rate of input cost inflation eased markedly over the month, and was the weakest in the current 37-month period of rising input prices. Where input costs did rise, this was largely reflective of increased raw material prices.

Firms continued to raise their output prices in June, extending the current sequence of inflation to 31 months. However, the pace at which charges increased slowed for the third consecutive month, and was the weakest since July 2010.

Higher production led firms to expand their purchasing activity for the second time in the past three months. This rise in demand for inputs was a factor behind a further deterioration in vendor performance. Suppliers' delivery times lengthened for the fifth month running, albeit only marginally.

Pre-production inventories increased for the first time in five months during June as firms raised stocks in line with higher output requirements. That said, a reluctance to raise inventories meant that the rate of accumulation was only fractional.

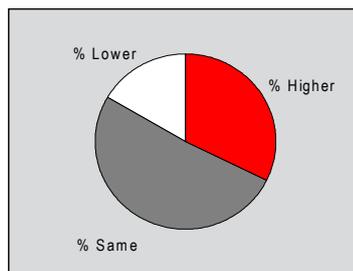
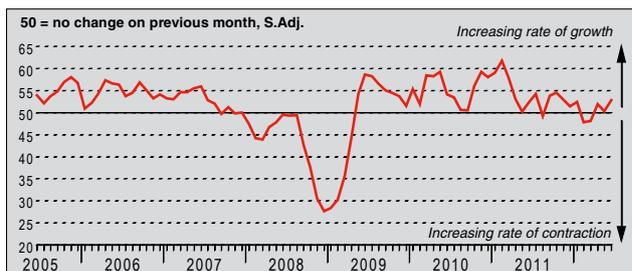
Stocks of finished goods decreased for the second month running. Although still marginal, the rate of decline in post-production inventories quickened slightly from that seen in the previous month.



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

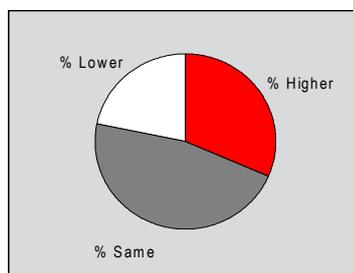
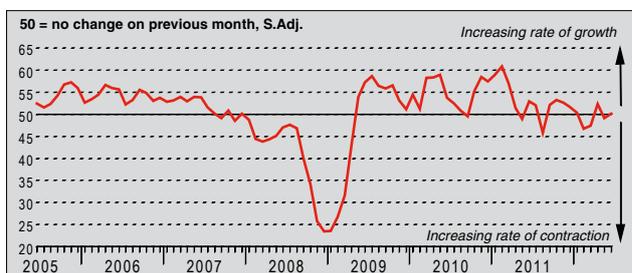
Q. Please compare your production/output this month with the situation one month ago.



Production at Turkish manufacturing firms increased for the third successive month in June. Moreover, the rate of expansion was solid, and accelerated to the sharpest since last November. Those respondents that noted growth of output over the month linked this to higher new orders. Meanwhile, data implied that backlog depletion had supported the increase in production.

New Orders Index

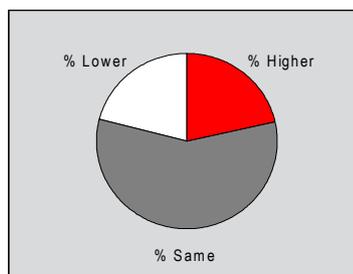
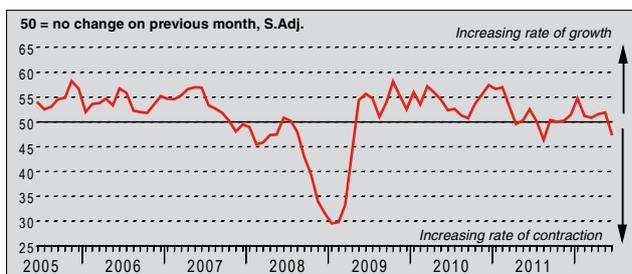
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



After falling marginally in the previous month, new orders rose fractionally at Turkish manufacturers in June. That said, the rate of growth was slower than the series average. Some panellists reported signs of strengthening demand, leading to higher new orders. On the other hand, a number of respondents indicated that economic problems in Europe had a negative impact on new business.

New Export Orders Index

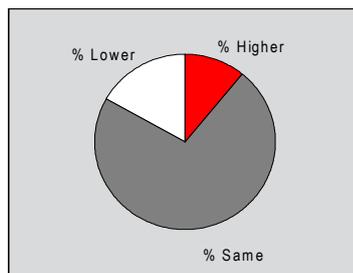
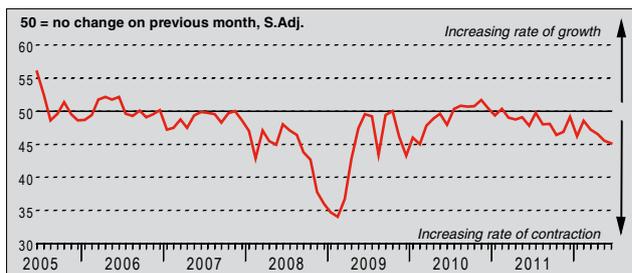
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders at manufacturing firms in Turkey decreased in June, ending a seven-month sequence of growth. Moreover, the pace of reduction was solid. Anecdotal evidence suggested that the ongoing economic problems in Europe was the principal cause of the reduction in new business from abroad.

Backlogs of Work Index

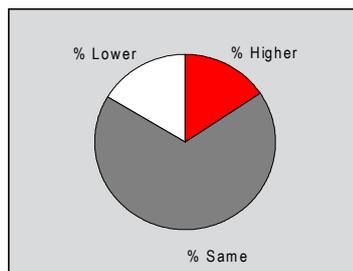
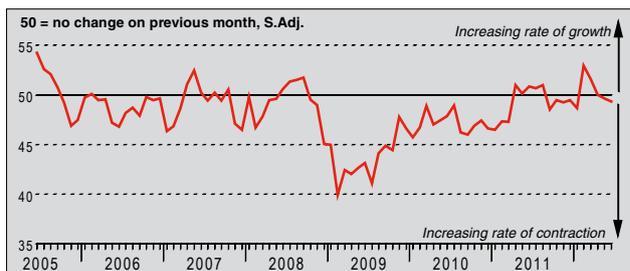
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



With overall new business increasing at only a fractional pace during June, spare capacity was evident in the manufacturing sector during the month. Backlogs of work decreased for the sixteenth consecutive month, and at a marked pace that was the sharpest since February 2010. The rate of decline in outstanding business has now accelerated in each of the past four months.

Stocks of Finished Goods Index

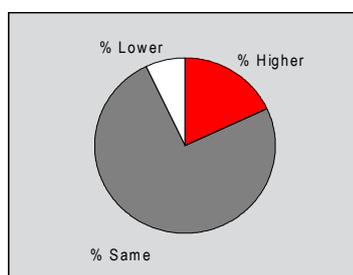
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



As had been the case in the previous month, stocks of finished goods decreased in June. The rate of depletion of post-production inventories was only marginal, but quickened fractionally from that seen in May. Respondents indicated that signs of a soft underlying trend in demand meant they were reluctant to build stock levels.

Employment Index

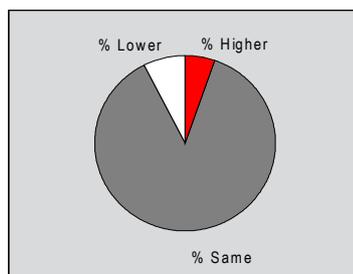
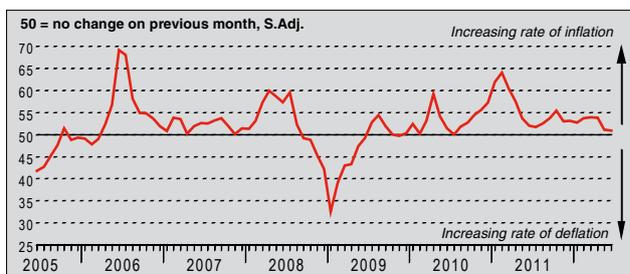
Q. Please compare the level of employment at your unit with the situation one month ago.



Turkish manufacturing firms took on extra staff again in June, extending the current sequence of job creation to 37 months. That said, the pace at which employment increased was only modest and slightly slower than in the preceding month. Those respondents that raised staffing levels during the month reported this was in line with higher production requirements.

Output Prices Index

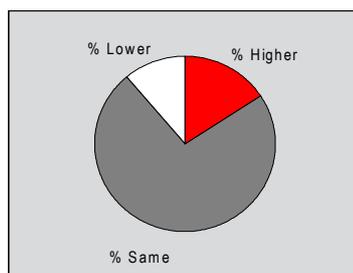
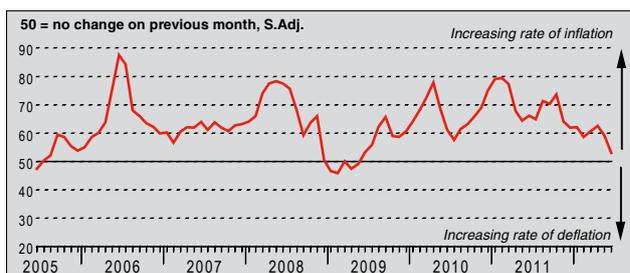
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



June data pointed to a slight rise in output prices at Turkish manufacturing firms. That said, the rate of inflation slowed fractionally, and was the weakest in 23 months. Where charges increased, this was largely due to the passing on of higher input costs to clients. Output prices have risen in each month since December 2009.

Input Prices Index

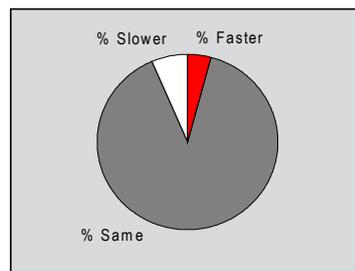
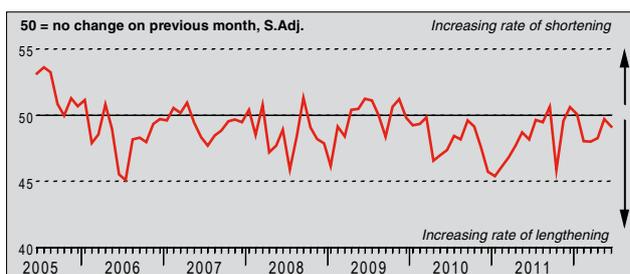
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Although input prices rose again in June, the rate of inflation slowed markedly and was the slowest in the current 37-month period of increasing input costs. A number of panellists reported that raw material costs had risen further. The slowdown in inflation was partly attributed to exchange rate fluctuations.

Suppliers' Delivery Times Index

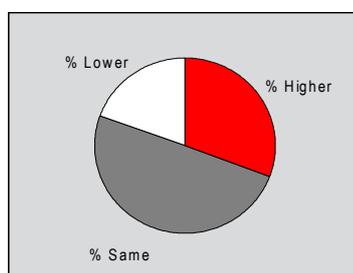
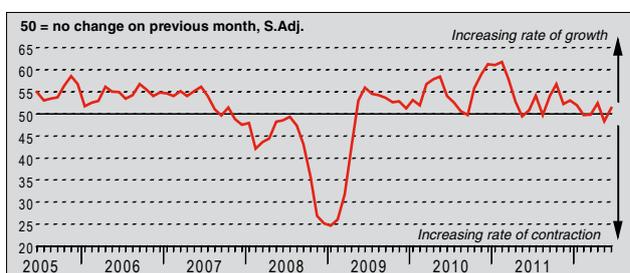
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened for the fifth consecutive month in June. The rate of deterioration in vendor performance was marginally stronger than in the previous month, but remained only slight. Anecdotal evidence suggested that increased demand for inputs had been the principal factor behind longer lead times.

Quantity of Purchases Index

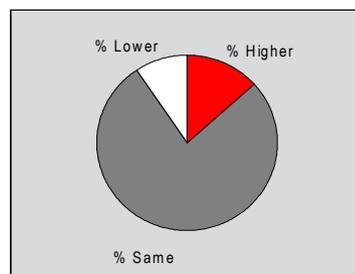
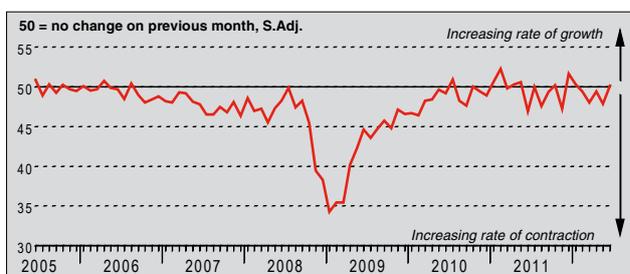
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



After falling slightly in May, purchasing activity at Turkish manufacturing firms increased in June. The rise was the second in the past three months, and was broadly in line with the series average. Respondents indicated that input buying had been expanded in response to higher production requirements.

Stocks of Purchases Index

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



Stocks of purchases increased in June, ending a four-month period of falling pre-production inventories. However, the rate of accumulation was fractional. Some respondents suggested that higher production requirements had been behind rising stocks of purchases. On the other hand, a number of panellists reported deliberate efforts to limit inventory 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.

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