

HSBC Taiwan Manufacturing PMI™

Taiwan Manufacturing PMI stays in expansion territory during May

Summary

The Taiwanese manufacturing sector recorded further growth of production and new orders in May, as companies saw improved demand from both domestic and export clients. However, rates of expansion were weaker than in the previous month, amid signs of slowdown in both the global and regional economies.

The headline HSBC Taiwan Purchasing Managers' Index™ (PMI™) posted 50.5 in May. This signalled an improvement in overall operating conditions for the fourth straight month. However, the index moved closer to the neutral mark of 50.0, consistent with the sector slipping nearer to stagnation.

Manufacturing production and new orders both increased for the fourth straight month in May, but with rates of expansion easing to the weakest during this period. Export orders rose only slightly as well. Demand from North America and South East Asia continued to hold up, but there were reports that weaker conditions in Europe suppressed inflows of new export business.

Staffing levels dipped slightly during May, as manufacturers held off from raising capacity in response to the slowdown in growth. The reduction to employment was only marginal, but nonetheless ended a five-month period of modest gains in payroll numbers.

There were also signs that capacity was broadly in line with current output and demand requirements. Although backlogs of work rose for the fourth month in a row, the rate of increase was the weakest during that sequence.

Price pressures abated further in May, with the latest survey data pointing to declines in both average input costs and selling prices. The reduction in raw material costs was the first since January, and reflected lower fuel and metals prices alongside successful negotiations with suppliers.

Average factory gate prices fell for the second month running, and at the fastest pace since last November. Where a decrease was reported, this was linked to strong competition and tougher market conditions.

May data indicated that companies continued to increase their levels of purchasing activity. Ongoing growth of production and new business remained the principal factors encouraging firms to expand input buying volumes. Part of the increase in purchasing also led to a slight gain in inventory levels.

Finally, average vendor performance improved for the second straight month in May. Lead times shortened to the greatest extent since January 2009.

Comment

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

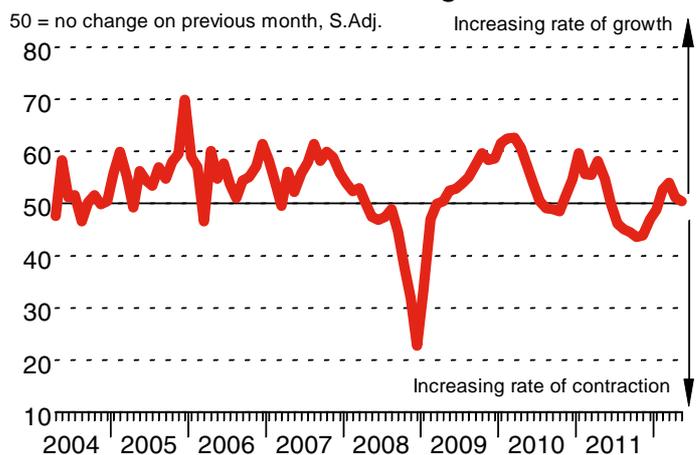
"Consumers at home, the US, China and South East Asia are throwing a lifeline to Taiwan's manufacturers, enabling them to fend off the impact of weakening European demand. Though the job market recovery has yet to be derailed, it's starting to look a bit wobbly, lessening a key support for domestic demand. With the TWSE in decline since March, a soft China landing is looking increasingly critical for underpinning Taiwan's growth in Q2."

Key points

- PMI at 50.5 in May, closer to stagnation but still signalling expansion
- Growth of output and new orders maintained, but slowdown from March peaks continued
- Output prices and input costs both fell in May

Historical Overview

HSBC Taiwan Manufacturing PMI



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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