HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 10:00 (Taipei), 1 August 2013

compiled by markit

HSBC Taiwan Manufacturing PMI™

Operating conditions deteriorate for the third successive month in July

Summary

Operating conditions deteriorated modestly in Taiwan's manufacturing sector in July. Production levels decreased over the month, with both new orders and new export orders falling at faster rates. Consequently, buying activity and stocks of purchases also declined in July, in line with softer client demand. Meanwhile, input costs fell sharply, while output charges were cut again following price negotiations with clients.

The HSBC Taiwan *Purchasing Managers' Index*™ (*PMI*™) posted 48.6 in July, down from 49.5 in June, signalling a modest deterioration of business conditions. Operating conditions faced by Taiwanese manufacturers have now worsened for three consecutive months.

Output at manufacturing plants in Taiwan contracted for the third month in a row in July. Moreover, the rate of reduction accelerated to a marked pace, with more than one-quarter of respondents noting lower production levels. Similarly, total new orders fell modestly, while new export orders were also down (in both instances for the third month running). Anecdotal evidence suggested weak demand from key export markets such as Europe and the US drove the overall decline in new business.

Fewer new orders created spare capacity at some plants, and enabled firms to reduce their level of work-in-hand. Backlogs of work have now fallen for four months in a row, though the latest reduction was the weakest in the current sequence. In contrast, employment levels increased for the second successive month in July, though only slightly.

Purchasing activity decreased for the third consecutive month, and at a marked pace. Stocks of purchases also fell over the month, though the rate of depletion was modest overall. A number of respondents linked reduced input buying and the depletion of stocks to lower production requirements, which in turn stemmed from softer demand and lower sales.

Despite weaker demand for inputs, suppliers' delivery times worsened for the first time since January, albeit marginally.

Input prices in Taiwan's manufacturing sector declined sharply over the month, and was generally linked to lower raw material costs. Reduced operating costs allowed firms to cut their output charges for the sixteenth month in a row, with firms signalling a solid rate of discounting in the latest survey period. Anecdotal evidence mentioned that firms lowered their tariffs in response to requests made by clients for lower prices.

Finally, stocks of finished goods declined in July, as firms continued to readjust inventories in response to reduced order book volumes.

Comment

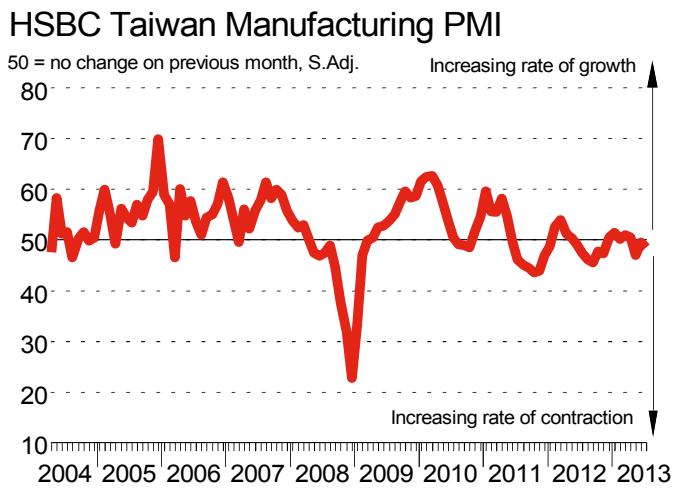
Commenting on the Taiwan Manufacturing PMI™ survey, Donna Kwok, Economist at HSBC in Asia said:

"A weaker global trade cycle has continued to weigh on Taiwan's manufacturing conditions. The sharper contraction in new orders, especially on the external front, has been matched by weaker production. This poses challenges to Taiwan's growth outlook. For Taiwan to stay out of recession, it is critical for the government's latest stimulus measures to provide a sufficient boost to private consumption to counterbalance weaker trade flows."

Key points

- Output contracts at a marked pace
- Total new orders decline at a quicker rate as firms signal marked reduction in new business from abroad
- Cost pressures continue to ease, with input prices falling sharply over the month

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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