# **HSBC Purchasing Managers' Index™ Press Release**

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# HSBC Taiwan Manufacturing PMI™

# Operating conditions deteriorate marginally in June

### **Summary**

Operating conditions in Taiwan's manufacturing sector deteriorated for the second successive month in June, though only slightly. Manufacturers signalled reductions in both output and new orders, albeit at weaker rates. Lower volumes of new business led to a reduction in the level of work-in-hand, while purchasing activity declined to reflect lower production requirements. On the price front, input costs fell sharply as demand for raw materials softened, and output charges were cut at a solid pace in an attempt to attract new business.

The HSBC Taiwan *Purchasing Managers' Index™* (*PMI™*) posted 49.5 in June, up from 47.1 in May, signalling only a marginal deterioration of operating conditions. Business conditions have now worsened for two consecutive months.

Production levels at manufacturing plants decreased for the second month in a row in June, albeit slightly. Anecdotal evidence linked the fall to reduced client demand, as both new orders and new export orders declined for the second month in a row, though at slower rates.

Fewer new orders led to a modest depletion of backlogged work. The level of outstanding business at manufacturing firms has now fallen for three consecutive months.

Although output and new business declined over the month, employment levels increased in June, though only slightly.

Stocks of finished goods declined in June, extending the current trend to 12 months. Though modest, the rate of reduction was the second-quickest of 2013 so far. Anecdotal evidence suggested stocks were run down in response to fewer new orders.

Purchasing activity decreased for the second month in a row, and at a modest pace. The reduction in input buying was attributed to lower production requirements stemming from reduced client demand. Concurrently, stocks of purchases also fell in June, albeit marginally.

Average input costs decreased for the third successive month. The rate of reduction was sharp, despite easing since May, with approximately 21% of panellists recording lower input prices. Manufacturers passed on their savings to clients by discounting their own charges for the fifteenth month in a row. A number of firms also linked lower tariffs to competitive market pressures.

Finally, suppliers' delivery times shortened for the fifth month in a row, though only slightly. Improved vendor performance was generally associated with decreased demand for inputs.

#### Comment

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

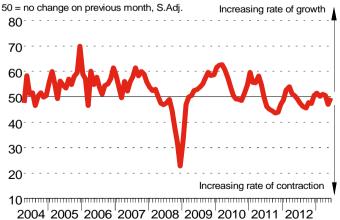
"Taiwan's manufacturing contraction eased a little in June, but businesses are still feeling the weight of China's slow-down and continually weak Western demand. Thanks to negligible wage growth and sustained inventory reduction initiatives however, there have been no significant cuts to headcount and job market conditions remain stable in support of private spending. Still, with trade expected to soften further in the coming months and monetary conditions already accommodative, it will be critical for Taipei to step up delivery of its recent stimulus policy proposals if domestic demand is to be preserved."

# **Key points**

- Output contracts for second successive month, though only slightly
- Both new orders and new export orders decline at slower rates
- Purchasing activity falls on the back of weaker client demand and lower production requirements

### **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.

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