

# HSBC Taiwan Manufacturing PMI™

## Deterioration in operating conditions for first time in six months

### Summary

Business conditions in the Taiwanese manufacturing sector worsened in May amid reports of a deterioration in global economic conditions. Output and new orders each decreased solidly during the month, and firms worked through backlogs of work and lowered their purchasing activity accordingly. Meanwhile, further reductions in prices were recorded, with both input costs and output prices falling at accelerated rates.

The HSBC Taiwan *Purchasing Managers' Index™* (PMI™) posted 47.1 in May, from 50.7 in the previous month. The reading signalled the first deterioration in operating conditions since November 2012, and the sharpest in eight months.

Manufacturing new orders in Taiwan decreased at a solid pace during May, ending a five-month sequence of growth in the sector. Respondents indicated that new business had decreased from both domestic and foreign sources.

New export orders also fell for the first time in six months. Respondents reported a general deterioration in global economic conditions, with lower new orders from China, Europe and the US mentioned specifically.

Manufacturers lowered production in response to falling new orders. The reduction in output was solid, despite firms working through backlogs of work at a faster pace during the month. The fall in outstanding business was the sharpest since December 2011.

Input costs fell for the second month running in May. Furthermore, the rate of decline was substantial, and the fastest since July 2012. Panellists mainly attributed lower input prices to decreased raw material costs. In turn, firms were able to lower their output prices. Charges declined for the fourteenth successive month, and at the steepest pace since June 2009.

With new orders decreasing, manufacturers lowered their purchasing activity in May. The reduction was solid, and the first in six months. Weaker demand for inputs, alongside requests for quicker deliveries led to a shortening of suppliers' delivery times. Moreover, the rate at which vendor performance improved was the strongest since January 2009.

Staffing levels decreased marginally for the second time in the past three months during May. Employment has been broadly unchanged in the sector since the start of 2013.

Modest reductions in stocks of both purchases and finished goods were recorded in May. In each case, inventories decreased for the eleventh successive month. Panellists reported adjusting their pre-production inventories in line with evidence of weakening client demand.

### Comment

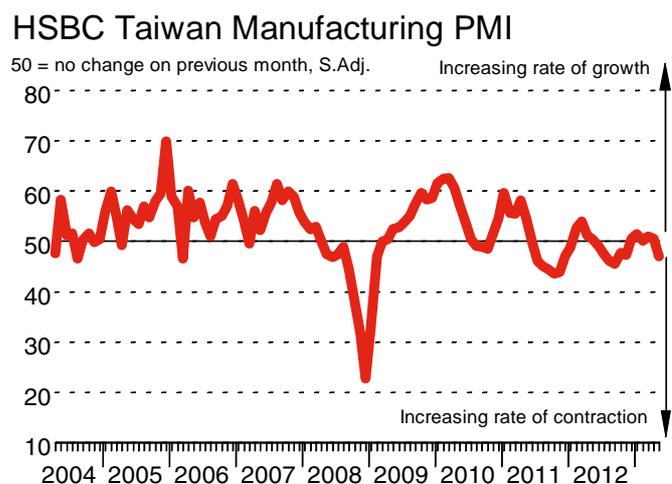
Commenting on the Taiwan Manufacturing PMI™ survey, Donna Kwok, Economist at HSBC in Asia said:

*"Demand deteriorated on both a global and local basis in May, as orders contracted not only from China but also the US, Europe and at home. Taiwan manufacturers' descent into contraction mirrors what took place last summer, although client demand is deteriorating at a faster pace this time, both at home and abroad. Taiwan's re-emergence from economic contraction last quarter is looking increasingly challenging, although for now, job market conditions continue to hold relatively stable."*

### Key points

- Solid reductions in both output and new business
- Input prices fall at considerable pace
- Purchasing activity reduced in line with lower new orders and production requirements

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

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