

HSBC Taiwan Manufacturing PMI™

Operating conditions improve at weaker pace in February

Summary

Taiwanese manufacturers signalled a further improvement of business conditions during February. However, the rate of growth eased to a three-month low, dampened by weaker expansions of output and new orders. Nonetheless, new export orders rose at a slightly quicker rate than in January. Meanwhile, firms were cautious towards hiring new staff, and employment growth eased to a seven-month low. On the price front, average input cost inflation eased, while manufacturers cut their selling prices slightly over the month.

The HSBC Taiwan *Purchasing Managers' Index™* (PMI™) posted at 54.7 in February, below January's 33-month high of 55.5, but nonetheless signalled a strong improvement of business conditions.

The reduction in the headline PMI partly reflected slower expansions of output and new orders. Production levels at Taiwanese goods producers rose for the sixth successive month in February, but the latest rise was the weakest since November. Similarly, growth of new work eased to a three-month low, but remained sharp overall. Meanwhile, new export orders increased at a slightly quicker pace. Anecdotal evidence suggested stronger client demand, particularly in Europe and the US, helped to boost new business from abroad.

Although new work continued to expand at a sharp pace, manufacturers in Taiwan were reluctant to raise staffing levels at a similar pace. Moreover, the degree to which payrolls expanded in February was the slowest since last July and only marginal. The relatively muted increase in staffing levels led to greater volumes of work-in-hand (but not yet completed). That said, the rate of accumulation eased from the previous month.

The sustained increase in new business led to a further expansion of purchasing activity at Taiwanese goods producers in February. Despite easing from January, the rate of growth was sharp and stronger than the series average. Consequently, stocks of purchases rose for the third month running, and at a moderate pace.

Suppliers' delivery times lengthened in February, amid reports of insufficient stocks held by vendors. Delivery times have now increased for eight months running.

Average production costs continued to increase in February. The rate of input price inflation, though marked, was the weakest in three months. Higher raw material prices, notably steel, were linked to inflation in the latest survey period.

Comment

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

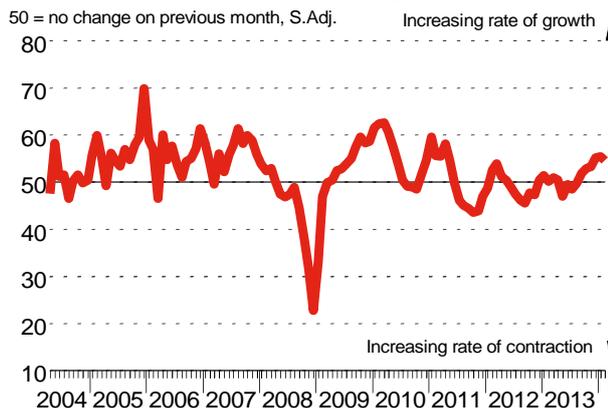
"Although the headline PMI moderated in February, most components are still signalling expansion at above-average rates. The new order/inventories balance also improved while output and input price inflation fell back. Finally, the acceleration in export orders is particularly encouraging for the export-driven Taiwanese economy."

Key points

- Growth rates of output and new orders ease but remain sharp
- Employment levels increase at the slowest rate in seven months
- Input cost inflation eases

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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