HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Taiwan Manufacturing PMI™

Business conditions stabilise during August

Summary

Latest data signalled that operating conditions in Taiwan's manufacturing sector were unchanged in August, following three months of deterioration. Output declined marginally, while total new orders and new export orders also decreased at slower rates. Staffing levels increased for the third month in a row, and at the fastest rate of 2013 so far, while backlogs of work fell only slightly. Deflationary pressures persisted, however, with input prices falling at a marked pace, and firms cut their output charges solidly.

The PMI posted 50.0 in August, up from 48.6 in July, signalling that operating conditions were unchanged in the latest survey period, following three consecutive months of deterioration.

Production levels in Taiwan's manufacturing sector fell for the fourth consecutive month in August. That said, the rate of contraction was marginal and the weakest in the current sequence.

Total new orders also declined, albeit fractionally. A modest decrease in new export orders suggested that weak demand from international clients largely drove the reduction of total new order books. Anecdotal evidence indicated that soft underlying demand from China, Europe and the US led to the overall reduction of foreign sales.

Despite the slight contraction of output, staff numbers increased for the third month in a row. Furthermore, the rate of job creation was the quickest since last December. According to a number of panellists, additional staff were hired as part of plans to increase productive capacity. Meanwhile, the volume of outstanding business fell for the fifth successive month, albeit marginally.

Buying activity declined for the fourth consecutive month in August, albeit modestly. Concurrently, stocks of inputs fell for the fourteenth month in a row as firms purchased fewer raw materials and ran down their current inventories in an effort to reduce costs.

Average input prices declined for the fifth month in a row in August. Though marked, the rate of deflation was the weakest in the current sequence.

Lower production costs enabled firms to reduce their average tariffs for the seventeenth month in a row. Furthermore, the rate of discounting was solid, with approximately 11% of respondents lowering their factory gate prices. According to a number of panellists, output charges were cut as a result of competitive market pressures and price negotiations with clients.

Comment

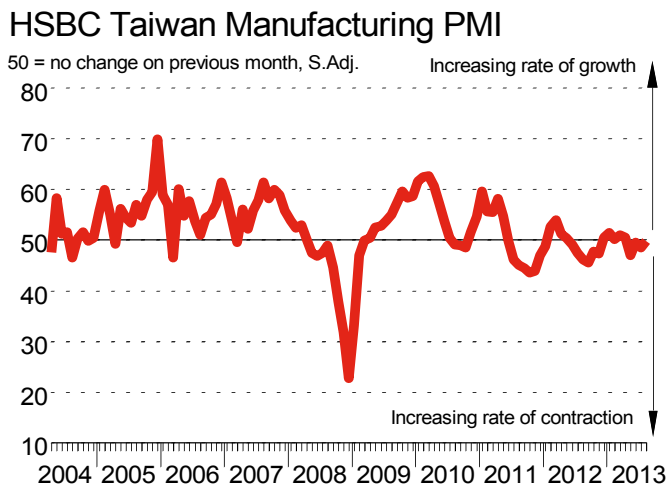
Commenting on the Taiwan Manufacturing PMI™ survey, Ronald Man, Economist at HSBC in Asia said:

"Taiwan's manufacturing conditions were unchanged in August, suggesting that activity is stabilising. But stronger new orders, especially on the external front, are required to ensure the economy stays out of recession this year. The silver lining, however, is that manufacturing payrolls picked up at its strongest rate in eight months and this should put a floor beneath private consumption. We expect Taiwan to grow 2.0% in 2013."

Key points

- Marginal reductions of output and new orders
- Quickest rate of job creation since last December
- Deflation persists

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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