

HSBC Taiwan Manufacturing PMI™

Deterioration of operating conditions in the Taiwanese manufacturing sector sustained for a second month

Summary

The HSBC Taiwan Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – posted 49.0 in September, a marginal decrease from August's reading of 49.2. Moreover, this was the second successive month where the headline PMI posted below the 50.0 no-change threshold. The rate of contraction was marginal, but contrasted with the long-run average for the series (which signals solid growth).

Manufacturers in Taiwan reported a reduction in new order volumes during September. However, the pace at which incoming new business fell was marginally slower than in August. In contrast, new export orders fell at a sharper rate in September. Overall new work intakes have now decreased for three successive months (excluding data collected during the global downturn, this is the longest such period of decline recorded since data collection began in April 2004).

The contraction in new order volumes led to a further decrease in output during September. Despite this, backlogs of work fell, indicating a degree of spare capacity at manufacturing companies in Taiwan. Stocks of finished goods were also reported to have increased due to the reduction in new business.

Despite sustained declines in new orders and output, employment in the Taiwanese manufacturing sector rose for a fifteenth successive month in September. However, reflective of the decline in new business, the latest increase in staffing levels was the second-weakest in that period.

Purchasing activity fell during September, in line with the decrease in output. However, delivery times continued to lengthen, predominately reflecting shortages of certain materials.

September data signalled a substantial rise in input costs faced by manufacturers in Taiwan. The rate of input cost inflation has increased sharply in the last two months, with the latest rise in costs markedly above the long-run average for the series. Despite this, output prices were broadly unchanged during the month, as strong competition for new business prevented any meaningful increase in charges.

Comment

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

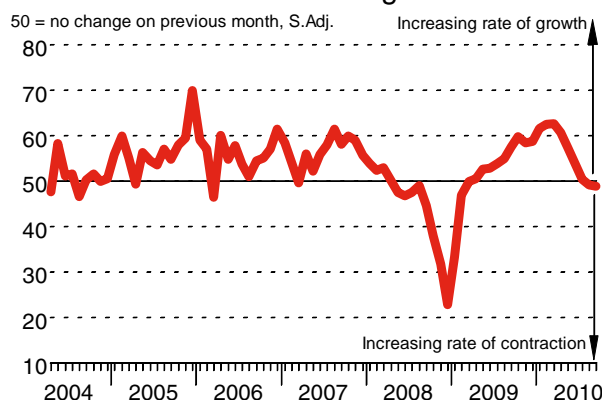
"External conditions have become more challenging for Taiwan as business conditions deteriorated for the second straight month. But, the pace of output decline eased, which suggests that manufacturing activity could be about to find its feet. Provided employment conditions continue improving, sturdy domestic demand should keep GDP growth on target to hit 7.3% this year."

Key points

- New export orders fell markedly.
- Employment increased, despite a fall in backlogs.
- Output prices broadly unchanged, whilst costs rose sharply.

Historical Overview

HSBC Taiwan Manufacturing PMI



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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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