

## HSBC Taiwan Manufacturing PMI™

Sharp month-on-month contraction in Taiwanese manufacturing sector output

### Summary

The HSBC Taiwan *PMI*™ – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – posted 46.1 in July, down from 49.9 in June. The index registered its lowest reading since January 2009.

Manufacturers in Taiwan reported a reduction in new business received during July. This was the second consecutive contraction in new work intakes and the steepest month-on-month decline in two-and-a-half years. New export orders also fell. Panellists commented that both domestic and overseas demand had weakened, leading to the latest decline in new business. Subsequently, output also decreased sharply in July.

Excess capacity persisted, with backlogs of work depleted for a second month. The reduction in outstanding business was solid and slightly faster than that indicated in June. Finished goods stocks also declined in July. Anecdotal evidence suggested that manufacturers were realigning their stock levels due to the contraction in new business.

July's reduction in employment was driven by decreases in both new orders and output. However, the rate of job cuts was only marginal and broadly unchanged since June. Furthermore, the majority of panellists noted that staffing levels at their companies were consistent with those seen in June.

Purchasing activity fell in July for the first time since last November and at the sharpest pace since January 2009. The decrease reflected the contraction in output requirements. Despite this, suppliers' delivery times continued to lengthen, with respondents attributing this to shortages of materials at vendors. Both the reduction in input buying and delayed deliveries contributed to a slight decline in stocks of purchases.

Lower demand for materials and a general reduction in suppliers' charges led to a second consecutive decrease in input prices during July. The fall in costs was modest, but in sharp contrast to the series-record inflation recorded in February. Manufacturers reduced their output prices in July, due to lower demand and strong competition for new business.

### Comment

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

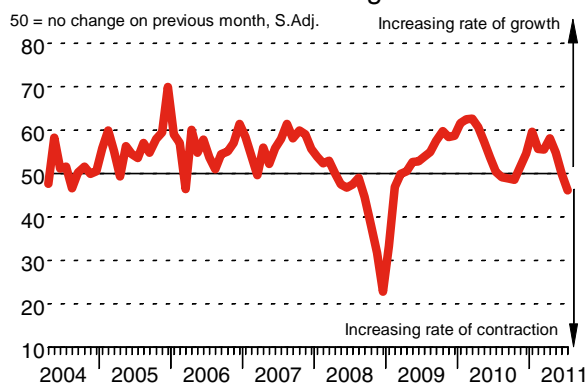
*"Clearly still a high beta economy, Taiwan's outlook is looking increasingly challenging. No longer can Japan supply chain disruptions solely be blamed. Softening demand at home and abroad is increasingly weighing on growth. On a brighter note, stock accumulation is finally winding down, which means production activity should stabilize soon."*

### Key points

- Falling new orders contribute to decrease in production
- Jobs cut at marginal rate
- Both input costs and output prices fall

### Historical Overview

#### HSBC Taiwan Manufacturing PMI



**For further information, please contact:**

**HSBC**

Hongbin Qu

HSBC Global Research Managing Director and Chief Economist Greater China  
Telephone +852 2822 2025  
Email hongbinqu@hsbc.com.hk

Donna Kwok, Greater China Economist  
Telephone +852-2996-6621  
E-mail donnahjkwok@hsbc.com.hk

Corporate Communications :

Jamie T Y Chen, Group Communications Taiwan  
Telephone +886-2-2725-7733  
E-mail jamietychen@hsbc.com.tw

Amber Chung, Group Communications Taiwan  
Telephone +886-2-2725-7752  
E-mail ambertchung@hsbc.com.tw

**Markit**

Sarah Bingham, Economist  
Telephone +44-1491-461-050  
Email sarah.bingham@markit.com

Caroline Lumley, Corporate Communications  
Telephone +44-20-7260-2047 / +44-781-581-2162  
Email caroline.lumley@markit.com

**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.

**The Hongkong and Shanghai Banking Corporation Limited:**

The Hongkong and Shanghai Banking Corporation Limited is the founding and a principal member of the HSBC Group which, with over 7,500 offices in 87 countries and territories and assets of US\$2,455 billion at 31 December 2010, is one of the world's largest banking and financial services organizations.

**About Markit:**

Markit is a leading, global financial information services company with over 2,200 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see [www.markit.com](http://www.markit.com).

**About PMIs:**

*Purchasing Managers' Index™ (PMI™)* surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/economics](http://www.markit.com/economics).

**The intellectual property rights to the HSBC Taiwan Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™ and PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.**