

HSBC Turkey Manufacturing PMI™

Manufacturing output falls for first time in four months

Summary

The seasonally adjusted HSBC Turkey Manufacturing PMI™ – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing industry – dropped below the 50.0 no-change mark in July, posting 49.4. This followed a reading of 51.4 in June and signalled the first deterioration in business conditions since March. That said, the decline was only marginal.

Both output and new orders decreased in July. New business fell for the fourth month in 2012 so far, following stagnation in June. Those respondents that posted a decline in new business mentioned falling demand. New export orders rose slightly, following a solid decline in the previous month. A number of panellists reported that weakness in European markets had prevented stronger growth of new export business.

With overall new orders decreasing, firms lowered output during the month. The fall in production was the first since March. Alongside the drop in new business, some respondents also signalled that weak market conditions had impacted negatively on output.

A decline in new orders led firms to reduce outstanding business in July. Backlogs of work decreased for the seventeenth month running, and at a marked pace that was broadly unchanged from June.

Manufacturers continued to raise employment, but the rate of job creation slowed for the third consecutive month and was only slight. Staffing levels have risen in each month since June 2009. The weaker rate of job creation in part reflected falling demand, according to anecdotal evidence.

Input costs increased further in July, with respondents mentioning higher raw material prices. That said, the rate of inflation remained below the series average. Despite ongoing cost inflation, firms lowered output prices for the first time in 32 months.

Capacity constraints at suppliers led to a further lengthening of delivery times during July, and at the sharpest rate in three months. Higher demand for inputs was also reportedly a factor behind the deterioration in performance.

Purchasing activity increased for the third time in the past four months, with the rate of growth quickening from June. That said, stocks of purchases remained largely unchanged as firms displayed a reluctance to build inventories. Stocks of finished goods meanwhile decreased marginally for the third successive month. Firms reported a preference for using stocks to fulfil sales rather than new production.

Comment

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

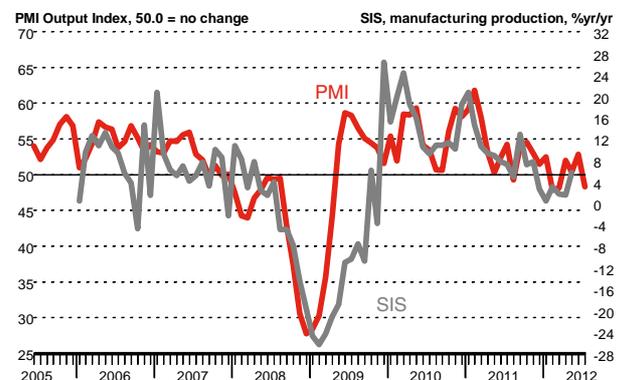
“Turkish manufacturing conditions deteriorated in July, falling into contraction territory for the first time since March. Both output and new orders fell, while new export orders recovered after a sharp decline in June. The pace of improvement was marginal, however. Inventories decreased for the third month in a row, but the new orders minus inventories ratio still fell from last month’s level. Another forward looking indicator, the employment index, pointed to rising employment, but the pace of job creation slowed for a third consecutive month. In line with the subdued demand outlook, producers reduced their output prices for the first time since late 2009, even though input costs continued to rise in July.

“It is difficult to gauge Turkey’s export performance for 2H12 as this depends on whether or not demand from the MENA region for Turkish exports will hold up. On domestic demand, the picture is a bit clearer. Considering the recent rise in both agricultural commodity and energy prices, and their impact on the inflation outlook, there may not be much room for monetary loosening to support domestic demand growth.”

Key points

- Production declines amid reduction in new orders
- Employment rises, but at weaker pace
- First decline in output prices since November 2009

Historical Overview



Sources: Markit, HSBC, Ecwin

For further information, please contact:

HSBC

Melis Metiner, Economist,
Turkey
Telephone +90-212-376-4618
Email melismetiner@hsbc.com.tr

Aslı Arbel, Corporate Communications
Telephone +90-212-376-4365
Email asliarbel@hsbc.com.tr

Markit

Andrew Harker, Economist
Telephone +44-1491-461-016
Email andrew.harker@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44- 781-581-2162
Email caroline.lumley@markit.com

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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