

HSBC Turkey Manufacturing PMI™

Production increases but underlying demand remains fragile

Summary

Business conditions in the Turkish manufacturing sector continued to improve modestly in June, but economic difficulties in Europe impacted negatively on firms' operations. Input cost inflation slowed markedly, while companies raised their output prices at a modest pace.

The seasonally adjusted HSBC Turkey Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing industry – posted 51.4 in June, up from a reading of 50.2 in May. This pointed to a slight improvement in operating conditions in the sector.

After decreasing marginally in May, new business at Turkish manufacturers increased fractionally during June. Some respondents indicated that demand had strengthened over the month, but others highlighted the negative impact of the ongoing European sovereign debt crisis. This was a key factor in the first reduction of new export orders since August 2011.

Higher new orders encouraged firms to raise production levels in June. Output increased for the third consecutive month, and at a solid pace that was the sharpest since November 2011.

As growth of new business was only fractional, firms used spare resources to work through existing projects. Turkish manufacturers took on extra staff for the thirty-seventh successive month in June, with panellists linking the latest rise in employment to higher production requirements. That said, the rate of job creation was the slowest since September last year.

The rate of input cost inflation eased markedly over the month, and was the weakest in the current 37-month period of rising input prices. Where input costs did rise, this was largely reflective of increased raw material prices. Firms continued to raise their output prices in June, extending the current sequence of inflation to 31 months.

Higher production led firms to expand their purchasing activity for the second time in the past three months. This rise in demand for inputs was a factor behind a further deterioration in vendor performance. Suppliers' delivery times lengthened for the fifth month running, albeit only marginally.

Pre-production inventories increased for the first time in five months during June as firms raised stocks in line with higher output requirements. That said, a reluctance to raise inventories meant that the rate of accumulation was only fractional. Stocks of finished goods decreased for the second month running.

Comment

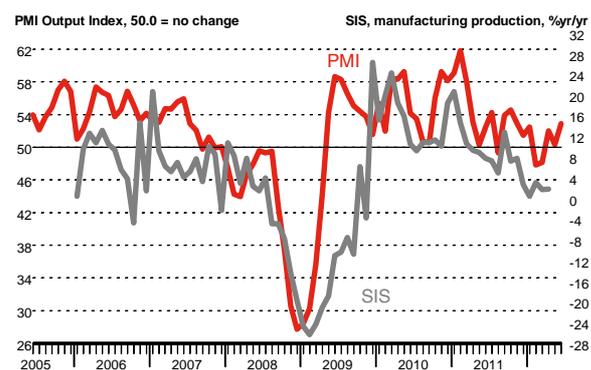
Commenting on the Turkey Manufacturing PMI® survey, Melis Metiner, Economist, Turkey at HSBC, said:

"Turkish manufacturing conditions improved marginally in June. Output and new orders rose at a faster pace, but new export orders fell sharply. This index fell into contraction territory for the first time since August 2011, with businesses referring to weaker European demand as the primary reason for the decline. New export orders had been strong in the first five months of 2012, and official data showed that merchandise exports rose by 11% annually in the January-April period, supported by strong demand for Turkish goods from the MENA region. But if the weakness seen in June continues, it could suggest slower export growth in the second half of the year. With domestic demand also slowing, growth could lose further pace in 2Q. Price indexes showed that input and output prices were in inflationary territory in June, but the pace of input price inflation slowed significantly. If commodity prices continue to fall, both input and output prices could moderate further."

Key points

- Solid increase in production
- New orders rise fractionally, after falling in May; backlogs cut at sharper pace
- Marked slowdown in input cost inflation

Historical Overview



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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