

HSBC Taiwan Manufacturing PMI™

Operating conditions improve at quickest pace in over three years

Summary

Taiwanese manufacturers signalled a robust improvement in overall business conditions during July, with output, total new orders and new export orders all rising sharply over the month. Companies expanded their workforce numbers for the fourteenth successive month in July as part of plans to raise productive capacity, while purchasing activity increased at the strongest rate since January. Average input price inflation accelerated to a 38-month high, while output charges continued to fall, albeit marginally.

At 55.8 in July, the HSBC Taiwan *Purchasing Managers' Index™* (PMI™) was up from 54.0 in June and signalled a robust improvement in the health of Taiwan's manufacturing sector. Moreover, it was the sharpest pace of improvement since April 2011.

Total new business received by Taiwanese manufacturers rose sharply in July, with over 32% of panellists noting higher volumes of new work. Furthermore, it was the strongest expansion of new orders for three-and-a-half years. Total new export work rose at a similarly robust rate, with a number of panellists mentioning that client demand was particularly strong in Europe and the US.

In response to increased new work intakes, Taiwanese manufacturers raised their production levels for the eleventh month running in July. Moreover, the rate of output growth was the sharpest since January and faster than the series average.

Staffing levels increased for the fourteenth successive month in July, and at a solid pace. Furthermore, it was the quickest expansion of workforce numbers since April 2011. Despite increased employment, capacity pressures persisted, however, as signalled by a marked increase in backlogs of work.

In line with higher production requirements, purchasing activity at Taiwanese manufacturers increased in July. The rate of growth was the strongest since January and sharp. Consequently, stocks of purchases rose for the third month running, and at the quickest pace since January.

Greater demand for inputs led to a renewed deterioration in vendor performance in July. However, the rate at which delivery times lengthened was only slight.

On the costs front, average input prices rose sharply in July. Furthermore, it was the fastest rate of input price inflation since May 2011. Meanwhile, output charges declined in July, albeit at the slowest rate in six months.

Comment

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

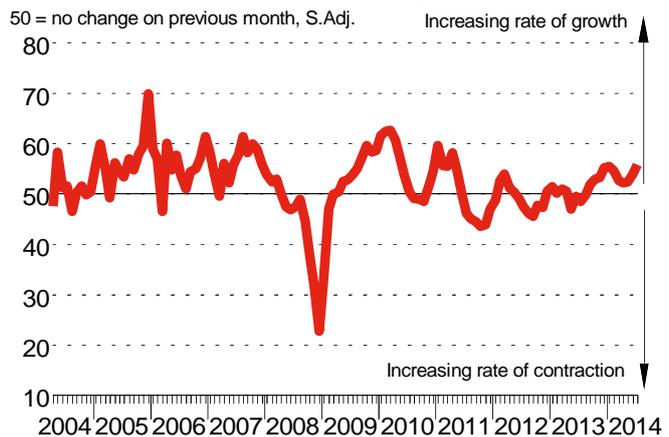
"Taiwan's economy is lifting off as demand and output conditions improve simultaneously. The increase in output in July looks sustainable as well, given the corresponding acceleration in new orders both at home and abroad. There was also a sharp rise in input prices, but that was likely to be down to the temporary spike in oil prices in July."

Key points

- Output rises sharply
- Total new orders and new export orders expand at fastest rates since January 2011
- Input price inflation accelerates to 38-month high

Historical Overview

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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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Purchasing Managers' Index[™] (*PMI*[™]) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

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