

HSBC Taiwan Manufacturing PMI™

Deterioration of Taiwanese manufacturing sector sustained for third successive 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 48.6 in October, a marginal decrease from September's reading of 49.0. This was the third straight month where a worsening in business conditions has been indicated, with the latest deterioration the strongest in that sequence.

Taiwanese manufacturers reported a solid reduction in new business received during October. The rate at which new orders contracted slowed fractionally for a second successive month, although remained in stark contrast to the long-run average for the series (which signals marked growth). New business received from export markets also decreased, albeit the extent of the decline eased more notably during the month.

Output contracted for a fourth straight month. The pace at which production has fallen has been broadly flat since August.

Backlogs of work decreased for a second consecutive month in October, signalling that a degree of excess capacity persisted at manufacturers in Taiwan as new orders continued to decline.

October data indicated that the rise in employment at Taiwanese manufacturers had drawn to a near-standstill, as the relevant index posted only fractionally above the 50.0 no-change threshold.

In line with decreases in output and new orders, purchasing activity reduced during October, with panellists looking to deplete stocks of purchases. Despite this, delivery times continued to lengthen due to short supplies of materials and insufficient capacity at vendors.

Input costs faced by manufacturers in Taiwan increased considerably during October. Many panellists attributed the latest rise in costs to higher raw material prices. However, some companies also noted that unfavourable variations in the value of the yen had impacted on input costs. Output prices also increased, and to the greatest extent since May. However, the rise was relatively weak compared to the increase in costs.

Comment

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

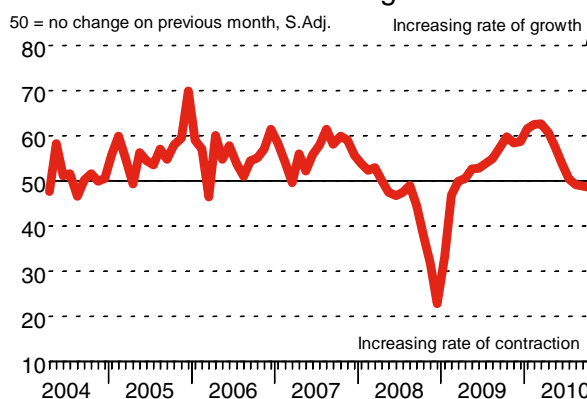
"Taiwan is encountering more turbulence from the global tech cycle. Jobs are still being created, but choppy external conditions and the resultant hit on output and orders is starting to hold back headcount growth. In order to keep the island's domestic demand recovery on track, we thus expect the authorities to err on the side of caution where rates normalization is concerned, at least for another few quarters."

Key points

- New order volumes continued to contract.
- Employment increased only negligibly.
- Input cost inflation accelerated and was steep in the context of historical data.

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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