HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturers see slower improvement in business conditions

Summary

Taiwan's manufacturing sector continued to grow in April, albeit at a weaker pace. The latest expansion reflected moderate increases in both production and new work intakes. Slower growth had the knock-on impact of weaker rates of purchasing activity, and contributed to an improvement in vendor performance. Manufacturers also reduced output prices in line with softening demand conditions, despite registering continued cost inflation.

The headline 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 51.2 in April, down from 54.1 in March, indicating a moderate and slower improvement in operating conditions within Taiwan's manufacturing sector. The latest reading was the lowest since January, following a ten-month high in March.

Production at manufacturing companies in Taiwan increased for the third successive month in April. The latest growth of output was considerably weaker than in March, reflecting a slower rise in new business volumes. Noticeably, new business growth was predominantly domestic driven, as new orders from international clients increased at only a marginal pace.

Despite output growth being faster than that of new orders, firms continued to accumulate backlogs of work in April. Anecdotal evidence suggested that the sustained increase in new business and, in some cases, raw material shortages left orders unfulfilled during the latest survey period.

Meanwhile, stocks of finished goods increased at a marginal pace in April, the weakest for three months.

Reflective of the moderate rise in production levels, the number of people employed in Taiwan's manufacturing sector increased marginally in April. Job creation has now been recorded for five consecutive months, but the latest increase in headcounts was the weakest since January.

Slower output growth also fed through to manufacturers' purchasing decisions. The expansion in input buying at goods-producing companies eased on the month, following March's ten-month high.

Input prices faced by manufacturers continued to rise solidly in April. Panellists cited higher raw material and petroleum costs as the main drivers of inflation. However, manufacturers reduced output prices in response to client requests for lower charges and strong competition for new business.

Comment

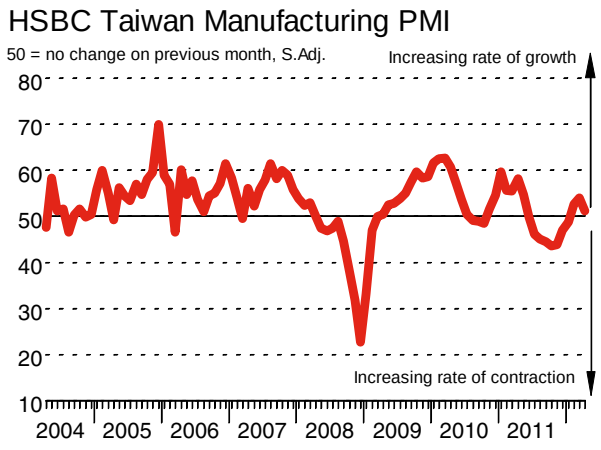
Commenting on the Taiwan Manufacturing PMI™ survey, Donna Kwok, Economist at HSBC in Asia said:

"Global restocking activity continues to keep most Taiwan manufacturers in business, and their work force employed. That said, the island remains in a slow-down mode. We expect weak final demand in the West, especially Europe, to constrain the island's export growth for a while longer, making domestic demand an important growth driver to monitor."

Key points

- PMI indicates weakest improvement in operating conditions in current three-month sequence
- Growth of both output and new orders eases
- Output prices fall despite solid cost inflation

Historical Overview



Sources: Markit, HSBC.

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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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