

HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector output contracted in June for the first time in eight months

Summary

The HSBC Taiwan *PMI*™ – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – posted 49.9 in June, down from 54.9 in May. The reading pointed to a fractional deterioration of business conditions in the Taiwanese manufacturing sector. Nonetheless, the contraction was in contrast to marked growth seen during the first five months of 2011.

New orders received by manufacturers in Taiwan decreased slightly during June, ending a seven-month period of growth. While new export business rose marginally, the rate of expansion slowed markedly since the previous month. Panellists commented that there had been a general dampening of demand, both domestically and abroad, which led to an overall fall in new business.

Reflective of the decrease in new orders, output also declined in June. Nonetheless, backlogs of work were depleted, indicating that pressure on operating capacity had been alleviated. Furthermore, stocks of finished goods increased.

June data signalled the first reduction in staffing levels in the Taiwanese manufacturing sector since June 2009. However, the extent to which employment fell was marginal, with the majority of respondents indicating that staffing levels were unchanged since May.

Despite decreases in new orders and output, purchasing activity continued to rise in June. However, the latest increase in input buying was the weakest in the current seven-month period of growth. Anecdotal evidence suggested that initiatives to boost inventories had resulted in the overall rise in purchasing activity. Suppliers' delivery times continued to lengthen in June, although the extent of the deterioration was slower than the long-run trend. Panellists commented that whilst the ongoing effect of the earthquake and tsunami in Japan still negatively impacted on lead times, this was being partially offset by improving stock levels at vendors.

The recent two-year period of cost inflation ended in June, as input prices were reported to have fallen. Panellists attributed this to a general decrease in international prices. Charges rose for an eleventh month running, albeit the rate of output price inflation was only marginal and the weakest since September 2010.

Comment

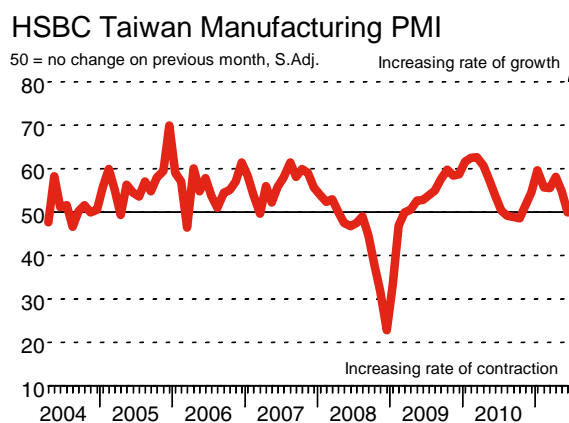
Commenting on the Taiwan Manufacturing PMI survey, Donna Kwok, Economist at HSBC in Asia said:

"Although Taiwan's headline PMI contracted for the first time in eight months, at 49.9, the contraction was marginal. The dip was brought about largely by an excessive build-up of inventory at home, which will continue to pose a drag to new domestic orders for a few more months. That said, new export orders are still expanding, shoring up our view that Taiwan's exports growth is moderating, not collapsing."

Key points

- Decreased new order volumes led to a fall in output.
- June data signalled a slight reduction in employment.
- Input prices fell, and output charges rose only marginally.

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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