

HSBC Turkey Manufacturing PMI™

Marked improvement in Turkish manufacturing sector as output growth reaches five-month high

Summary

The headline HSBC Turkey Manufacturing PMI™ index in October registered 54.3, up from 50.3 in September, indicating solid strengthening of the manufacturing sector. This was the fastest rate of improvement in five months and extended the current period to eighteen months.

During October, output rose at Turkish firms at the fastest rate in five months. Panellists attributed this to increased orders and improved economic conditions in both domestic and international markets. In particular, growth in new orders quickened to a five-month high and indicated a marked recovery from September's decline. New export orders also grew solidly with panellists attributing this to greater foreign demand and favourable exchange rates.

Despite output growth being faster than that of new orders, the amount of backlogged work rose during October. Anecdotal evidence suggested firms exhausted all spare capacity in the sector and were now facing production constraints. Given this, a number of respondents attempted to expand production capability by enlarging their workforces. Employment growth in October was the joint-strongest in the survey history and extended the current period of job creation to seventeen months.

Stocks of finished goods continued to be depleted during October. Panellists attributed this to stocks being used to supplement production and meet increased orders.

Reflective of increased output, the amount of inputs purchased by manufacturers rose at a marked pace during the survey period. Moreover, the level of stock holdings of purchases increased for the first time in three months. Surveyed firms commented on increasing stocks of purchases to mitigate higher input cost inflation and suppliers' delivery delays. Lead times continued to lengthen in October as demand for inputs increased. In addition, anecdotal evidence suggested suppliers' delivery times lengthened as vendors were working at full capacity and had difficulty in sourcing raw materials.

The scarcity of raw materials resulted in a faster rate of input cost inflation – the sharpest in five months. Panellists particularly highlighted cotton and oil as rising in price during October. Turkish firms attempted to pass these higher cost burdens on to clients by raising the prices they charged. The rate of output price inflation was the fastest since April.

Comment

Commenting on the Turkey Manufacturing PMI survey, Dr. Murat Ulgen, Chief Economist for Turkey at HSBC said:

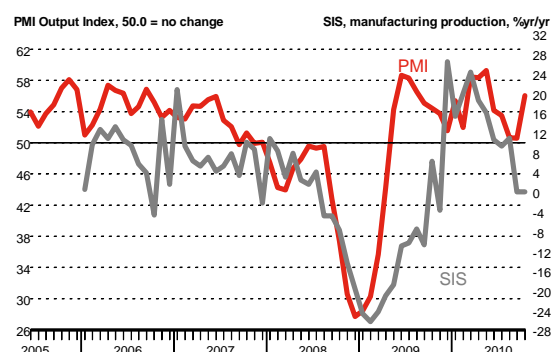
"The Turkish manufacturing industry staged an impressive rebound in October, growing at its fastest pace since May and ending a four-month streak of deceleration. The main reasons were sharp improvement in both output and new orders. The latter suggests a marked improvement from a temporary decline in September. In October, export orders also grew at a faster pace compared to the previous month. There was a marginal increase in backlogs despite the strength in output. Employment gains were also the strongest in five months, due partly to expanding investments. In the meantime, input prices rose sharply at the fastest pace in five months. This also explained why stocks of purchases rose for the first time in three months as manufacturers tried to manage their costs. Higher input prices were partly reflected in output prices that also picked up at the highest rate since May. Overall, Turkish manufacturing activity remained on a healthy expansion trend, however rising input costs and anecdotal evidence of capacity constraints suggests further pipeline inflationary pressures."

Key points

- New orders recovered markedly from September's dip.
- Strong employment growth as Turkish manufacturers sought to expand production.
- Rate of input cost inflation quickened to five-month high.

Historical Overview

HSBC Turkey Manufacturing PMI vs SIS Manufacturing Prdn.



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Notes to Editors:

The HSBC Turkey Report on Manufacturing 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 regional and industry contribution to Turkish Industrial Production. 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

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