

Turkey

Record plunge in February output, but PMI suggests worst is over

Key findings

- Industrial output down by a quarter on a year ago...
- ...but manufacturing PMI rose for third month running.
- Main borrowing rate cut to 10.5%.

Record decline in official industrial output

The latest industry figures from the statistics office underlined the steep economic downturn faced by Turkey. Production declined by a record 23.7% year-on-year, having fallen 21.3% in January. Manufacturing again drove the latest contraction, posting a 25.9% annual fall in output. Autos remained a key source of weakness, with total vehicle production down 59% compared to the same period of 2008.

Manufacturing PMI data compiled by Markit for ABN AMRO provided advance warning of the steep industrial downturn (see Chart 1). The rate of contraction in production remained very weak in March, but eased further from December's record to suggest that the worst of the current downturn may have passed. The Output Index rose to a five-month high.

The latest data suggest that the annual rate of contraction in industrial production will stabilise in March. Since January 2006, the PMI Output Index has a correlation of 0.83 with the official series. Over the fourth quarter of 2008, regression analysis applied to the PMI series equated to an average fall in output of 12%, close to the actual outcome of 12.6%.

Further rate cuts expected

The second chart shows that the PMI survey results have tallied with interest rate decisions by the CBRT's monetary policy committee over the past two years. The main borrowing rate has fallen by 625bps since November to 10.50% at the March meeting. Analysts

expect a further fall in April, and the PMI numbers for March support this view.

Chart 1: PMI Output Index vs Turkstat industrial production

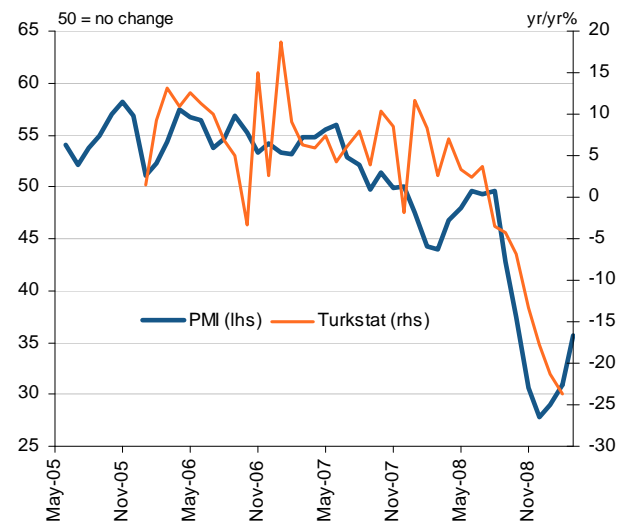
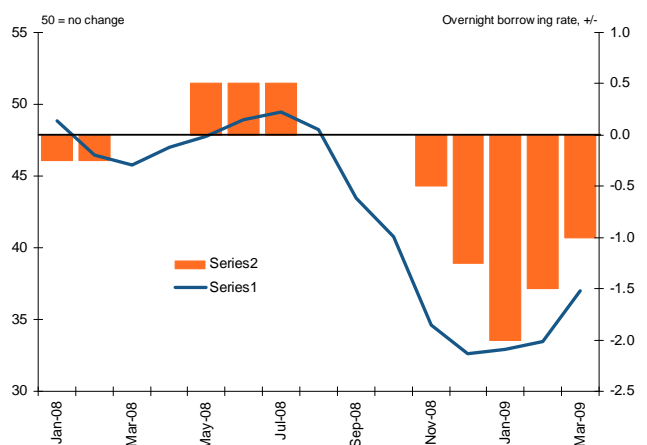


Chart 2: PMI vs CBRT policy rate



Forthcoming release dates (April data):

ABN AMRO Turkey Manufacturing PMI: 4 May 2009

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