

HSBC Turkey Manufacturing PMI™

First deterioration in new orders in 11 months

Summary

July data signalled stagnating output levels in Turkey's goods producing sector. New order intakes declined for the first time since last August and firms reduced their purchasing activity. That said, workforce numbers continued to rise. Meanwhile, the rate of input cost inflation accelerated to the quickest since November 2011.

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 49.8 in July, down from June's 51.2. The latest data indicated the first deterioration in overall operating conditions in the sector since last July.

Turkish manufacturing companies reported broadly unchanged production levels in July, while order book volumes declined for the first time in 11 months, linked to slowing market conditions. New export orders also fell, and at the fastest pace since August 2011. Current disruptions in the country caused by protests and fragile political conditions in Egypt were among the reasons behind the decline, according to panellists.

In line with the trend for new orders, stocks of purchases in Turkey's manufacturing sector fell in July. The latest rate of depletion was the quickest since last December. Stocks of finished goods also declined, as companies remained cautious about their inventory levels. Purchasing activity decreased, with 22% of respondents reporting a decline in input buying. There was some anecdotal evidence that the latest decline was driven by lower order book volumes, unfavourable exchange rates and slowing market conditions.

In contrast to declining new orders and stagnating production levels, workforce numbers in Turkey's manufacturing sector continued to rise in July. Some panellists linked the hiring of additional workers to factory expansions.

Cost pressures in Turkey's goods producing sector increased in July and the rate of cost inflation was the fastest since November 2011. Companies linked increased input prices to unfavourable exchange rates and increased raw material prices. In response to higher cost burdens, Turkish manufacturers raised their output charges.

Work-in-hand declined sharply in July. The rate of depletion accelerated to the quickest in 43 months. Respondents often attributed the fall to low workloads.

Meanwhile, suppliers' delivery times improved marginally, and for the second month in succession.

Comment

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

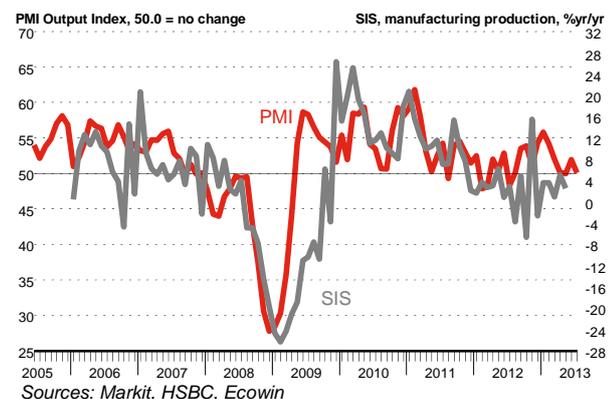
"The HSBC Turkey PMI survey points to a marginal deterioration in the manufacturing sector conditions in July, for the first time in a year. Stagnating output and falling new orders were the main culprits, while new export orders also fell to the lowest level in nearly two years. On a positive note, employment levels continued to improve in July, at the same pace as in the previous month. Meanwhile, input prices accelerated considerably on the back of depreciating local currency, according to the panellists. However, this did not filter through to the output prices as yet as they picked up only marginally in July.

"It seems like the recent volatility in the global and the local financial markets may have impacted business sentiment negatively in the manufacturing industry. As such, the recent survey and hard data argue for downside risks to growth for this year. Nonetheless, continuous improvement in employment conditions supports Turkey's longer-term favourable outlook."

Key points

- Output levels stagnate, as new orders decline
- Payroll numbers rise further
- Input cost inflation accelerates

Historical Overview



For further information, please contact:

HSBC

Dr. Murat Ulgen, Chief Economist,
Central & Eastern Europe and sub-Saharan Africa
Telephone +44-20-7991-6782
Email muratulgen@hsbc.com.tr

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

Markit

Oliver Kolodseike, Economist
Telephone +44-1491-461-003
Email oliver.kolodseike@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.

HSBC:

HSBC is one of the world's largest banking and financial services organisations, with around 6,600 offices in both established and faster-growing markets. We aim to be where the economic growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 58 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 81 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 220,000 shareholders in 129 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 3,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

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

The intellectual property rights to the HSBC Turkey Manufacturing *PMI*[™] provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*[™] and *PMI*[™] are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.