

HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector showed month-on-month deterioration in operating conditions for the first time in a year-and-a-half

Summary

The HSBC Taiwan Manufacturing headline PMI™ posted 49.2 in August, falling from July's 50.5. The latest reading signalled a worsening in business conditions within the Taiwanese manufacturing sector, the first such deterioration in eighteen months. The rate of contraction was marginal, and substantially weaker than the series record reported in December 2008, although it remained in contrast to the long-run average (which signalled solid growth).

Incoming new business received by manufacturers in Taiwan fell during August – the second successive monthly fall. Moreover, the pace at which new orders contracted was sharper than in the previous survey period. Similarly, new business received from overseas also decreased for a second consecutive month. The latest reduction was modest, but slightly faster than in July.

Reflective of the decline in new order volumes, output in the Taiwan manufacturing sector fell during August. However, backlogs of work were reported to have increased, in contrast to the previous survey period. Manufacturers commented that delayed shipments of materials had impacted on production.

Manufacturers in Taiwan indicated that stocks of finished goods had increased during August. Whilst the rise in post-production inventories was marginal, it was the first in four months.

Despite new order volumes falling for a second successive month, employment within the Taiwan manufacturing sector increased. Headcounts have now risen in each month since July 2009. Panellists attributed the latest increase in staffing levels to new production lines.

August data signalled a reduction in purchasing activity at manufacturers in Taiwan. This was reflective of contractions in new orders and output. However, delivery times continued to lengthen due to shortages of raw materials at suppliers.

Input prices faced by Taiwanese manufacturers were also impacted by the short supply of materials, with August data showing a rebound in the rate of input cost inflation. Subsequently, output prices also increased, albeit at only a marginal pace.

Comment

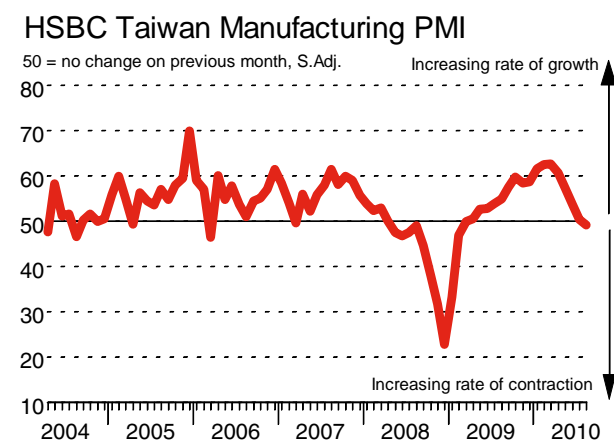
Commenting on the Taiwan Manufacturing PMI survey, Donna Kwok, Economist at HSBC in Asia said:

"An increasingly murky external environment is putting a heavier onus on the island's domestic demand engine to deliver in 2H 2010. Thus far, the continued strength of employment growth and slimming of inventories suggest that the stars are aligning for this to happen via local consumption. This month's higher price pressures appear to be temporary, which suggest that monetary conditions should stay accommodative as Taiwan's output normalization matures in the coming months."

Key points

- Both new orders and output fell during the month.
- Employment continued to rise.
- Shortages of raw materials supported a further increase in input prices.

Historical Overview



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Notes to Editors:

The HSBC Taiwan Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 300 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Taiwanese Industrial Production. 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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