

HSBC Turkey Manufacturing PMI™

Adverse weather conditions cause marginal deterioration in operating conditions

Key findings:

- PMI falls below 50.0 for first time since August 2011
- Production contracts moderately
- Employment growth continues at solid rate

Operating conditions within the Turkish manufacturing economy deteriorated marginally in February. The worsening in the health of the sector reflected contractions in both output and new orders, as adverse weather conditions had a detrimental impact on market activity. Resulting transportation difficulties also had implications for deliveries, with stocks of finished goods rising and suppliers' lead times lengthening. In contrast, the labour market showed further positive signs, as employment levels continued to grow over the month.

The seasonally adjusted HSBC Turkey Manufacturing PMI™, a single-figure snapshot of the overall health of the manufacturing economy, posted 49.6 in February, down from January's reading of 51.7. The latest reading was the first time the PMI had fallen below the 50.0 no-change threshold since August 2011, bringing to an end five months of improvements in the operating conditions of the Turkish manufacturing sector.

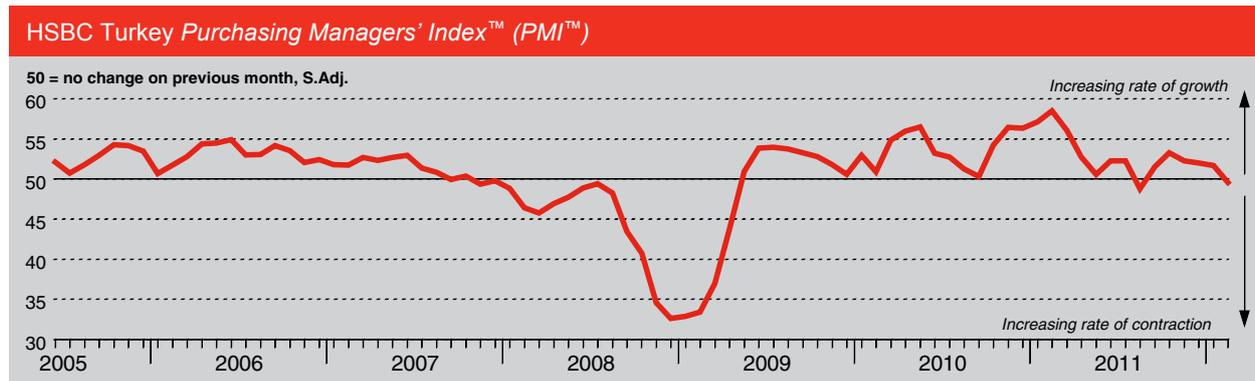
Turkish manufacturers registered a contraction in production for the first time in six months in February. Moreover, the rate of decrease was the strongest since the Turkish economy came out of the global recession in early 2009. Panellists reported that the reduction in output was principally due to adverse weather conditions, which had affected supply chains and reduced market activity. The fall in production requirements hence led manufacturers to deplete stocks of purchases.

With some areas of Turkey experiencing their lowest temperatures for over 60 years, supply chains were severely disrupted in February. As a result, stocks of finished goods held by manufacturers rose at the second-fastest rate in the survey history. Furthermore, suppliers' delivery times lengthened for the first time in three months and at a quicker pace than the long-run series average.

While new export orders for Turkish manufactured goods continued to rise in February, lower domestic market activity reduced total new business over the month. Overall new orders contracted at a solid rate, the second fastest since April 2009. Growth of new work from overseas slowed over the month to a marginal pace.

Employment figures provided some positive news, however, as headcounts continued to rise. Turkish goods producers increased staffing levels at a solid rate, that was sharper than the current 33-month sequence of job creation.

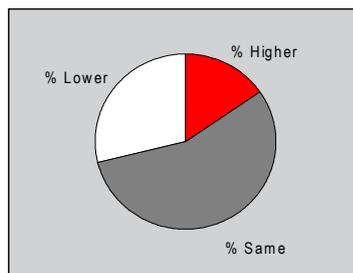
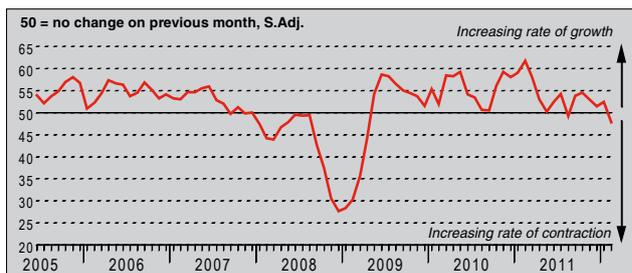
Monitored companies suggested that restricted supply of inputs, a further consequence of the bad weather, had caused purchasing prices to rise in February. While still strong, the rate of inflation eased from January to a 19-month low. Greater cost burdens were again passed onto consumers. Charge inflation accelerated to a solid pace over the survey period.



The HSBC Turkey Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI™ below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

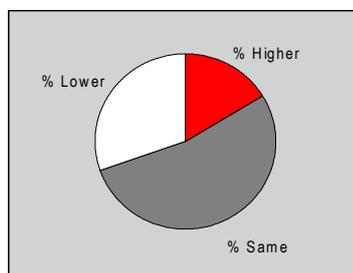
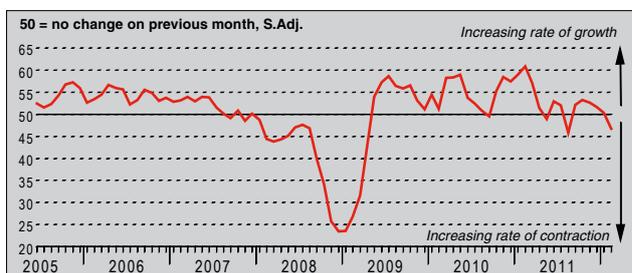
Q. Please compare your production/output this month with the situation one month ago.



Turkish manufacturers recorded a contraction in production during February. Output fell for the first time since August 2011, and at the sharpest rate since the latter end of the global recession in 2009. Monitored companies largely attributed decreased production to falling new order levels, as adverse weather conditions restricted operations, in particular the transportation of goods. Difficulties in sourcing raw materials were also mentioned by a number of panellists as another cause of the reduction in output.

New Orders Index

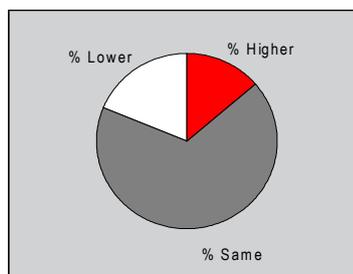
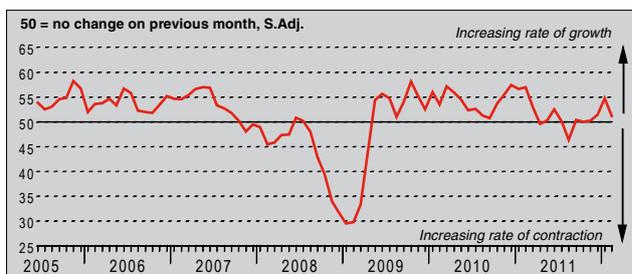
Q. Please compare the level of new orders received (Turkey and export) this month with the situation one month ago.



The level of new orders received by companies within the Turkish manufacturing sector decreased at a solid rate in February. Although the contraction in new business followed three consecutive months of slowing growth, it was the first since August 2011. Anecdotal evidence linked the decline in new orders to worse than expected weather conditions. Over 30% of panellists registered a reduction in new work over the month, while 16% recorded a rise.

New Export Orders Index

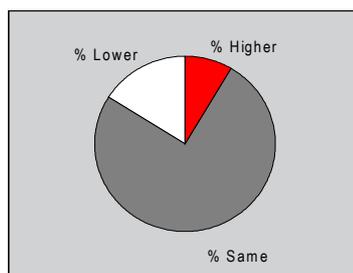
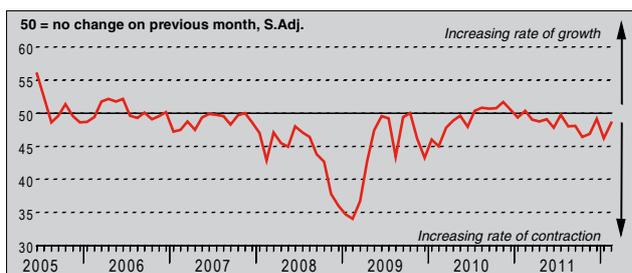
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Export orders placed at Turkish manufacturing companies increased at a modest pace in February. While the latest expansion extended the current sequence to four months, the rate of growth slowed from January's 11-month high. Survey respondents commented that while demand from key foreign markets strengthened moderately over the survey period, growth of sales was constrained by weather related transportation issues.

Backlogs of Work Index

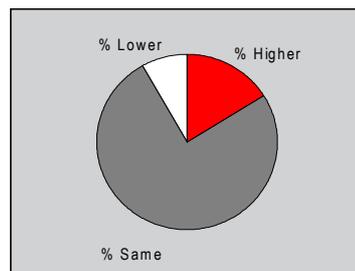
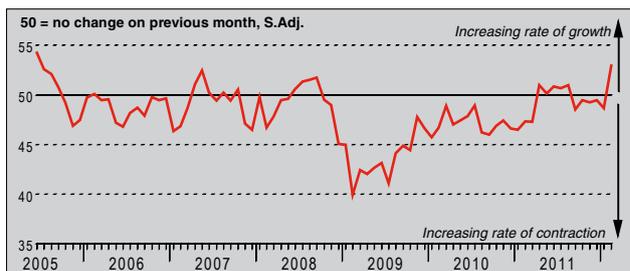
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index remained below the 50.0 no-change threshold in February, continuing the current year-long trend. The rate of depletion in outstanding business slowed over the month, however, following its strongest contraction for just under two years in January. Panellists that registered decreased work-in-hand indicated that this reflected a fall in overall new orders for Turkish manufactures. Some survey members also mentioned that they had outsourced business over the month.

Stocks of Finished Goods Index

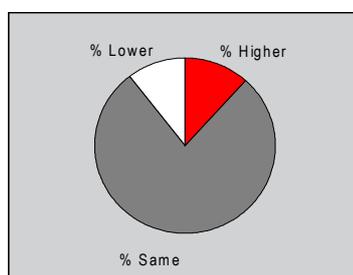
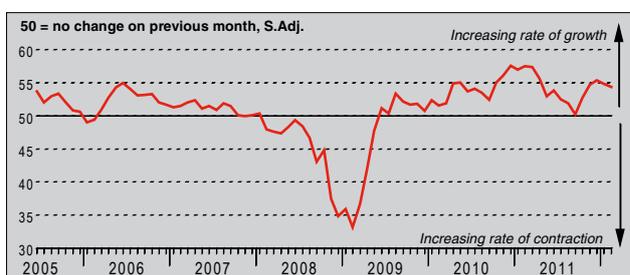
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



In February, finished goods held as stock by Turkish manufacturing companies increased for the first time in six months. Moreover, the rate of accumulation was solid, and the fastest since June 2005 (the month data collection began). Monitored companies reported that they had accumulated stocks of post-production goods during the latest survey period as sales had fallen and adverse weather conditions restricted deliveries to clients.

Employment Index

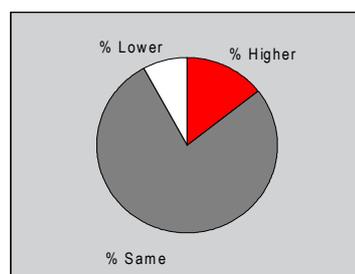
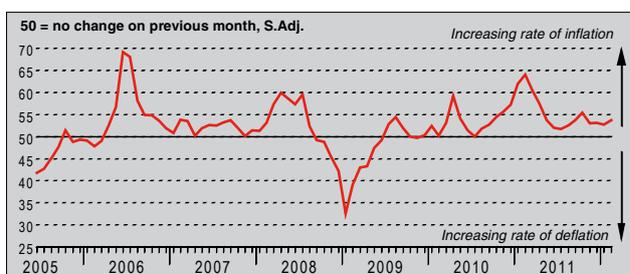
Q. Please compare the level of employment at your unit with the situation one month ago.



Turkish manufacturers increased employment at their business units in February, relative to the previous month. While the rate of job creation slowed from January, it remained above the average for the current 33-month sequence of rising employment. According to respondents, firms expanded their workforces in line with previous new order growth and subsequent increases in production requirements.

Output Prices Index

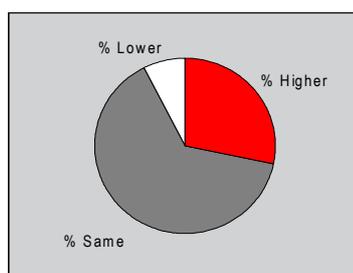
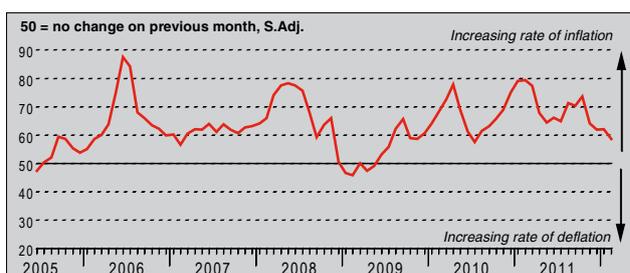
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index rose to a four-month high in February. The latest reading indicated a solid rise in the average price charged by Turkish manufacturing companies, with almost 14% of total respondents increasing their prices during the latest survey period. Anecdotal evidence suggested that panellists partly passed greater cost burdens on to clients in February. Just 8% of survey members reported that they had reduced prices over the month.

Input Prices Index

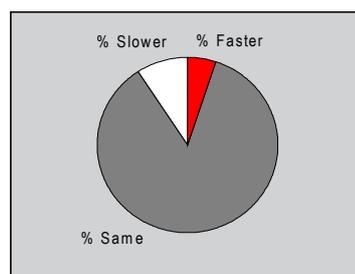
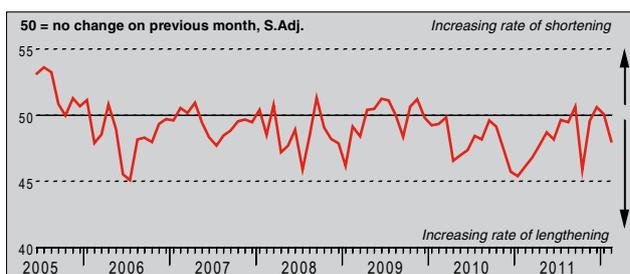
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



During February, the average price of inputs rose at a strong pace, extending the current period of input cost inflation to 33 months. However, the increase was the weakest since July 2010 and continued the broad trend of falling inflation that has been recorded since last October. Panellists recorded higher prices across a wide range of goods, citing bad weather as the cause of reduced supply of some materials.

Suppliers' Delivery Times Index

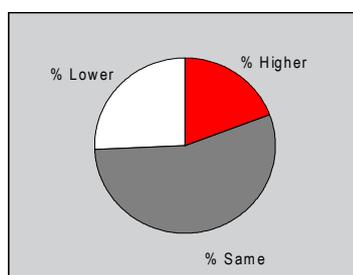
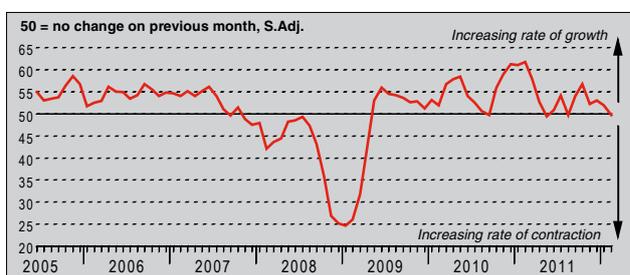
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The time it took for suppliers to deliver inputs to Turkish manufacturing companies lengthened for the first time in three months during February. Vendors' lead times increased at a modest rate that was quicker than the long-run series average. Evidence from the latest survey indicated that the weather posed suppliers particular problems, while some panellists also noted difficulties in sourcing some raw materials in February.

Quantity of Purchases Index

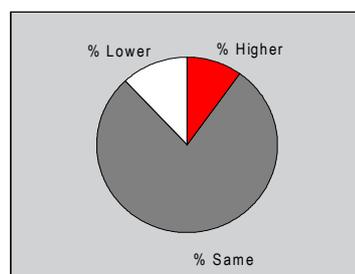
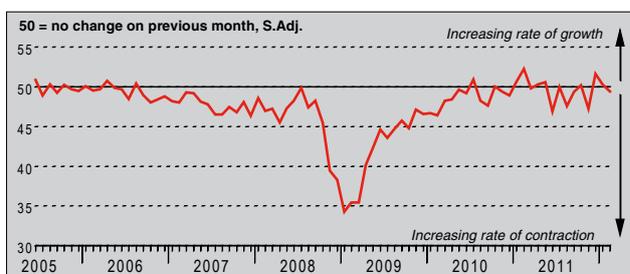
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Panellists left their purchasing activity broadly unchanged over the latest survey period. Falling fractionally below the 50.0 no-change threshold, the seasonally adjusted Quantity of Purchases Index indicated the first month in which input buying hasn't increased since August 2011. Anecdotal evidence suggested that monitored companies had made little-change to their purchasing activity as both output and new orders had contracted for the first time in six months.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



In February, the seasonally adjusted Stocks of Purchases Index fell below the 50.0 no-change mark. The latest reading indicated a marginal reduction in pre-production inventories, as buying activity remained relatively unchanged from the previous month. Turkish manufacturers commented that stocks had been depleted due to delays in deliveries and falling production volumes.

Notes on the Data and Method of Presentation

The 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.

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