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HSBC Turkey Manufacturing PMI™

PMI signals deterioration in business conditions for first time since recession ended in 2009

Key findings:

- New orders and output fall in August
- Job creation eases to one-and-a-half year low
- Input price inflation picks up sharply

Latest data suggested that the dual-crises in Europe and MENA* are starting to take their toll on Turkish manufacturing performance. The seasonally adjusted HSBC Turkey Manufacturing Purchasing Managers' Index™ (PMI™) sank below the no-change mark of 50.0 in August for the first time since the recession ended mid-2009. At 48.8 (down from 52.3 in July), the index pointed to a modest decline in the sector's health.

The PMI is a composite indicator designed to provide a single-figure snapshot of the performance of the sector. Behind the dip in the headline index were declines in output, new orders and input stocks, as well as a weaker rise in employment.

New orders for Turkish manufactures fell during August for the second time in four months, and at the fastest rate since April 2009. New export business also decreased. Firms stated that economic problems in Europe and political difficulties in MENA had dampened demand, although high selling prices and poor customer liquidity were also mentioned.

Lower takings of new work led manufacturers to cut production levels in August. However, a faster depletion of backlogs tempered the rate of decrease in output.

Buying activity was also reduced in light of the downward trend in new orders, albeit only slightly. Rising input costs and

difficulties in sourcing some raw materials were also cited as reasons for lower purchasing. Consequently, input stocks were depleted for the second time in three months.

Delivery delays were again reported by Turkish manufacturers in August. Lead times have now lengthened for 21 consecutive months, although the latest deterioration was only marginal. Reports indicated that low stocks at suppliers and difficulties in acquiring raw materials were the main reasons for delays.

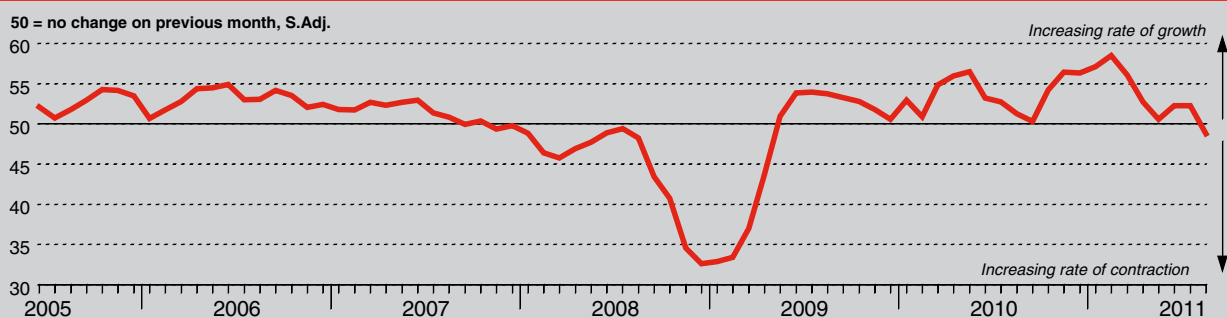
Employment, which tends to lag movements in new orders, continued to grow during the latest survey period. However, the rate of increase moderated further to the weakest for one-and-a-half years.

Input price inflation accelerated sharply in August, reaching a five-month peak. A weaker lira was cited as the primary driver of inflation, although general raw material price increases were also noted.

Prices charged for Turkish manufactures rose further in August, despite lower market demand. Companies monitored by the survey stated that price increases were necessary to compensate for higher input costs. Although the rate of charge inflation picked up since July, it remained much weaker than the recent highs recorded in Q1.

*Middle East & North Africa

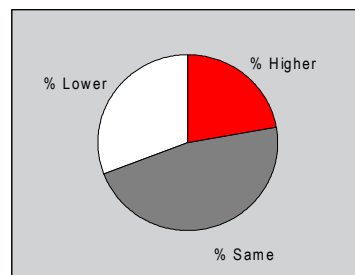
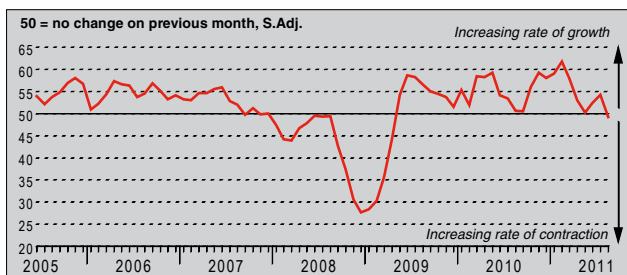
HSBC Turkey Purchasing Managers' Index™ (PMI™)



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

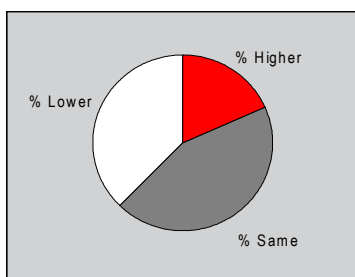
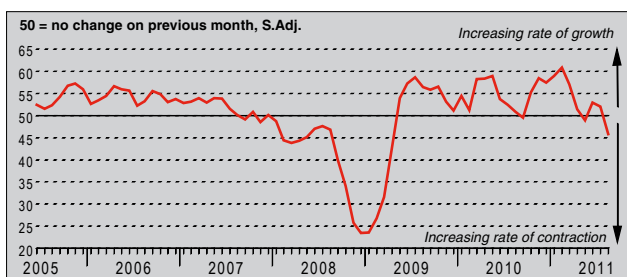
Q. Please compare your production/output this month with the situation one month ago.



Dropping 5 points since July, the seasonally adjusted Output Index sank beneath the no-change threshold of 50.0 in August. The latest reading signalled a slight decline in Turkish manufacturing production. Panel members indicated that activity levels fell on the back of lower new order numbers. Data suggested that the rate of reduction in output was tempered by a sharper depletion of backlogs.

New Orders Index

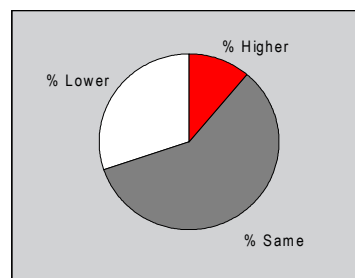
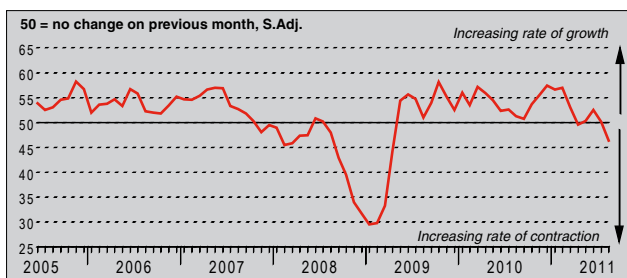
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



Incoming new business to the Turkish manufacturing sector fell in August for the second time in four months. Moreover, the rate of reduction was the sharpest since April 2009 – at the end of the downturn. Firms blamed high selling prices, poor customer liquidity and difficult economic conditions in Europe for reduced demand.

New Export Orders Index

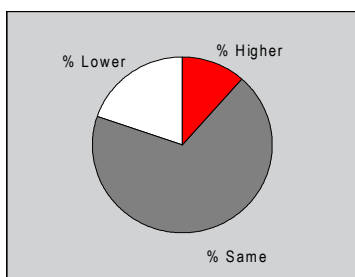
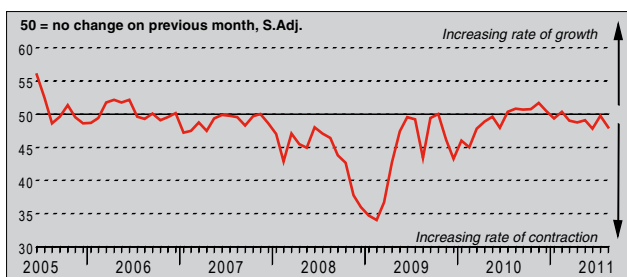
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Following three straight months of growth, new export business taken by Turkish manufacturers fell during the latest survey period. The rate of reduction was the most marked since April 2009, with respondents attributing lower receipts to poor economic conditions in Europe and political problems in the Middle East.

Backlogs of Work Index

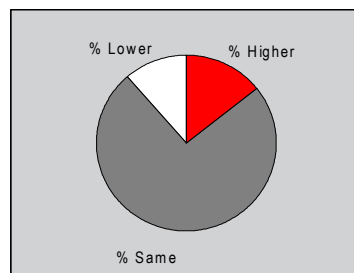
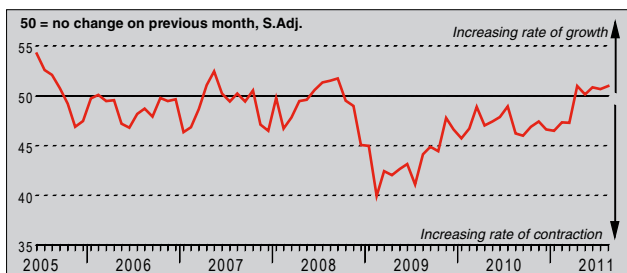
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Extending the current run of depletion to six months, outstanding business at Turkish manufacturers fell during August. The pace of decline accelerated slightly since July, although it remained slower than the series trend. Companies mostly linked lower backlogs to a reduction in new work.

Stocks of Finished Goods Index

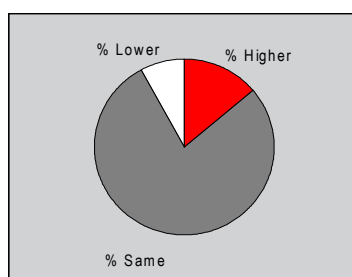
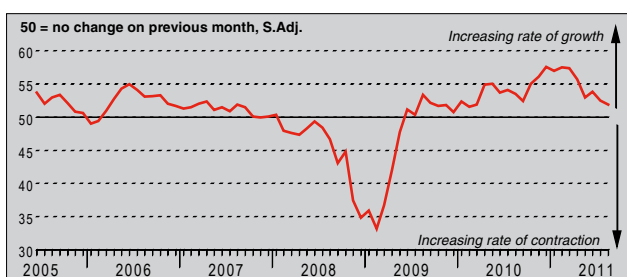
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Finished goods stocks at Turkish manufacturers built up during August, bringing the current run of growth to five months. The rate of accumulation picked up slightly on the month to the fastest since April. Lower sales levels were commonly cited by respondents as the main factor behind the increase in holdings.

Employment Index

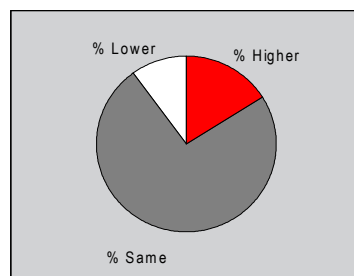
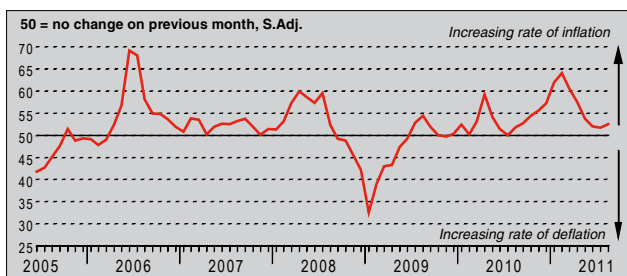
Q. Please compare the level of employment at your unit with the situation one month ago.



Turkish manufacturers continued to hire new staff during August, although the rate of job creation moderated again. The latest increase in employment was the mildest for one-and-a-half years, reflecting weaker trends in both output and new work. In the 14% of cases where additional personnel were recruited, firms cited company expansions and greater business requirements.

Output Prices Index

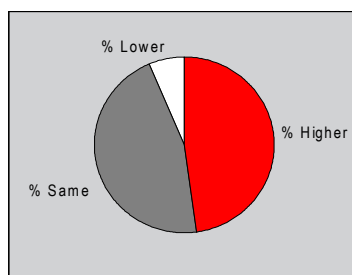
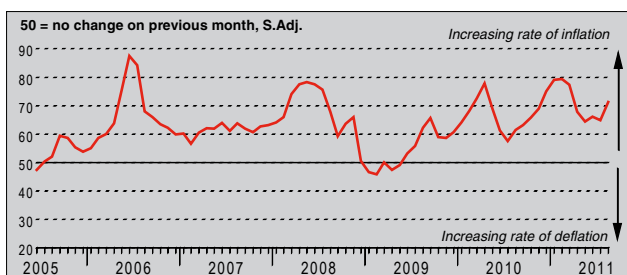
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



To compensate for climbing input costs, Turkish manufacturers raised their charges in August. Output prices increased for the twenty-fifth time in the past 26 months, and at an accelerated rate. Nevertheless, the rate of inflation remained far weaker than the highs recorded in the first quarter.

Input Prices Index

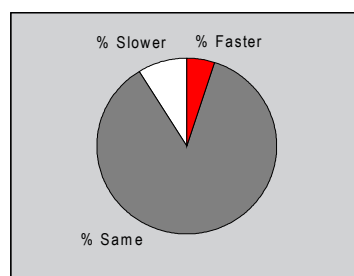
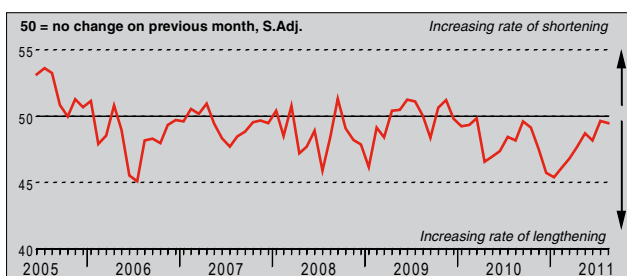
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input cost pressures picked up noticeably during August, as signalled by a 6.4 point rise in the seasonally adjusted Input Prices Index to a five-month high. With around 48% of panellists noting an increase in their purchasing costs since July, the rate of inflation was substantial. Unfavourable exchange rates and higher raw material prices underlay the latest rise, according to respondents.

Suppliers' Delivery Times Index

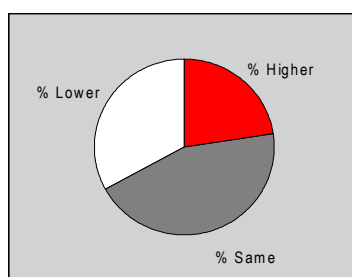
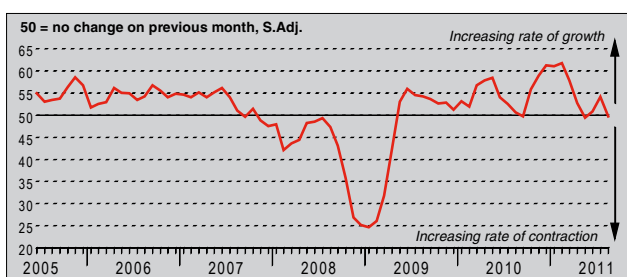
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average vendor performance continued to deteriorate in August, albeit only marginally. Lead times have now lengthened for 21 successive months. Low stocks at suppliers and difficulties in sourcing certain raw materials were reported by panellists as key reasons for delivery delays.

Quantity of Purchases Index

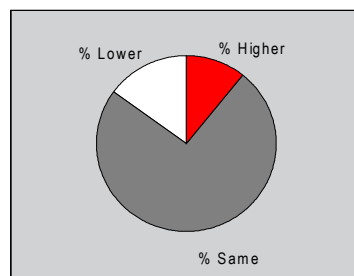
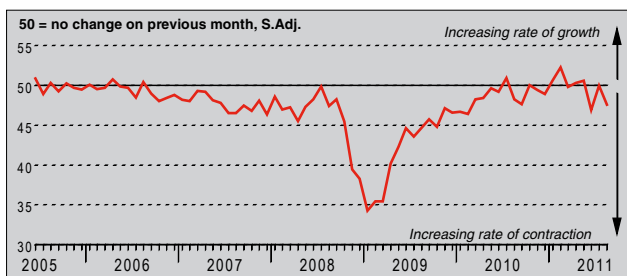
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Turkish manufacturers cut their buying activity in line with the downward trend in new orders during the latest survey period. Some firms also indicated that purchases were reduced as a result of higher input costs and difficulties in sourcing raw materials. That said, the rate of decline was only fractional.

Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index sank below the no-change threshold of 50.0 in August to signal a second drop in inventory levels in three months. The latest index reading was consistent with a modest rate of decline. Anecdotal evidence indicated that holdings were depleted as a result of lower input acquisitions.

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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