HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Taiwan Manufacturing PMI™

Output falls at fastest rate in ten months

Summary

The HSBC Taiwan Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration. The PMI posted 45.6 in September, down from 46.1 in August and a ten-month low. Operating conditions in the Taiwanese manufacturing sector have now worsened in each of the past four months.

Falling demand in domestic and international markets led to a fourth successive fall in manufacturing output. New orders and new export business both fell at the fastest rates in ten months. Survey panellists mentioned that deteriorating business conditions worldwide led to reduced demand for manufactured products.

Despite the falls in output and new orders, employment levels at manufacturing firms remained relatively unchanged in September. Backlogs of work decreased for the fourth consecutive month in September. The rate of decline accelerated to the sharpest since the end of 2011. Some survey respondents attributed lower backlogs to subdued demand which resulted in excess capacity at their plants.

Input costs at Taiwanese manufacturing firms fell for the fifth successive month in September. However, the rate of reduction slowed in September and was only marginal. Anecdotal evidence suggested that input costs declined in accordance with falling raw material costs.

Output charges fell in September for the sixth successive month, although the pace of reduction slowed. Panellists indicated the fall in output charges reflected lower input prices, but was also in response to ongoing competitive pressures.

Purchasing activity decreased for the third consecutive month in September. The fall was the sharpest in ten months. Average lead times continued to improve, albeit marginally, and respondents linked this to a reduction in demand for inputs.

The volume of pre-production inventories in the Taiwanese manufacturing sector fell in September for the third consecutive month. Meanwhile, stocks of finished goods fell at the sharpest rate in ten months. Anecdotal evidence suggested the depletion of stocks reflected a fall in the volume of new orders and production requirements.

Comment

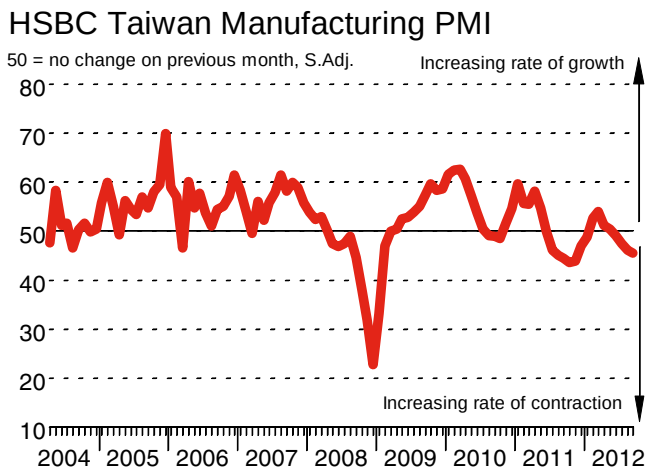
Commenting on the Taiwan Manufacturing PMI™ survey, Donna Kwok, Economist at HSBC in Asia said:

"Taiwan's manufacturing engine slowed through the third quarter, as de-stocking picked up pace again in response to the deepening global trade slump. This will pose a major drag on the next GDP release, but the job market's continued resilience should set a floor beneath domestic demand to offer a partial counterbalance. As Mainland demand stabilizes in the coming months, we expect Taiwan's shipments to resume a modest pace of expansion in Q4."

Key points

- New orders and new export orders both fall at steepest rates since last November
- Purchasing activity and inventories pared back
- Output charges decrease at faster rate than input prices

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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