

## HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector output contracts for third month running

### Summary

The HSBC Taiwan *PMI*™ – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – posted 45.2 in August, down from 46.1 in July to its lowest reading in 31 months. This signalled a marked contraction; worsening business conditions have been recorded over each of the last three survey periods.

New business received by manufacturers in Taiwan decreased sharply during August. This was the third successive month where new work intakes contracted, with the latest decline the steepest in that period. Panellists noted a general weakening in demand both domestically and overseas, with the rate of decline in new export orders quickening to the fastest since January 2009.

Reflective of the decrease in overall new orders, output fell at a marked rate in August. However, the contraction was only fractionally faster than that seen in July. Despite this, backlogs of work declined, with the rate of depletion accelerating to the sharpest in two-and-a-half years. This suggested that spare capacity persisted within the manufacturing sector. Furthermore, stocks of finished goods also fell, with panellists commenting that they were looking to reduce inventories amid decreasing levels of new business.

August data signalled a rise in employment for the first time in three months. However, the increase was only slight, with the vast majority of respondents indicating that staffing levels at their units were unchanged since July.

Purchasing activity at Taiwanese manufacturers declined markedly during August, in line with the reduction in output requirements. Subsequently, suppliers' delivery times were reported to have improved, as pressure on vendors' capacity eased. Stocks of purchases were depleted for a second month running.

Input costs faced by manufacturers in Taiwan increased during August, driven by higher raw material prices. The rate of cost inflation was marked, but lower than those seen in the first five months of 2011, and below the long-run series trend. In contrast, output prices fell again, as a weak demand environment and strong competition for new business led a number of manufacturers to offer discounts.

### Comment

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

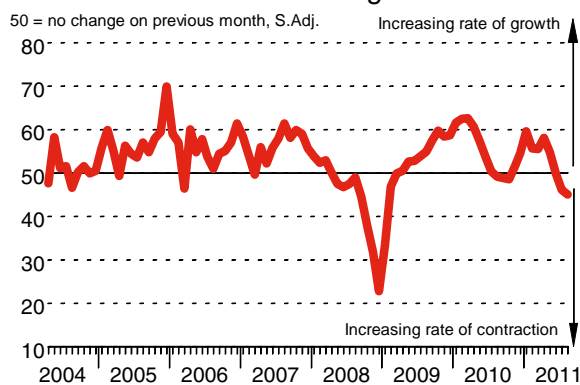
*"Despite the uplift proffered by Japan's post-quake rebound, Taiwan continues to be battered by the global trade cycle. The West's deteriorating growth outlook is becoming an increasingly heavy burden for exporters to bear, although for now, job creation is holding steady."*

### Key points

- Falling levels of output driven by decrease in new business
- Reduction in backlogs signals excess capacity in the sector
- Output prices fall again, but input costs rise

### 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 industry contribution to Taiwanese GDP. 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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