

## HSBC Turkey Manufacturing PMI™

PMI registers seven-month high in October, but remains below the peaks seen in Q1

### Summary

Turkish manufacturing output, new business and employment all rose at faster rates at the start of Q4, contributing to the strongest improvement in operating conditions since March. Meanwhile, price pressures in the sector increased.

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 sector – continued to climb in October, reaching a seven-month high of 53.3 (up from 51.5 in September). The latest reading signalled a stronger improvement in manufacturing business conditions. However, the headline index remained well below the series record highs reached in the first quarter of the year.

New order receipts at Turkish manufacturers rose at a solid and accelerated rate in October. The latest increase was the most pronounced for seven months, with panellists linking growth to favourable market conditions and improved demand. Meanwhile, new export order levels were unchanged, after rising in September. Reports showed that economic problems across Europe had partly contributed to subdued foreign demand.

Responding to overall new order growth, Turkish manufacturers raised production, purchased additional inputs and increased the size of their workforces in October. Rates of increase in both output and buying activity were the fastest since March, while job creation was the most pronounced since June. Increased output requirements and company expansion plans were also reasons for raised staffing levels, according to panellists.

The latest rise in purchases was sufficient to build input stocks in October, albeit only marginally. This was the first accumulation of pre-production inventories for five months. Meanwhile, employment growth helped manufacturers to clear backlogs of work. Unfinished business was depleted for the eighth month running, and at a sharper pace.

Input price pressures faced by Turkish manufacturers intensified during the latest survey period. Inflation has now been recorded in the sector for 29 straight months, with the latest increase the sharpest since March. Driving the latest rise in input costs were higher raw material and fuel prices, as well as unfavourable exchange rate, according to respondents.

To compensate for higher input costs, manufacturers raised their own rates in October. Selling prices increased at a marked pace that was the strongest for six months.

### Comment

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

*"The PMI rose to its highest level in seven months in October as output, new orders and employment all rose at faster rates. However, new export order growth stagnated as lacklustre expansion in Europe – particularly Germany – negatively impacted Turkish exporters. On the other hand, sharp lira depreciation since the beginning of the year has provided some support to exports and prevented an all-out contraction. Official statistics show that merchandise exports rose by 25.6% y-o-y in Q3, up from 18.9% y-o-y in Q2. Input and output price inflation both accelerated, reflecting the recent hikes in administered electricity and natural gas prices, along with the impact of a weaker lira.*

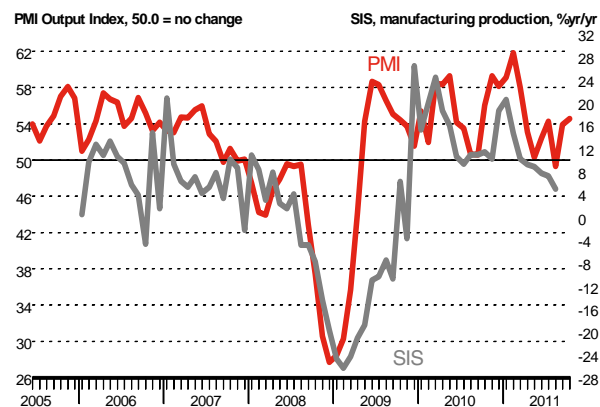
*"How will the manufacturing sector fare in the fourth quarter? The European growth outlook is unlikely to improve drastically in the near term, but there is more uncertainty regarding the local market. Consumption demand has been remarkably resilient throughout 2011 but the central bank is starting to tighten monetary policy to provide some support for the lira and stem rising inflationary pressures. This may result in slower growth in domestic orders."*

### Key points

- PMI rises for second month running
- Output and new order growth strongest for seven months
- Input cost and output price pressures intensify

### 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](mailto:economics@markit.com).

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