

HSBC Turkey Manufacturing PMI™

Modest expansion of Turkish manufacturing sector in September

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 – posted 52.2 in September, up from a reading of 50.0 in August and signalling the first improvement of business conditions in the sector since June.

New orders increased during September after falling in July and August. However, the rate of expansion was only marginal. Where new business rose, this was linked to signs of rising client demand. An expansion of new export orders was also recorded. New business from abroad has increased in ten of the past 11 months.

Higher new orders was one of the reasons for a second successive monthly increase in production. That said, output was also supported by a depletion of outstanding business and efforts to accumulate stocks of finished goods. The rate of growth in production was solid, and the fastest since October 2011.

Backlogs of work decreased, as has been the case in each month since March 2011. However, the rate of depletion slowed again and was the weakest in seven months. Manufacturers took on extra staff in support of rising production. Moreover, the rate of job creation picked up and was the sharpest since April. Employment has now risen in each of the past 40 months.

The rate of input cost inflation accelerated again in September, but remained slower than the series average. Higher oil and raw material costs had reportedly been behind the latest rise in cost burdens, while unfavourable exchange rate fluctuations were also a factor.

Manufacturers were only able to pass on part of the rise in input costs to their clients in September as demand remained fragile. Although charges increased for the first time in three months, the rate of inflation was marginal.

Increased production requirements led to a rise in purchasing activity, with the rate of growth the fastest since April. Rising demand for inputs contributed to longer suppliers' delivery times. Moreover, the latest lengthening of lead times was the most marked since October 2011.

Expectations of growth of output and new orders led manufacturers to accumulate stocks of purchases in September. Post-production inventories also increased as output growth outpaced that of new orders. The rise in stocks of finished goods was the first in five months.

Comment

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

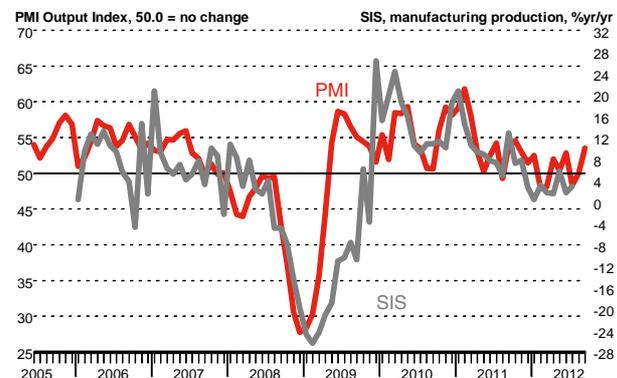
"After seeing no change in August, Turkish manufacturing conditions improved in September. Total orders rose after a contraction in August, while new export orders improved at a pace similar to the previous month. The output index rose sharply to its highest level since October 2011, but this was partially owed to a reduction in outstanding work and stockbuilding. Meanwhile, businesses reported that domestic demand was still stagnant. This is also evident from the price indexes. Input prices rose at their fastest pace since April, but output prices were up only marginally. Panellists reported hesitancy to fully pass on costs as demand is not strong. The input-output price ratio, a measure of pressure on producers' margins, rose to its highest level since January 2012."

"Will domestic demand growth pick up pace in the fourth quarter? The Central Bank of Turkey started to gradually ease policy in the third quarter, so domestic spending could pick up some pace in late 2012. Foreign demand is unlikely to improve sharply in the near term. On the inflation front, rising global commodity prices continue to be an upside risk."

Key points

- New orders return to growth, output increases at faster pace
- Stocks of finished goods rise for first time since March
- Input cost inflation accelerates further

Historical Overview



Sources: Markit, HSBC, Ecowin

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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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