HSBC Purchasing Managers' Index™ Press Release

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HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector contracted slightly in June

Summary

The HSBC Taiwan Purchasing Managers' IndexTM (PMITM) is a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector. The PMI posted 49.2 in June, down from 50.5 in the previous month.

Production contracted moderately in June in line with falling new orders. Panellists reported a lower level of orders from US, Chinese and European markets. Moreover, domestic demand was also reportedly weaker.

Manufacturing workforce numbers remained constant in June following a contraction in May. Companies restrained staffing levels as production decreased in line with instability in European markets. Although staffing levels had not changed, outstanding orders decreased at Taiwanese manufacturing companies. The rate of contraction, however, was only moderate.

Falling price pressures were signalled in the Taiwan manufacturing sector as both charges and input prices fell. Output prices were reportedly decreased to reflect lower input costs. Moreover, firms claimed that competition between manufacturers was also a contributor to falling charges.

Whereas charges fell solidly, input prices plummeted at the fastest rate since March 2009. As prices for raw materials and fuel continued to fall in June, manufacturers faced lower average costs.

Taiwanese manufacturers unintentionally increased stocks of finished goods in June amid reports of shipment delays. The rate of accumulation remained unchanged from that in May.

Pre-production inventories expanded slightly in June. Panellists accumulated stocks of purchases in line with expected higher orders for July. The pace of accumulation was the lowest in the five-month sequence.

Purchasing activity increased in June, extending the expansionary period to five months. However, the rate of growth was only slight and the lowest in the sequence. Approximately 20% of firms reported higher purchasing activity, against 19% of firms reporting a lower purchasing level.

Average lead times improved at Taiwanese manufacturing firms, extending the shortening period to three months. With weaker demand for inputs, suppliers reportedly were able to decrease delivery times.

Comment

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

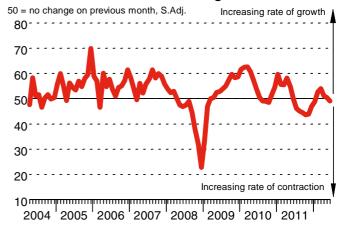
"Though Taiwan's manufacturing sector remains in better shape than at the end of both 2011 and during the 2008-2009 downturn, momentum is starting to soften noticeably again. Exports look set to shrink at a faster pace this quarter than in Q1. With economies in the US and Asia still at risk of being infected by financial market volatility and economic malaise in the eurozone, and China's manufacturing slowdown yet to be arrested, the central bank's caution in keeping rates on hold at its most recent meeting looks justified. Especially as the impact of a continued decline in local stock indices upon domestic demand is rising."

Key points

- PMI at 49.2 signals a downturn in the manufacturing sector in June
- Output fell for the first time since January
- Output prices fell solidly, in line with a sharp decrease in input prices

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' IndexTM (PMITM)* 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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