

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

## HSBC Taiwan Manufacturing PMI™

Deterioration of operating conditions in the Taiwanese manufacturing sector sustained for a second month.

### Key findings:

- New export orders fell markedly.
- Employment increased, despite a fall in backlogs.
- Output prices broadly unchanged, whilst costs rose sharply.

September survey data, compiled by Markit for HSBC, indicated a month-on-month contraction in the Taiwanese manufacturing sector. This was the second successive month where a worsening in business conditions had been indicated. A further reduction in new order intakes continued to predominately contribute towards the weaker performance of the manufacturing industry, with new export orders particularly suffering during the month. Subsequently, output fell again, with backlogs also declining. Despite this, employment increased, albeit at only a modest rate. Meanwhile, input costs rose substantially during the month. However, output prices were broadly unchanged from the previous month, due to competition for new business.

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 49.0 in September, a marginal decrease from August's reading of 49.2. Moreover, this was the second successive month where the headline PMI posted below the 50.0 no-change threshold. The rate of contraction was marginal, but contrasted with the long-run average for the series (which signals solid growth).

Manufacturers in Taiwan reported a reduction in new order volumes during September. However, the pace at which incoming new business fell was marginally slower than in August. In

contrast, new export orders fell at a sharper rate in September. Overall new work intakes have now decreased for three successive months (excluding data collected during the global downturn, this is the longest such period of decline recorded since data collection began in April 2004).

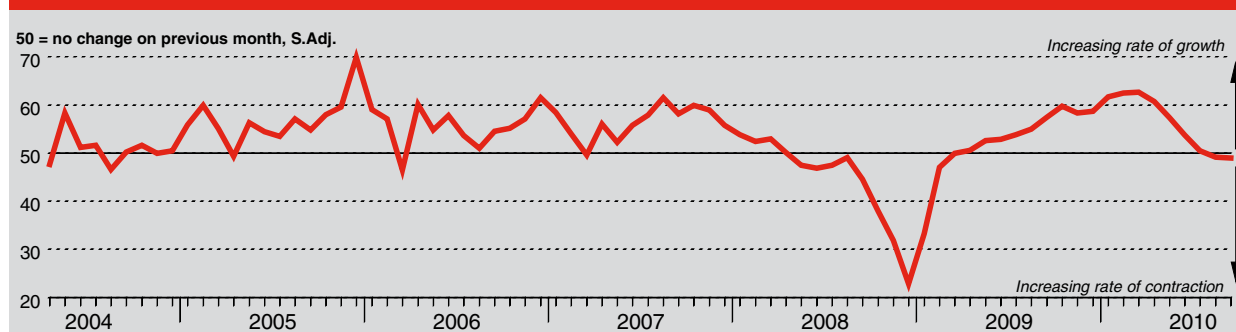
The contraction in new order volumes led to a further decrease in output during September. Despite this, backlogs of work fell, indicating a degree of spare capacity at manufacturing companies in Taiwan. Stocks of finished goods were also reported to have increased due to the reduction in new business.

Despite sustained declines in new orders and output, employment in the Taiwanese manufacturing sector rose for a fifteenth successive month in September. However, reflective of the decline in new business, the latest increase in staffing levels was the second-weakest in that period.

Purchasing activity fell during September, in line with the decrease in output. However, delivery times continued to lengthen, predominately reflecting shortages of certain materials.

September data signalled a substantial rise in input costs faced by manufacturers in Taiwan. The rate of input cost inflation has increased sharply in the last two months, with the latest rise in costs markedly above the long-run average for the series. Despite this, output prices were broadly unchanged during the month, as strong competition for new business prevented any meaningful increase in charges.

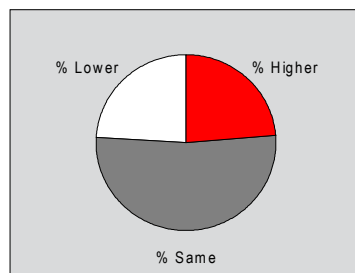
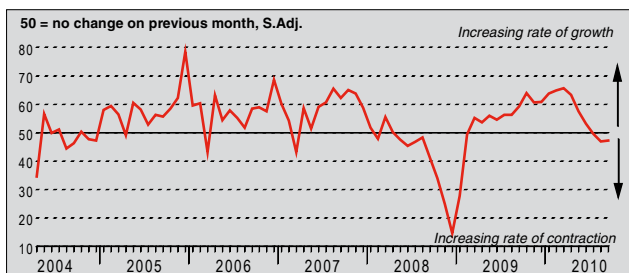
HSBC Taiwan Purchasing Managers' Index (PMI™)



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

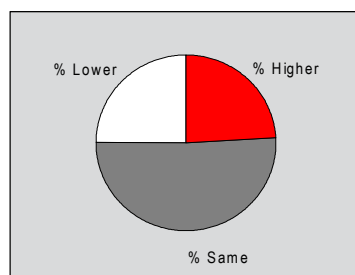
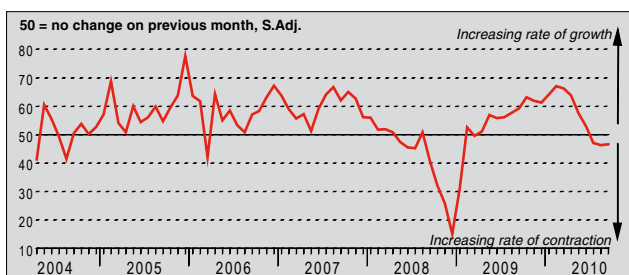
Q. Please compare your production/output this month with the situation one month ago.



Output in the Taiwan manufacturing sector fell solidly during September. Moreover, this was the third successive month where a reduction in output had been reported. The pace at which production declined was marginally slower than that reported in August, but remained strong in the context of historical data. Approximately 24% of panellists indicated that output had fallen since August, and many attributed this to a further decrease in new business volumes.

### New Orders Index

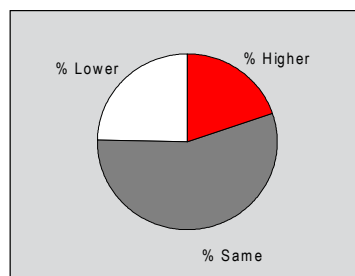
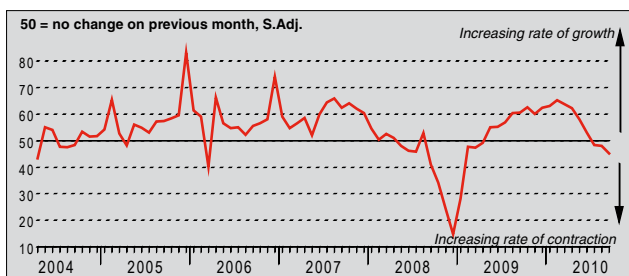
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



Manufacturers in Taiwan reported a solid reduction in incoming new business received during September. This was the third successive month where a fall in new order volumes had been indicated, with the latest decrease broadly similar to that recorded in August. Panellists commented that the latest decline in incoming new business reflected global economic uncertainty, with new export orders noted to be particularly weak during the month.

### New Export Orders Index

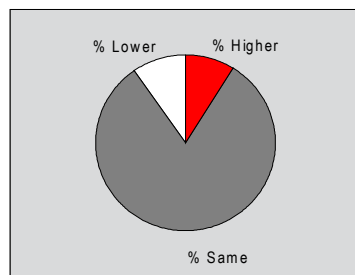
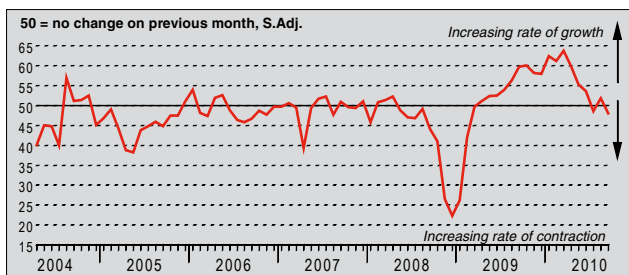
Q. Please compare the level of new export orders received this month with the situation of one month ago.



September data signalled a marked fall in new business received from overseas clients. Moreover, the pace of contraction accelerated to the fastest since January 2009, when new export orders fell at the third-sharpest pace in the series history. Anecdotal evidence suggested that underlying weakness in the global economy continued to negatively impact upon new orders received from export markets. Particularly noted were lower new orders from Europe and China.

### Backlogs of Work Index

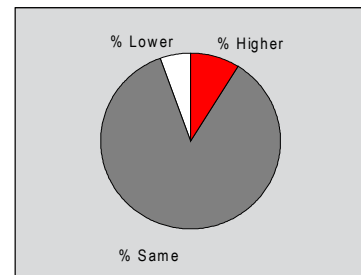
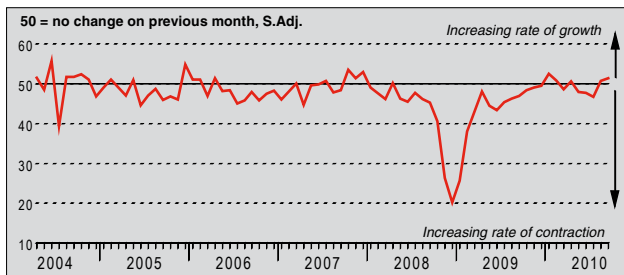
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in Taiwan fell modestly during September. This was in contrast to the previous survey period where a moderate rise in outstanding business had been recorded. Panellists indicating a reduction in backlogs since August commented that this reflected a further fall in incoming new business. However, the majority of respondents (approximately 81%) reported that levels of outstanding business remained unchanged during the month.

### Stocks of Finished Goods Index

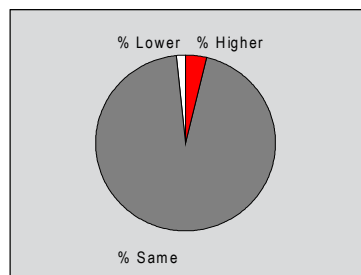
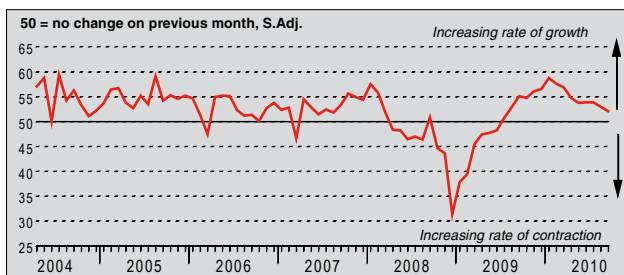
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



September data signalled a modest rise in stocks of finished goods held at manufacturers in Taiwan. This was the second successive month where post-production inventories were reported to have increased, following three months of decline. The latest rise in finished goods stocks was marginally stronger than that reported in August. Panellists attributed the increase in post-production inventories to a reduction in new orders.

### Employment Index

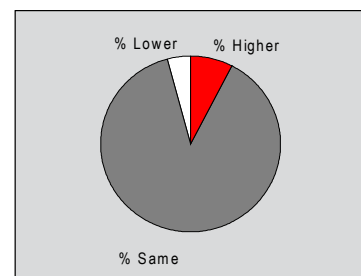
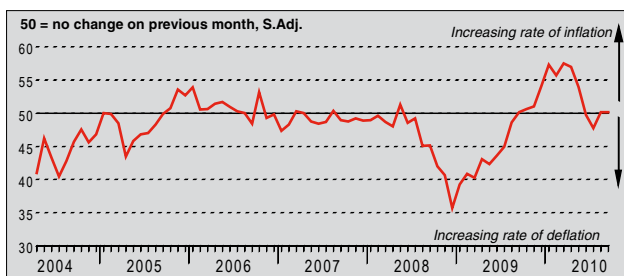
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturers in Taiwan reported a modest rise in employment during September, despite sustained falls in incoming new business and output. Employment has now grown in each of the last fifteen months, although the latest rise was the second-weakest in that period and slightly below the long-run average for the series. Furthermore, the vast majority of panellists (approximately 95%) indicated that staffing levels remained unchanged since August.

### Output Prices Index

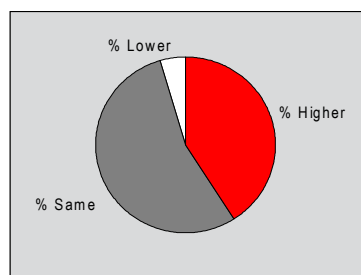
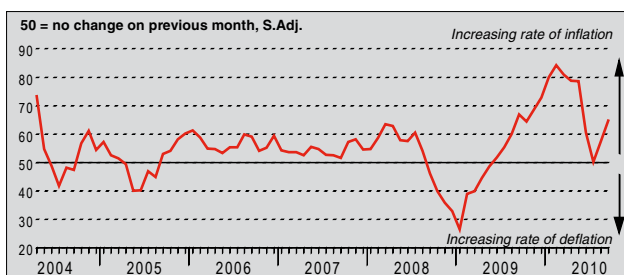
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted slightly above the 50.0 no-change threshold in September, indicating a negligible rise in factory gate charges. Panellists indicating an increase in output prices attributed this to a further rise in input costs. However, this was offset by reports of strong competition for new business. In line with the negligible increase in overall charges, which was sustained for a second successive month, the majority of respondents (approximately 88%) indicated that output prices were unchanged since August.

### Input Prices Index

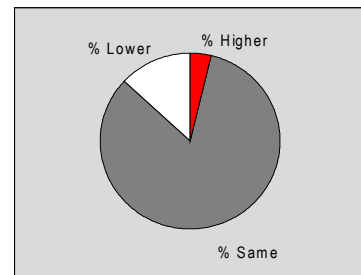
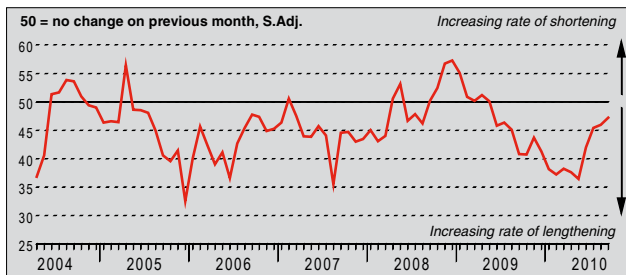
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



September data signalled a substantial rise in input costs faced by manufacturers in Taiwan. Moreover, the rate of input cost inflation accelerated sharply from the previous month for a second successive survey period, with the latest increase strong in the context of historical data. Approximately 41% of panellists reported a rise in input prices from a month ago, attributing this to higher raw material prices and shortages of certain items. Input cost inflation has now been sustained for sixteen months.

## Suppliers' Delivery Times Index

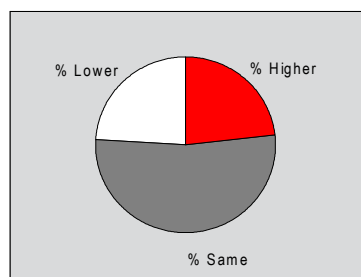
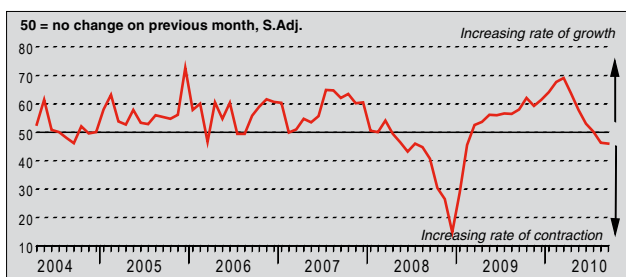
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a lengthening of suppliers' delivery times during September. Vendor performance has deteriorated continuously since June 2009, although the extent of the latest increase in lead times was the weakest in that period. Where longer delivery times were indicated, this was attributed to limited supplies of certain materials, with some panellists noting restrictions on imports from China. However, due to an overall decline in purchasing activity, the extent of the deterioration in vendor performance eased.

## Quantity of Purchases Index

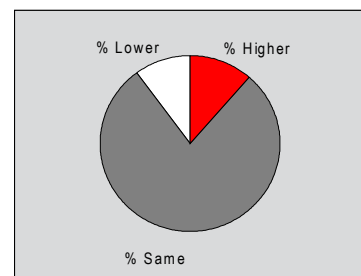
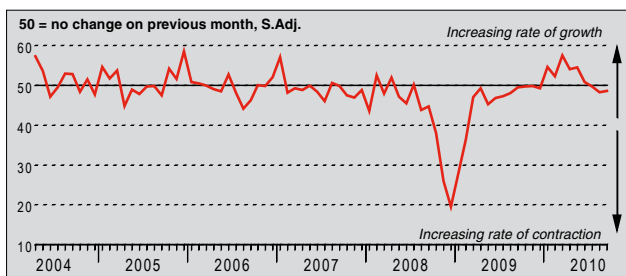
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



September data signalled a reduction in purchasing activity at manufacturers in Taiwan. Moreover, this was the second successive month where a fall in input buying had been recorded, following seventeen months of successive rises. Approximately 24% of panellists indicated that purchasing activity had decreased during the month, attributing this to fewer intakes of new business and a subsequent drop in output requirements. Stock level adjustment policies were also mentioned.

## Stocks of Purchases Index

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



Taiwanese manufacturers reported a decline in stocks of purchases during September. This was the third consecutive reduction in pre-production inventories, although the latest decrease was marginally weaker than that recorded in August and broadly in line with the long-run average for the series. Anecdotal evidence suggested that falling stock levels reflected a reduction in output and initiatives aimed at reducing stocks. Some panellists also commented that shortages of certain materials required them to utilise inventories.

## 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.