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HSBC Turkey Manufacturing PMI™

Manufacturing output falls for first time in four months

Key findings:

- Production declines amid reduction in new orders
- Employment rises, but at weaker pace
- First decline in output prices since November 2009

Operating conditions in the Turkish manufacturing sector deteriorated slightly in July as both output and new orders declined. Firms continued to raise employment during the month, albeit at a slower pace. Meanwhile, manufacturers lowered their output prices in spite of further input cost inflation.

The seasonally adjusted HSBC Turkey Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing industry – dropped below the 50.0 no-change mark in July, posting 49.4. This followed a reading of 51.4 in June and signalled the first deterioration in business conditions since March. That said, the decline was only marginal.

Both output and new orders decreased in July. New business fell for the fourth month in 2012 so far, following stagnation in June. Those respondents that posted a decline in new business mentioned falling demand.

New export orders rose slightly, following a solid decline in the previous month. A number of panellists reported that weakness in European markets had prevented stronger growth of new export business.

With overall new orders decreasing, firms lowered output during the month. The fall in production was the first since March. Alongside the drop in new business, some respondents also signalled that weak market conditions had impacted negatively on output.

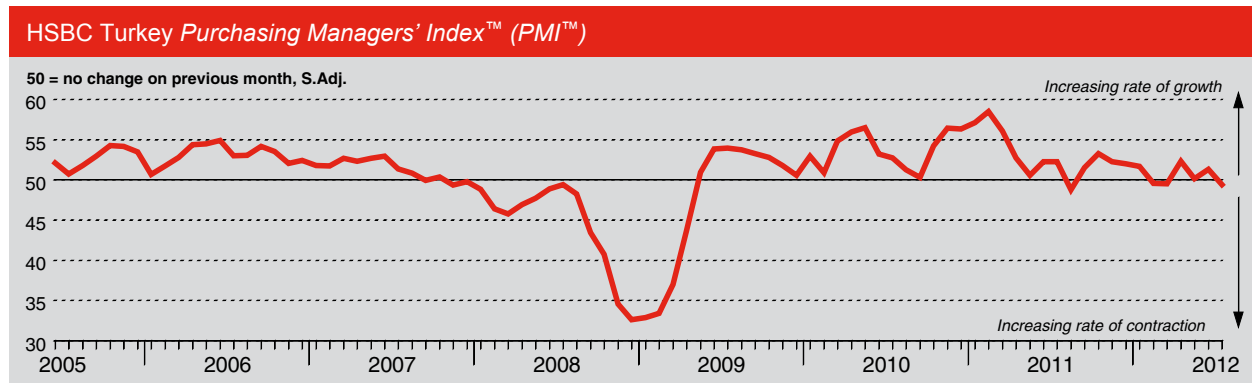
A decline in new orders led firms to reduce outstanding business in July. Backlogs of work decreased for the seventeenth month running, and at a marked pace that was broadly unchanged from June.

Manufacturers continued to raise employment, but the rate of job creation slowed for the third consecutive month and was only slight. Staffing levels have risen in each month since June 2009. The weaker rate of job creation in part reflected falling demand, according to anecdotal evidence.

Input costs increased further in July, with respondents mentioning higher raw material prices. That said, the rate of inflation remained below the series average. Despite ongoing cost inflation, firms lowered output prices for the first time in 32 months.

Capacity constraints at suppliers led to a further lengthening of delivery times during July, and at the sharpest rate in three months. Higher demand for inputs was also reportedly a factor behind the deterioration in performance.

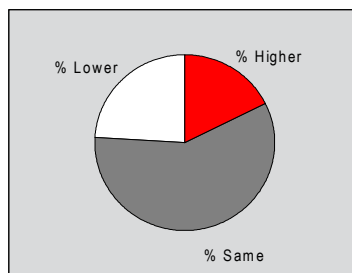
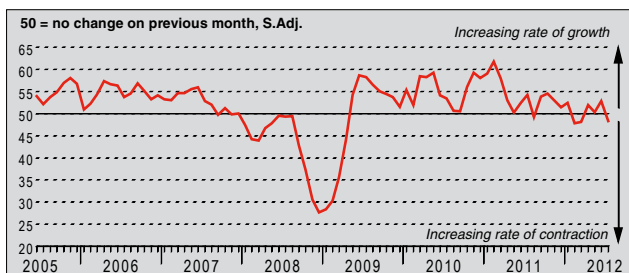
Purchasing activity increased for the third time in the past four months, with the rate of growth quickening from June. That said, stocks of purchases remained largely unchanged as firms displayed a reluctance to build inventories. Stocks of finished goods meanwhile decreased marginally for the third successive month. Firms reported a preference for using stocks to fulfil sales rather than new production.



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

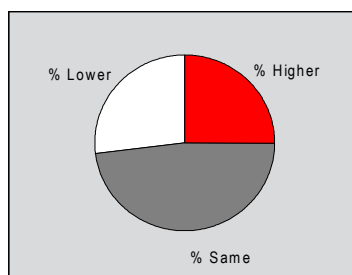
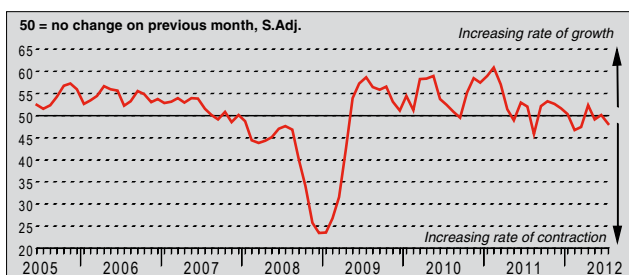
Q. Please compare your production/output this month with the situation one month ago.



Turkish manufacturing output decreased in July, ending a three-month sequence of expansion. That said, the rate of decline in production was only modest. Where output fell, respondents indicated that this was partly reflective of falling new orders. Deteriorating market conditions were also highlighted by some panellists.

New Orders Index

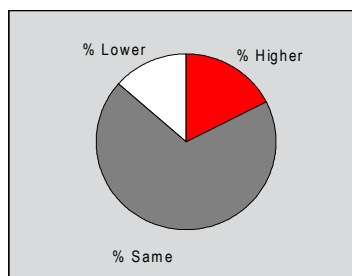
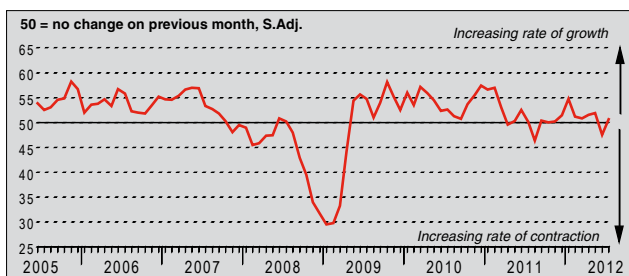
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



New business fell slightly during July. The seasonally adjusted New Orders Index has fluctuated around the 50.0 no-change mark in recent months. Some respondents indicated that falling demand had been the main factor behind the drop in new business, with a number of panellists mentioning the economic difficulties in Europe.

New Export Orders Index

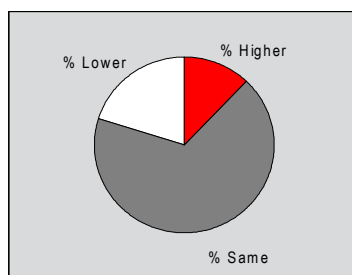
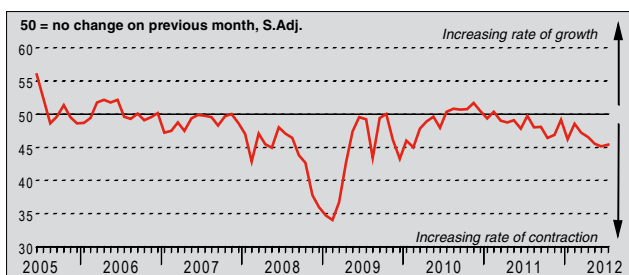
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After falling in June, new export orders returned to growth in July. However, the rate of expansion was only marginal. New business from abroad has increased in eight of the past nine months. Where new export orders increased, panellists linked this to improved overall international demand. That said, those respondents that recorded a fall in new business from abroad signalled weakness in European markets.

Backlogs of Work Index

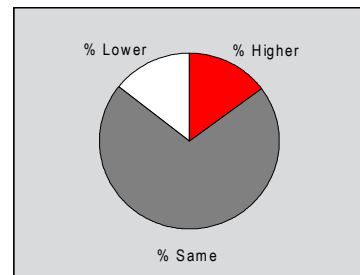
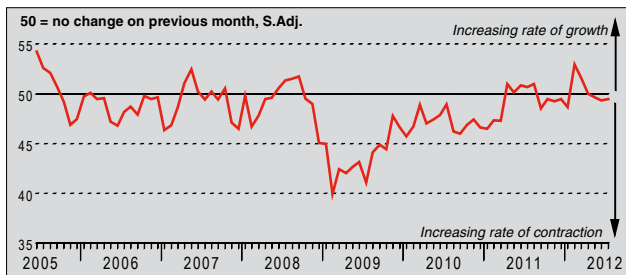
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Decreasing new orders led manufacturers in Turkey to use spare resources to complete outstanding business during July. Backlogs of work were depleted for the seventeenth successive month. The rate of decline was marked, and broadly unchanged from the 28-month record posted in June. More than 20% of respondents signalled a reduction in outstanding business, against 12% that posted an increase.

Stocks of Finished Goods Index

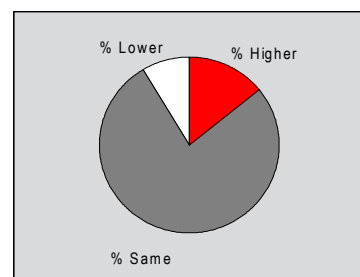
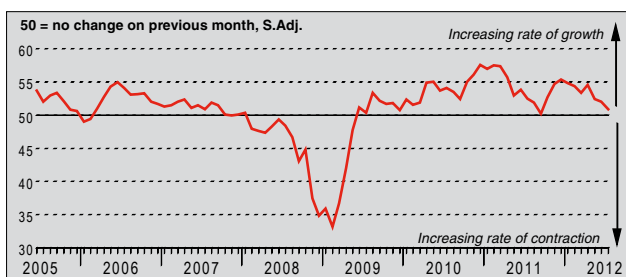
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at Turkish manufacturing firms decreased for the third month running in July, with the rate of depletion remaining marginal. Anecdotal evidence suggested that falling new orders meant that in a number of cases firms favoured utilising stocks to fulfil sales rather than producing new goods.

Employment Index

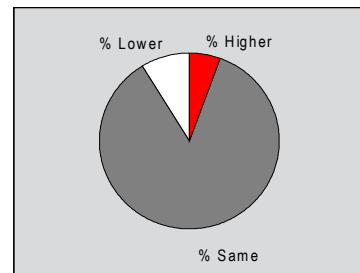
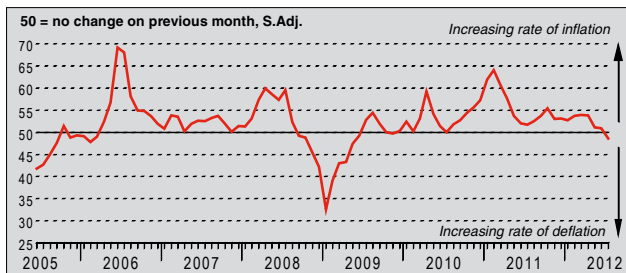
Q. Please compare the level of employment at your unit with the situation one month ago.



Although employment in the manufacturing sector continued to increase in July, the rate of job creation slowed for the third successive month and was only slight. Where staffing levels rose, firms mentioned investing in capacity increases. On the other hand, a mixture of lower demand and difficulties in finding new workers was reportedly behind the slowdown in hiring.

Output Prices Index

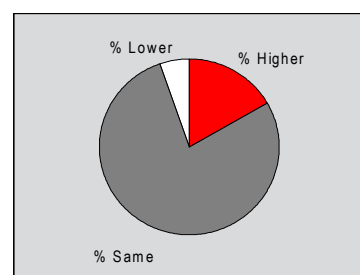
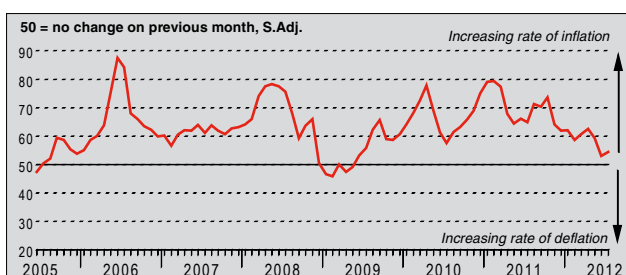
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



July data signalled the first reduction in output prices at Turkish manufacturing firms in 32 months. However, the fall in charges was only modest. A number of respondents indicated that charges had been reduced in response to weaker demand. Meanwhile, other panellists indicated that a weakening of the euro had led to lower prices for imported goods, and that these falls had been passed on to clients.

Input Prices Index

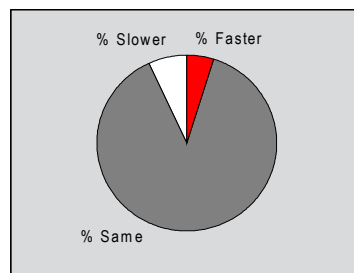
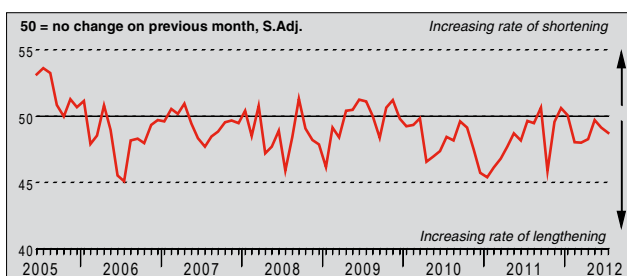
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Turkish manufacturing firms recorded a further increase in input prices during July, extending the current sequence of inflation to 38 months. The latest increase was solid and faster than that seen in the previous month, but was still weaker than the series average. Higher raw material prices was signalled by respondents as demand for inputs increased.

Suppliers' Delivery Times Index

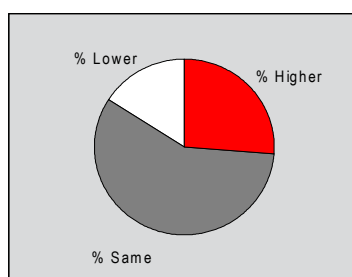
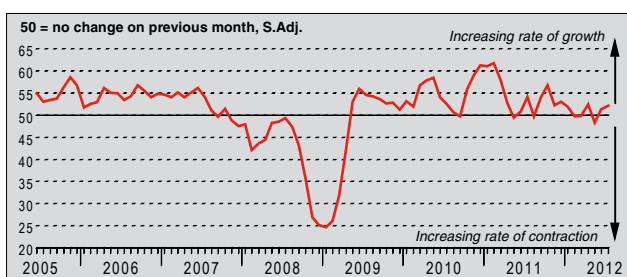
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened for the sixth consecutive month in July. Although the latest deterioration in performance was only slight, it was the strongest in three months. Anecdotal evidence suggested that capacity constraints at suppliers meant that they were unable to deal with an increase in purchasing activity.

Quantity of Purchases Index

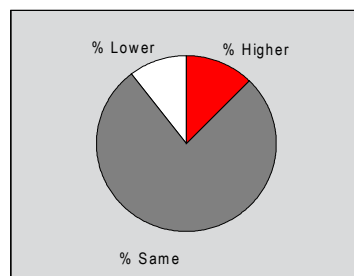
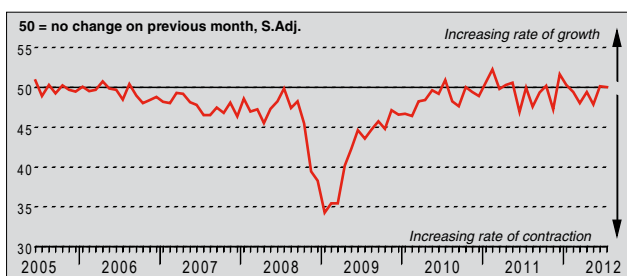
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Turkish manufacturing companies increased their input buying during July. Purchasing activity in the sector has now risen in three of the past four months. Moreover, the rate of expansion was quicker than recorded in June. More than 26% of panellists increased input buying during the month, compared with 16% that posted a decrease.

Stocks of Purchases Index

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



Stocks of purchases at Turkish manufacturers were broadly unchanged for the second consecutive month in July. Where input inventories increased, this was reportedly due to a rise in purchasing activity combined with lower production. However, some respondents reported a reluctance to raise inventory levels amid weak demand.

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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