

Embargoed until: 10:00 (TAIPEI), 1 September 2010

## HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector showed month-on-month deterioration in operating conditions for the first time in a year-and-a-half.

### Key findings:

- Both new orders and output fell during the month.
- Employment continued to rise.
- Shortages of raw materials supported a further increase in input prices.

August survey data, compiled by Markit for HSBC, indicated a deterioration in business conditions in the Taiwanese manufacturing sector. The contraction, whilst marginal, was the first reported since February 2009. A second successive fall in new order volumes led to a further reduction in output, predominately contributing to the lower headline PMI. In contrast, employment continued to rise, while shortages of raw materials impacted on prices during the month. Input cost inflation gathered pace and output prices rose for the first time in three months.

The headline figure derived from the survey is the HSBC Taiwan Purchasing Managers' Index™ (PMI™ – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector). PMI readings above 50.0 signal an improvement in business conditions while readings below 50.0 signal deterioration. The PMI posted 49.2 in August, falling from July's 50.5. The latest reading signalled a worsening in business conditions within the Taiwanese manufacturing sector, the first such deterioration in eighteen months. The rate of contraction was marginal, and substantially weaker than the series record reported in December 2008, although it remained in contrast to the long-run average (which signalled solid growth).

Incoming new business received by manufacturers in Taiwan fell during August – the second successive monthly fall. Moreover, the pace at which new orders contracted was sharper than in the

previous survey period. Similarly, new business received from overseas also decreased for a second consecutive month. The latest reduction was modest, but slightly faster than in July.

Reflective of the decline in new order volumes, output in the Taiwan manufacturing sector fell during August. However, backlogs of work were reported to have increased, in contrast to the previous survey period. Manufacturers commented that delayed shipments of materials had impacted on production.

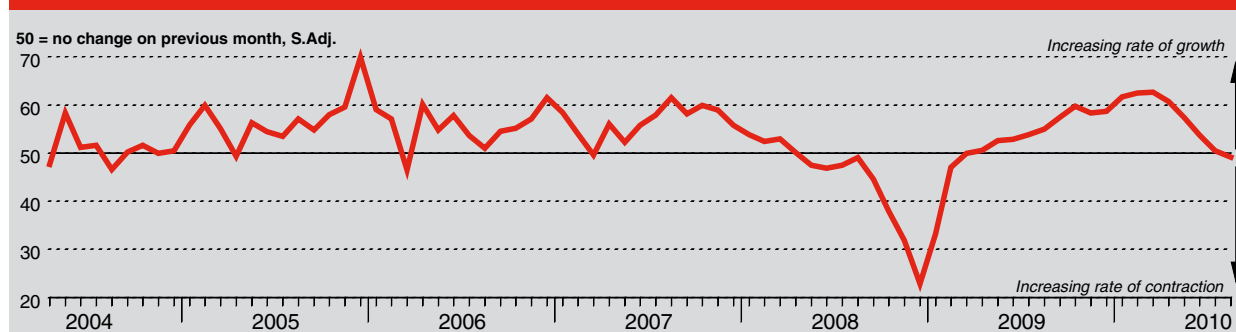
Manufacturers in Taiwan indicated that stocks of finished goods had increased during August. Whilst the rise in post-production inventories was marginal, it was the first in four months.

Despite new order volumes falling for a second successive month, employment within the Taiwan manufacturing sector increased. Headcounts have now risen in each month since July 2009. Panellists attributed the latest increase in staffing levels to new production lines.

August data signalled a reduction in purchasing activity at manufacturers in Taiwan. This was reflective of contractions in new orders and output. However, delivery times continued to lengthen due to shortages of raw materials at suppliers.

Input prices faced by Taiwanese manufacturers were also impacted by the short supply of materials, with August data showing a rebound in the rate of input cost inflation. Subsequently, output prices also increased, albeit at only a marginal pace.

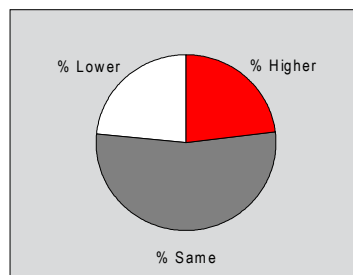
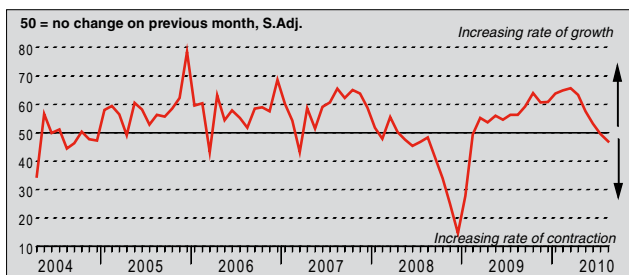
HSBC Taiwan Purchasing Managers' Index (PMI™)



The HSBC Taiwan Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

### Output Index

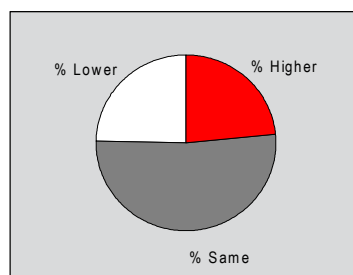
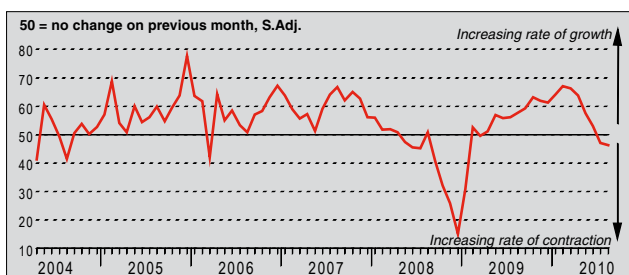
Q. Please compare your production/output this month with the situation one month ago.



Manufacturers in Taiwan indicated a fall in output during August compared to the previous month. This was the second successive survey period where a reduction in output was reported, following a sixteen-month period of growth. Moreover, August's decrease in production was solid and sharper than in July. Approximately 23% of panellists noted that production was lower during the month, and attributed this to a further decline in incoming new business received.

### New Orders Index

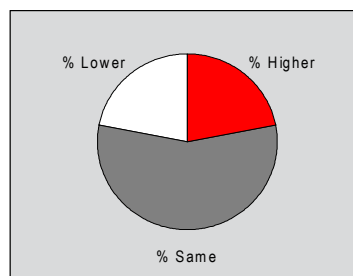
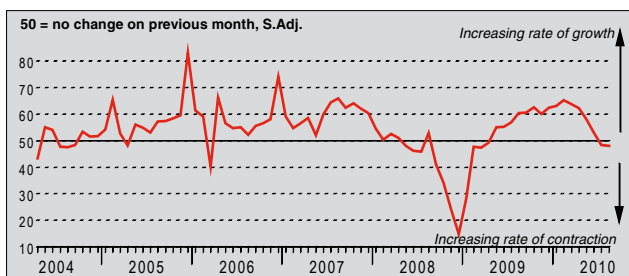
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



August data signalled a fall in incoming new business received by manufacturers in Taiwan. Moreover, the pace at which new orders decreased was faster than that indicated in the previous month and the strongest since January 2009 (one of the sharpest contractions in the series history). Nearly one-quarter of panellists noted that new business volumes had reduced during the month, and attributed this to a fall in client demand, amid concerns over the stability of the global economy.

### New Export Orders Index

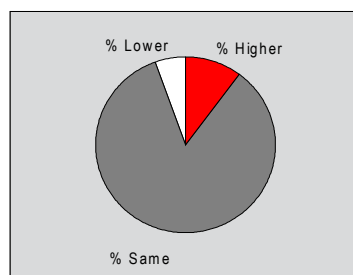
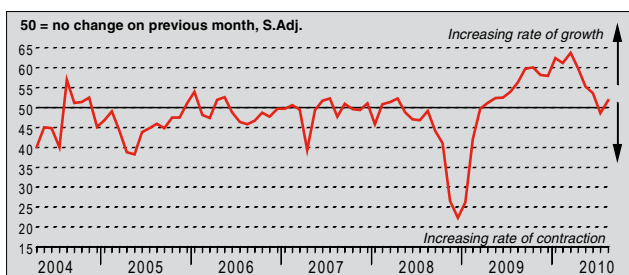
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Taiwanese manufacturers reported a further fall in new business received from overseas during August. This was the second successive month where a reduction in new export orders was reported, although the extent of the decline was only slightly faster than in the previous survey period. Panellists commented that the decrease in new business from overseas reflected fewer orders received from the US and Europe and general uncertainty over global economic conditions.

### Backlogs of Work Index

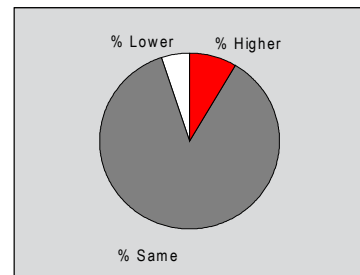
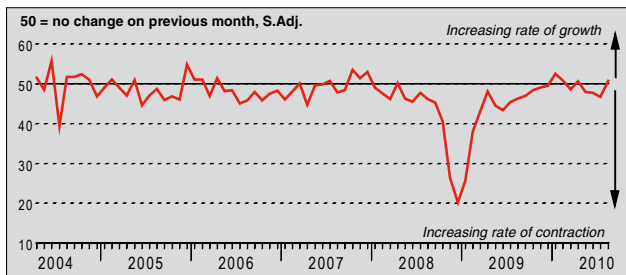
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Despite the reduction in new business volumes, August data signalled a modest rise in backlogs of work at manufacturers in Taiwan. This was in contrast to the previous survey period, where a reduction in outstanding business was indicated. Where an increase in backlogs was reported, this was attributed to delayed shipments of raw materials. However, highlighting the marginal nature of the increase, the majority of panellists (approximately 84%) indicated that volumes of outstanding business were unchanged during the month.

### Stocks of Finished Goods Index

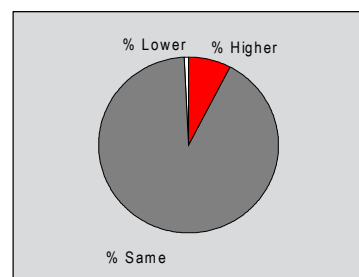
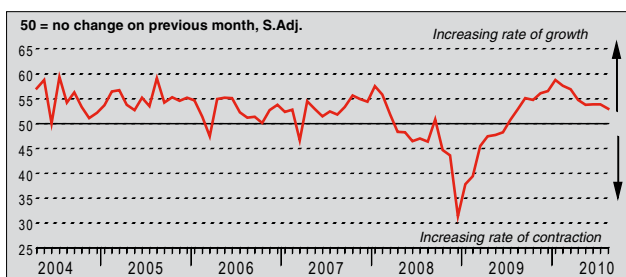
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods were reported to have increased marginally during August, following a three-month period of decline. Where inventories were indicated to have increased, this was attributed to both fewer shipments of finished goods and advance preparations of stocks. However, highlighting the marginal extent of the rise, the majority of panellists (approximately 86%) noted that post-production inventories were unchanged since July.

### Employment Index

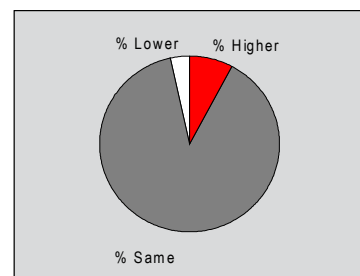
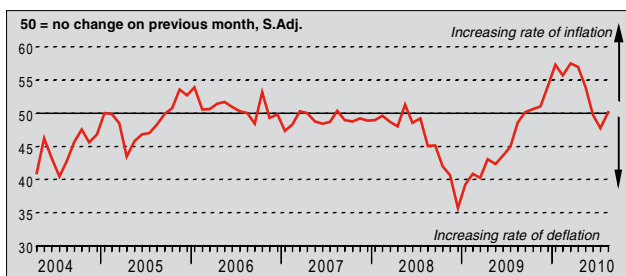
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Taiwan manufacturing sector was reported to have increased during August. This was the fourteenth successive month where a rise in staffing levels was recorded. Panellists commented that the rise in headcounts reflected an increase in production lines and general efforts to improve capacity. However, the latest growth in employment was the weakest in a year, having remained broadly flat in the previous three months.

### Output Prices Index

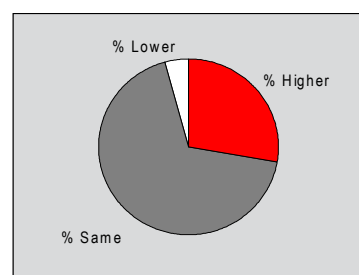
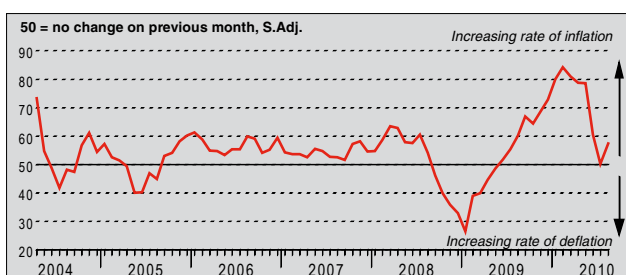
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted slightly above the 50.0 no-change threshold in August, signalling a small rise in charges. However, this was in contrast to the previous two survey periods, where a reduction in output prices had been indicated. Panellists noting a rise in charges commented that this reflected a further increase in input prices. However, in line with the marginal nature of the increase, the majority of panellists (approximately 89%) indicated that output prices were unchanged since July.

### Input Prices Index

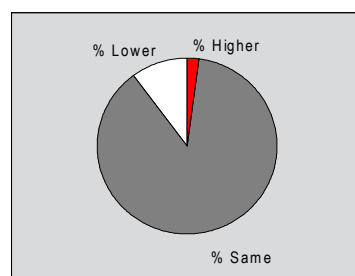
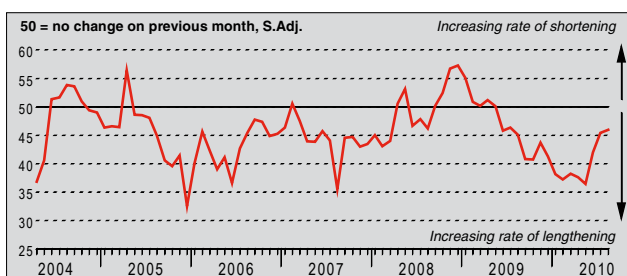
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



August data signalled a marked rise in input prices faced by manufacturers in Taiwan. Input price inflation has been sustained for fifteen successive months, although there was a marked reduction in the rate at which costs rose during July. August data suggested a rebound in the rise in input prices, with the latest increase above the long-run average for the series. Anecdotal evidence suggested that higher raw material prices and insufficient supplies contributed to August's rise in input costs.

## Suppliers' Delivery Times Index

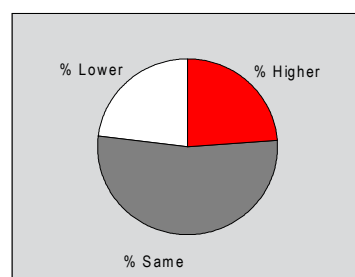
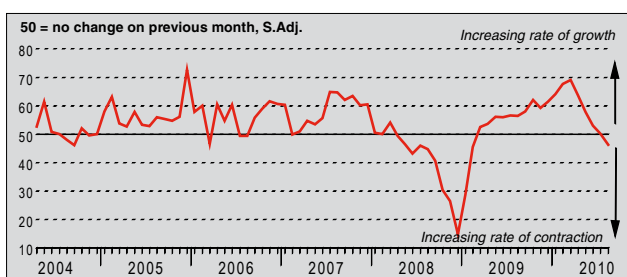
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a lengthening in suppliers' delivery times during August. The overall deterioration in vendor performance was attributed to insufficient stock levels, particularly for integrated circuits (ICs). Additionally, some panellists thought that suppliers were intentionally delaying deliveries to push up prices. This was the fifteenth consecutive month where lead times lengthened, although the extent of the latest increase weakened marginally as purchasing activity was reduced.

## Quantity of Purchases Index

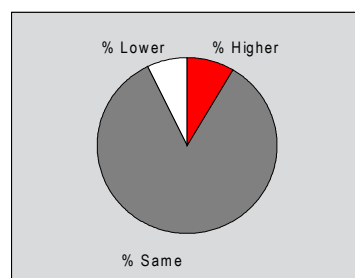
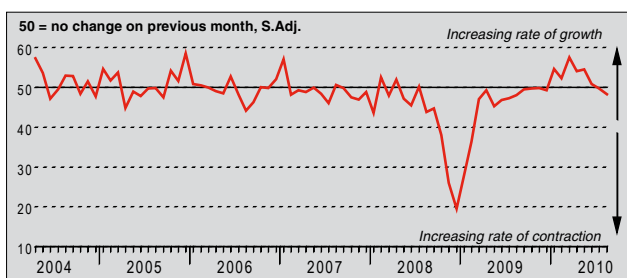
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



After allowing for seasonal adjustments, purchasing activity at manufacturers in Taiwan was reported to have fallen during August. This ended a seventeen-month period where input buying increased. Moreover, the latest decrease in purchasing activity was solid, and sharp in the context of historical data. Exactly 23% of panellists noted a reduction in input buying during August, commenting that this reflected declines in new orders and output during the month.

## Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



August data signalled a modest reduction in stocks of purchases at manufacturers in Taiwan. This was the second successive month where a fall in pre-production inventories was reported, although the latest decrease was sharper than in July. Panellists commented that the reduction in inventories reflected stock reduction initiatives and delayed shipments. However, the majority of respondents indicated that pre-production inventories were unchanged since July.

## Notes on the Data and Method of Presentation

The Purchasing Managers' Index 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 regional and industry contribution to Taiwanese Industrial Production. 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

**Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.**

## Warning

The intellectual property rights to the HSBC Taiwan Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.