

HSBC Turkey Manufacturing PMI™

Business conditions continue to improve, albeit at increasingly slower rate

Summary

January data showed a continued improvement in operating conditions in the Turkish manufacturing sector. Rising headcounts and falling backlogs of work helped support production levels at business units, with output growth quickening to a moderate pace. In contrast to an upturn in new export orders from foreign clients, companies reported a slowing rate of overall incoming new business over the month. Firms also continued to face rising cost pressures. The rate of input price inflation far exceeded that of charges, putting further strain on profit margins. In an attempt to limit costs, manufacturers left stocks of purchases broadly unchanged, and reduced inventories of finished goods.

After adjusting for seasonal variation, the HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.7 in January, fractionally down from December's reading of 52.0. While the headline index continued to signal a modest improvement in business conditions, it has fallen in each of the last three months.

Manufacturing production in Turkey increased again during January. Some panellists attributed growth to company policies to reduce backlogs and an increase in headcounts.

Employment at Turkish manufacturing units increased at a robust rate in January. Despite slowing from December's eight-month high, the rate of growth was quicker than the average for 2011. Hiring also helped with the depletion of outstanding business, which accelerated over the month to the quickest pace for almost two years.

Albeit easing to a marginal pace, overall new business received by Turkish manufacturers continued to grow in January. The slower expansion was attributed to subdued expectations and market uncertainty, according to the latest anecdotal evidence provided by survey respondents. The opposite trend was registered for new export orders, however, as panellists perceived a strengthening in foreign client demand. The rate of increase in new business from abroad surged to an 11-month high during the latest survey period.

Input costs faced by manufacturing firms in Turkey increased further at the start of 2012, as panellists cited unfavourable exchange rates and higher utility costs among the causes. However, marked cost inflation was not fully passed on to clients. Output price inflation eased to a five-month low, with the majority of survey

respondents leaving charges unchanged from December.

Comment

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

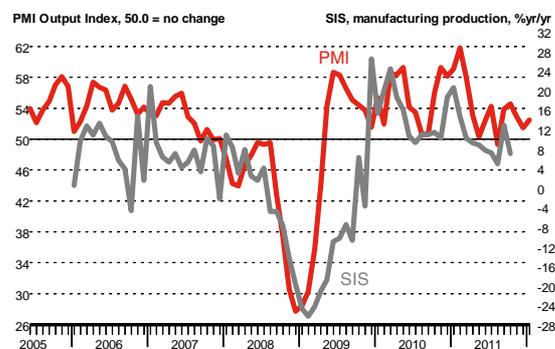
"Manufacturing business conditions in Turkey improved for the fifth consecutive month in January, supported by a healthy pace of employment growth. Furthermore, input and output price indices have shown downward trends since October. In contrast to the trend seen in other CEEMEA countries during Q4 2011, growth has originated from foreign markets. The divergence between domestic and foreign demand may be attributable to monetary tightening policies in late 2011 that have weakened domestic sales, while a more competitive lira has improved export prospects. If this is the case, an increase in new orders can be expected since as long as global risk appetite remains strong, the Turkish economy will enjoy strong capital inflows that would boost domestic markets again."

Key points

- Headline PMI reading remains above 50.0, despite falling for third successive month
- Overall new order growth slows to a marginal pace
- Depletion of backlogs provides support for production

Historical Overview

HSBC Turkey Manufacturing PMI vs SIS Manufacturing Production.



Sources: Markit, HSBC, Ecwin

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Notes to Editors:

The HSBC 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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Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

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