

HSBC Taiwan Manufacturing PMI™

Operating conditions improve at moderate pace in September

Summary

Business conditions in Taiwan's manufacturing sector improved for the first time since April during September. Improving trends were reported across output, total new orders and new export orders, which all increased for the first time in five months. Greater client demand led to the fastest rate of job creation since April 2011, while backlogs of work increased for the first time in six months. Average input costs rose for the first time since March during September, as firms discounted their factory gate prices for the eighteenth month in a row.

The PMI posted above August's 50.0 no-change index reading at 52.0 in September, and signalled the first improvement of business conditions in Taiwan's manufacturing sector since April. Though modest, the rate of improvement was the strongest since March 2012.

Output expanded for the first time in five months during September, and at a marked rate. Growth was supported by modest expansions of both total new orders and new export orders. Client demand was reportedly stronger both at home and abroad, with a number of surveyed firms mentioning increased demand from major trading partners such as China, Europe and the US boosted new business from overseas.

Staffing levels increased for the fourth successive month in an effort to raise productive capacity in line with strengthened client demand. Furthermore, the rate of job creation was the quickest in over two years and marked overall. Meanwhile, the level of work-in-hand increased for the first time in six months, albeit at a marginal rate.

Input buying also rose in September, and for the first time since April. Moreover, it was the strongest rise in purchasing activity since May 2012, with over 21% of panellists buying more materials for production. Consequently, stocks of purchases increased for the first time in 15 months and at a modest pace.

Increased demand for inputs led to longer average lead times, though suppliers' delivery times lengthened only marginally.

Cost burdens faced by Taiwanese manufacturers increased for the first time in six months in September. The rate of input price inflation was marked, with a number of surveyed firms citing higher raw material costs, particularly increased petroleum prices. However, firms chose to absorb higher production costs by cutting

their factory gate prices again in September, partially due to competitive market pressures. That said, the rate of discounting was the weakest in five months.

Comment

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

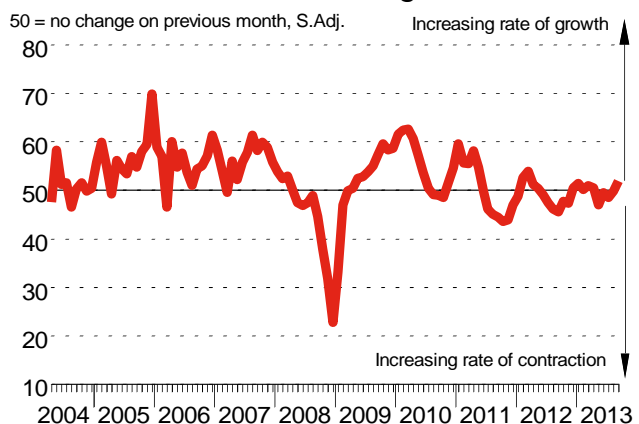
"Taiwan's stronger PMI reading confirms our view that its manufacturing sector has stabilised in the third quarter. This is positive for the economy's growth outlook as it heads towards year-end. The broad improvement was particularly encouraging, especially in new orders and output. Even so, we note that Taiwan's economy is still operating below potential and we expect policymakers to maintain an accommodative stance while the negative output gap persists."

Key points

- Marked increase of output
- Renewed expansion of order books in September
- Quickest rate of payroll growth for over two years

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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