

HSBC Taiwan Manufacturing PMI™

PMI signals further deterioration in operating conditions

Summary

Operating conditions faced by Taiwanese manufacturers deteriorated for the second month in a row during May. Output, new orders and new export business all declined over the month, linked to softer customer demand both at home and overseas. Consequently, firms reduced their purchasing activity for the second month in a row, and continued to run down their stocks of both inputs and finished goods. Meanwhile, average cost burdens continued to fall, albeit at the slowest rate in eight months, while average selling prices fell solidly.

The headline HSBC Taiwan Purchasing Managers' Index™ (PMI™) posted at 49.3 in May, up fractionally from 49.2 in April, and signalled a second successive monthly deterioration in operating conditions. That said, the rate of deterioration remained marginal overall.

Latest survey data pointed to reduced output in Taiwan's manufacturing sector for the second month running in May. That said, the rate of contraction was similar to that seen in April and only slight. Anecdotal evidence suggested that companies tempered their production plans due to softer client demand. This was highlighted by a further decline in total new orders placed at Taiwanese manufacturers in May. Though moderate overall, the rate of reduction was the sharpest recorded in 22 months. External demand also weakened in May, with new export work declining for the second month in a row and at a stronger pace than in April.

Fewer new orders enabled manufacturers to work through their outstanding business in May, though the rate of backlog depletion was only slight. Meanwhile, firms remained cautious towards job hiring, with staff numbers increasing at a marginal pace that was similar to that seen in the previous two months.

In response to lower production requirements, Taiwanese manufacturers reduced their purchasing activity for the second month in a row in May. That said, the rate of reduction was little-changed from April and moderate. As a result, stocks of inputs declined again in May, albeit at the slowest rate in eight months. Inventories of finished goods meanwhile declined at the steepest rate in four months, as a number of companies readjusted their stock holdings in light of softer client demand.

Taiwanese manufacturers signalled a further fall in average cost burdens during May, although the rate of deflation eased to an eight-month low. Average selling prices also declined in May and at a solid rate.

Comment

Commenting on the Taiwan Manufacturing PMI™ survey, Annabel Fiddes, Economist at Markit said:

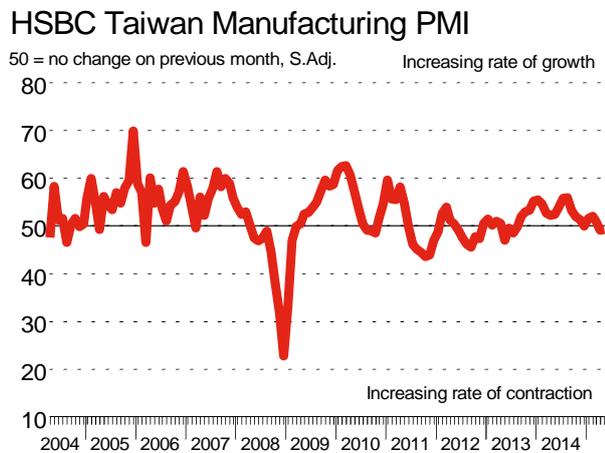
"May data pointed to a further loss of momentum in Taiwan's manufacturing sector, with output declining for the second month in a row and new work falling at a faster rate. Data suggested that both domestic and international demand remained relatively muted, as a slowdown across a number of key export markets led to fewer new orders from abroad."

"In light of weaker demand conditions and reduced production schedules, firms were hesitant towards taking on new staff, with employment rising only slightly, while companies continued to cut back their stock holdings. A drop in purchasing activity also adds to evidence that the sector is unlikely to pick up growth momentum as we approach mid-year."

Key points

- Output contracts for second month in a row...
- ...while total new business and new export work both decline at steeper rates
- Companies continue to cut back their inventory holdings

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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