

HSBC Turkey Manufacturing PMI™

Output growth strengthened in June from May's twenty-five month low

Summary

June data signalled a strengthening of business conditions in the Turkish manufacturing sector for a twenty-sixth successive month. This was supported by growth of both new orders and output. The rate of job creation accelerated, despite there being a sharper depletion of outstanding business in June. Meanwhile, output price inflation slowed, despite there being a faster rise in costs.

The seasonally adjusted HSBC Turkey Manufacturing Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing industry – posted 52.3 in June, rising from May's eight-month low of 50.6. The latest reading signalled a solid improvement of business conditions in the manufacturing sector that was stronger than the long-run trend. Nonetheless, the rate of growth remained weaker than the sharp improvements seen in Q1.

Turkish manufacturers reported a rise in new business received during June, in contrast to the decline posted in May. New export business increased solidly, with the rate of growth the fastest since March.

The expansion of production accelerated in June, reflective of the rise in new business. However, backlogs of work continued to decline, and at the sharpest rate since February 2010. This suggested that spare operating capacity persisted in the Turkish manufacturing sector. Stocks of finished goods increased during the latest survey period, in line with the rise in output.

June data signalled a solid rise in employment at Turkish manufacturers. Despite the sustained decrease in backlogs, the rate of job creation quickened. Panellists commented that this was reflective of faster new order growth.

A marginal rise in purchasing activity was recorded in June. However, stocks of purchases fell, indicating that the latest increase in buying was insufficient to meet production requirements. Suppliers' delivery times lengthened.

Input costs faced by manufacturers in Turkey increased substantially during June, reflective of a further rise in raw material prices and unfavourable exchange rate variations. Moreover, the rate of cost inflation accelerated since May. Despite this, the extent to which output prices rose slowed during the month, as strong competition for new business limited firms' pricing power.

Comment

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

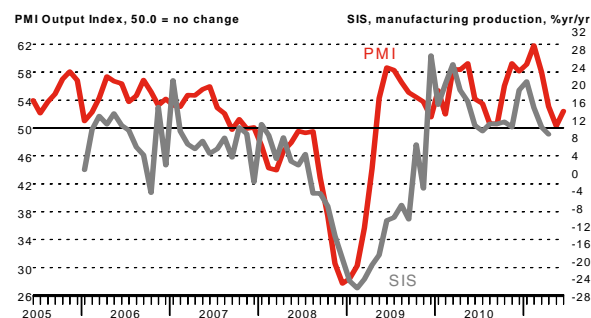
"After slowing to an eight-month low in May, the manufacturing PMI index gained pace in June, pointing to another month of improving business conditions. The output, new orders and new export orders indexes also improved from May levels, with the new orders index moving back into expansionary territory after falling below the 50.0 mark a month ago. In line with stronger output growth, employment creation also gained momentum, and was above the series historical average. After moving in tandem for the first five months of 2011, the input and output price indexes diverged in June. The input price index rose since May to indicate a sharp rate of cost inflation. The output price index remained in inflationary territory, but the rate of increase slowed for the fourth consecutive month. Participants stated that stronger competition limited the extent to which producers were able to reflect rising input costs to end-product prices. The rebound in the PMI and new export orders index suggests that the previous weakness was more likely owed to temporary factors such as lower export orders from the MENA region or global supply chain disruptions. Economic activity indicators including credit, import and retail sales data all suggest that domestic demand remains robust in Turkey."

Key points

- Solid production growth, while new orders rose.
- Employment increased at faster rate, despite further evidence of spare capacity.
- Input price inflation accelerated, but charges rose at weaker rate.

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.

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