# **HSBC** Purchasing Managers' Index<sup>™</sup> Press Release

Embargoed until: 10:00 (Taipei), 1 November 2012

# HSBC Taiwan Manufacturing PMI™

# PMI improves to four-month high in October, as output falls at slower rate

### **Summary**

The HSBC Taiwan Purchasing Managers' Index<sup>TM</sup>  $(PMI^{TM})$  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 47.8 in October, up from 45.6 in September and a four-month high. Operating conditions in the Taiwanese manufacturing sector have now deteriorated in each of the past five months.

The fall in output for the fifth successive month was largely driven by subdued demand, particularly in international markets. The volume of new orders received by Taiwanese manufacturers decreased during October, as did the amount of new export orders. However, rates of reduction slowed for both total new orders and new export orders in the latest survey period. Anecdotal evidence suggested that reductions in demand and output were linked to difficult business conditions.

Backlogs of work fell for the fifth successive month, and at the weakest pace in the past four months. Just over 18% of panellists recorded a reduction in the volume of outstanding work, with a number of firms attributing this to fewer new orders. Employment levels were unchanged in October from September, with nearly 93% of manufacturers reporting no change.

On the price front, input prices rose sharply during October for the first time in six months. Input price inflation was largely driven by a rise in raw material costs, with more than 12% of panellists recording inflation. Meanwhile, output charges fell for the seventh consecutive month. However, the pace of deflation was marginal and weaker than rates seen in the previous six

Suppliers' delivery times worsened for the first time in seven months, albeit marginally. Anecdotal evidence suggested that longer lead times were due to a reduced amount of inventory held by vendors.

Purchasing activity continued to fall during October, although at a slower pace than in September. A number of respondents attributed this to lower production requirements and weaker demand for manufactured goods.

Pre-production inventory stock fell in October for the fourth month in a row. The rate of stock depletion was the weakest in this sequence, but remained marked. Just under 15% of panellists reported a reduction.

Stocks of finished goods were also depleted during October, albeit at a slower pace than September. Anecdotal evidence suggested that the adjustment to lower inventory levels was in line with reduced market demand and production requirements.

#### Comment

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

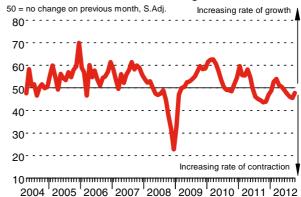
"Taiwan's manufacturing activity is still contracting, albeit at a slower pace. More encouraging is the fact that staffing levels continue to hold steady, helping to set a floor beneath domestic demand. More fiscal support is needed to shore up consumption however, especially if the global trade cycle or local stock market takes another unexpected stumble, something that can't be ruled out given lingering global risks."

# **Key points**

- New orders and new export orders continue to fall but at weaker rates
- Purchasing activity down further as demand remains subdued
- Input prices rise sharply while output charges continue to fall

## **Historical Overview**

# HSBC Taiwan Manufacturing PMI



Sources: Markit, HSBC.





## For further information, please contact:

#### **HSBC**

Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Donna Kwok, Greater China Economist Telephone +852-2996-6621 Email donnahjkwok@hsbc.com.hk

Corporate Communications:
Jamie Chen, Communications Taiwan
Telephone +886-2-6631-7913
E-mail jamietychen@hsbc.com.tw

Amber Chung, Communications Taiwan Telephone +886-2-6631-7915 E-mail ambertcchung@hsbc.com.tw

#### **Markit**

Annabel Fiddes, Economist Telephone +44-149-146-1010 Email annabel.fiddes@markit.com Caroline Lumley, Corporate Communications Telephone +44 20 7260 2047 Mobile +44 781 5812162 Email caroline.lumley@markit.com

#### **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<sup>TM</sup> (PMI<sup>TM</sup>)* 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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

# **HSBC**:

HSBC is one of the world's largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 134 countries and territories.

#### **About Markit:**

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see <a href="https://www.markit.com">www.markit.com</a>

#### **About PMIs:**

Purchasing Managers' Index<sup>TM</sup> (PMI<sup>TM</sup>) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

The intellectual property rights to the HSBC Taiwan Manufacturing *PMI*<sup>™</sup> provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*™ and *PMI*™ are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.