

# HSBC Taiwan Manufacturing PMI™

## Output contracts at steepest pace in the year-to-date

### Summary

The 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 46.1 in August. The latest reading was down from 47.5 in July and pointed to a further deterioration in the health of the Taiwanese manufacturing sector.

Weaker national and international demand led to a third successive fall in output at manufacturing firms in Taiwan. The pace of the latest contraction was steep and the fastest since December 2011. New orders and new export business both declined, extending the current sequence of contraction to three months. According to panellists, the slowdown in the wider economy resulted in weaker demand for manufactured goods.

In line with falling production, backlogs of work decreased for the third month running. Furthermore, the pace of contraction was the sharpest in 2012 so far.

Input prices at Taiwanese manufacturing firms fell for the fourth consecutive month in August. Although marked, the pace of decrease was slower than that recorded in July. Panellists reported that input costs fell in line with decreasing metal and raw material prices. Moreover, it was mentioned that weaker demand also contributed to the latest decline. In line with input costs, charges fell at a solid rate as manufacturers attempted to maintain competitiveness and attract new business, it was reported.

Staffing levels at firms in Taiwan were reduced in August amid reports of falling output. With exactly 96% of respondents signalling no change, the pace of contraction was slight and slower than that seen in July.

Purchasing activity at manufacturers in Taiwan fell during August. The rate of contraction was sharp and the fastest since December 2011. Anecdotal evidence suggested that input buying was reduced in line with weaker demand from domestic and international clients. Meanwhile, vendor performance improved for the fifth successive month. With the vast majority of respondents reporting no change, the rate of shortening was only slight and broadly in line with that seen in July.

Stocks of purchases in the Taiwanese manufacturing sector fell in August. That said, the rate of depletion was modest and slower than in July. Post-production inventories were also depleted as firms lowered stocks in line with weaker demand.

### Comment

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

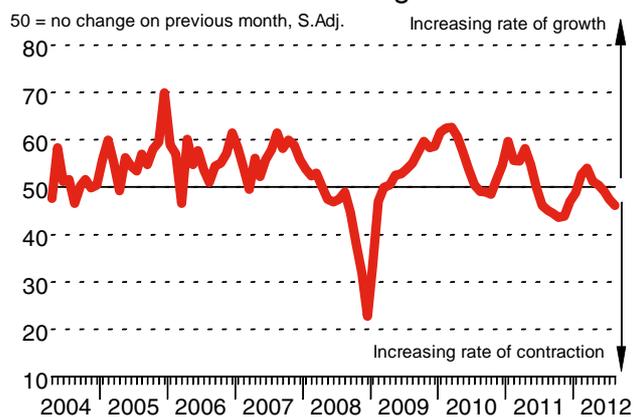
*"Taiwan's exports outlook continues to deteriorate, mirroring the deepening global trade slump. Manufacturing headcount reductions remain modest so far, but conditions in this important job market are at their weakest since mid-2009. This leaves domestic demand more vulnerable than during the last period of sustained below-50 readings in 2011. With the pace and scale of China's recovery more modest than previously thought, we expect Taipei policy makers to beef up the island's economic defences more meaningfully soon."*

### Key points

- New orders and new export orders fall for third month running
- Workforces contract slightly
- Input and output prices fall in line with weaker demand

### 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](mailto:economics@markit.com).

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