

HSBC Turkey Manufacturing PMI™

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

Summary

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.

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.

Comment

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

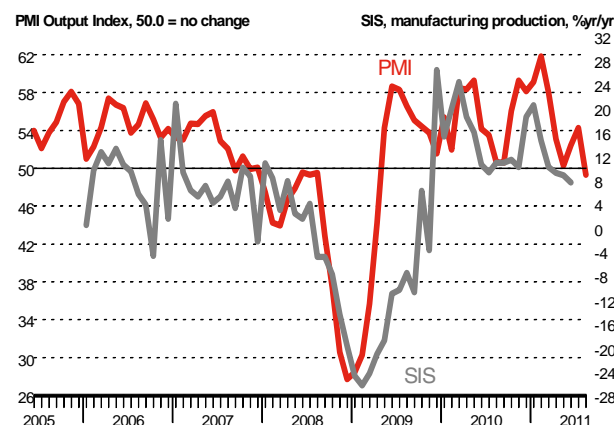
"The Turkish manufacturing sector recorded a contraction in August, for the first time since April 2009. The deterioration was modest but still pointed to a reversal from a rather resilient performance during the previous two months, at a time when downside risks to global growth were intensifying. The main culprits were apparently a notable decline in new orders, which was also evident in weakening new export orders, as well as a slight contraction in output. While ongoing problems in Turkey's trading partners (EU and MENA) might be the reason behind August results, we reckon those issues are nothing new and the recent pressure in local financial markets, particularly the swift depreciation of lira, could be also partly responsible via the expectations channel of businesses. On a more constructive note, employment conditions continued to improve, albeit at a slightly softer pace compared to the previous month. Another striking result of the August survey was a substantial jump in input price inflation for Turkish manufacturers, to a five-month high, which the survey suggests is because of the sharp Lira weakness again. However, these cost pressures are not yet visibly reflected in output price inflation given the softening growth outlook both domestically and also across the global economy."

Key points

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

Historical Overview

HSBC Turkey Manufacturing PMI vs SIS Manufacturing Prdn.



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Notes to Editors:

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. 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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