HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC Taiwan Manufacturing PMI™

Deterioration of Taiwanese manufacturing sector sustained for third successive month.

Key findings:

- New order volumes continued to contract.
- Employment increased only negligibly.
- Input cost inflation accelerated and was steep in the context of historical data.

October survey data, compiled by Markit for HSBC, signalled a further deterioration in business conditions within the Taiwanese manufacturing sector. This was the third consecutive month where a contraction has been indicated. Reducing levels of incoming new business continued to drive a decline in output and, subsequently, the headline PMI. Furthermore, the rise in employment ground to a near-halt, with falling levels of backlogs suggesting that spare capacity persisted. Meanwhile, input cost inflation gathered pace in the month, with the rise in charges relatively meagre.

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 48.6 in October, a marginal decrease from September's reading of 49.0. This was the third straight month where a worsening in business conditions has been indicated, with the latest deterioration the strongest in that sequence.

Taiwanese manufacturers reported a solid reduction in new business received during October. The rate at which new orders contracted slowed fractionally for a second successive month, although remained in stark contrast to the long-run average for the series (which signals marked growth). New business received from export markets also decreased, albeit the extent of the decline eased more notably during the month.

Output contracted for a fourth straight month. The pace at which production has fallen has been broadly flat since August.

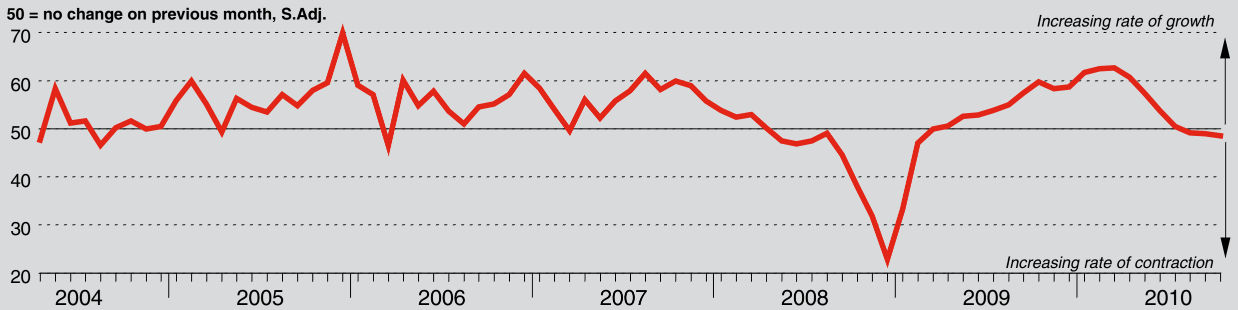
Backlogs of work decreased for a second consecutive month in October, signalling that a degree of excess capacity persisted at manufacturers in Taiwan as new orders continued to decline.

October data indicated that the rise in employment at Taiwanese manufacturers had drawn to a near-standstill, as the relevant index posted only fractionally above the 50.0 no-change threshold.

In line with decreases in output and new orders, purchasing activity reduced during October, with panellists looking to deplete stocks of purchases. Despite this, delivery times continued to lengthen due to short supplies of materials and insufficient capacity at vendors.

Input costs faced by manufacturers in Taiwan increased considerably during October. Many panellists attributed the latest rise in costs to higher raw material prices. However, some companies also noted that unfavourable variations in the value of the yen had impacted on input costs. Output prices also increased, and to the greatest extent since May. However, the rise was relatively weak compared to the increase in costs.

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.

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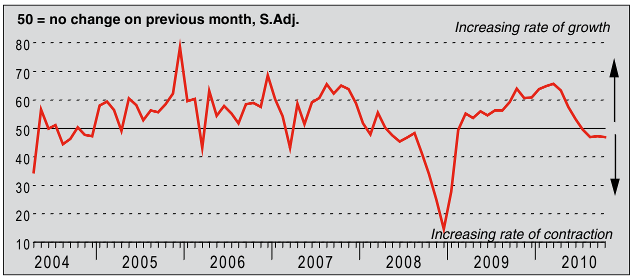
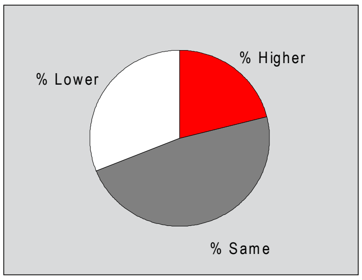
Output Index

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

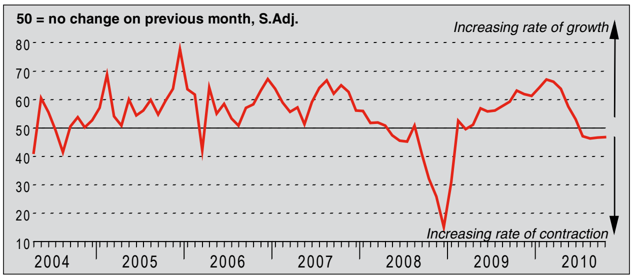


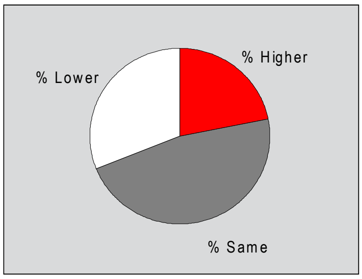


Output in the Taiwanese manufacturing sector fell solidly during October, extending the sequence of sustained decline to four months. The rate of contraction has been broadly unchanged since August, and represents a sharp contrast from the strong growth recorded in the first half of the year. Approximately 31% of panellists indicated that output was lower than in the previous month, and attributed this to a further decrease in new order volumes.

New Orders Index

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

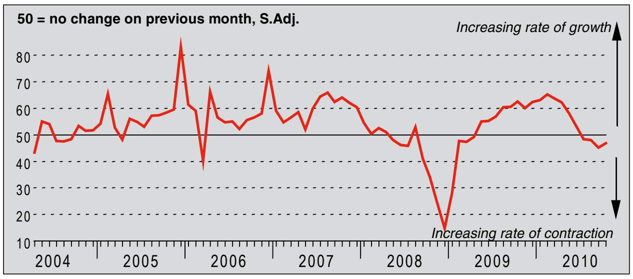


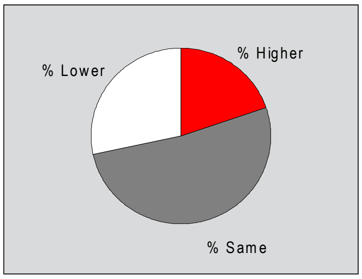


October data signalled a further reduction in incoming new business received by manufacturers in Taiwan, as the seasonally adjusted New Orders Index posted below the 50.0 no-change threshold for a fourth successive month. The extent to which new work intakes fell was negligibly slower than that indicated in September. Panellists commented that a weakening in demand, due to ongoing concerns over the health of the global economy, had contributed to the decline in new order volumes 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.

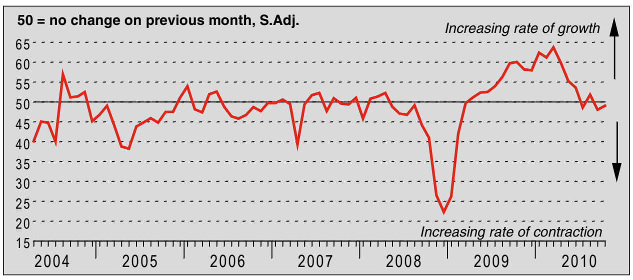


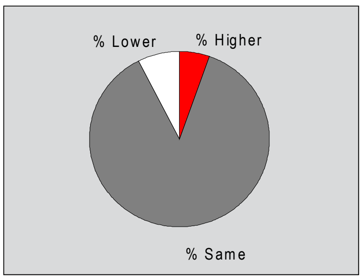


Manufacturers in Taiwan reported a solid reduction in new export orders received during October. Panellists noted that overseas demand had weakened during the month, particularly from Asia and Europe. The extent to which new business received from export markets declined eased from September's twenty-month record. Nonetheless, it remained in contrast to the long-run average for the series, which indicates a solid rate of growth.

Backlogs of Work Index

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

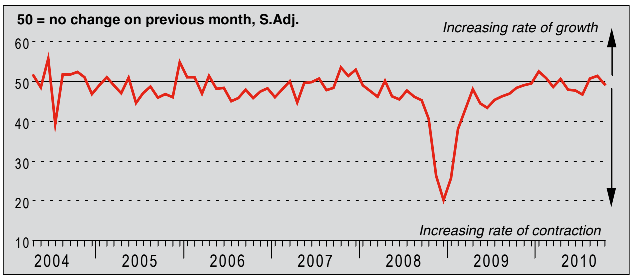


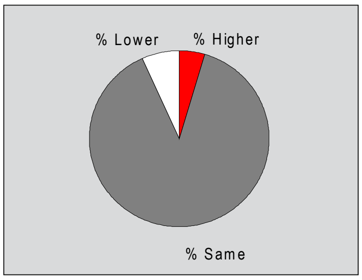


Outstanding business at manufacturers in Taiwan fell during October. This was the second successive month where backlogs of work have declined, signalling that excess capacity at manufacturers persisted as new order volumes continued to contract. However, the extent of the decrease in outstanding business was only marginal and weaker than that recorded in September. Highlighting this, the majority of panellists (87%) indicated that there was no change in backlogs from the previous month.

Stocks of Finished Goods Index

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

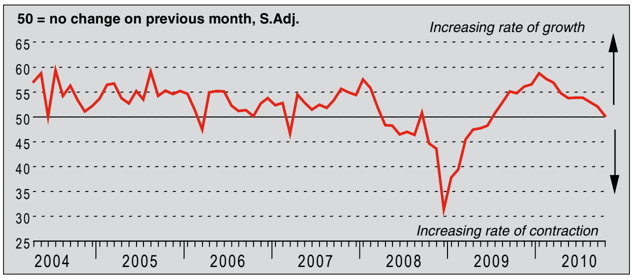


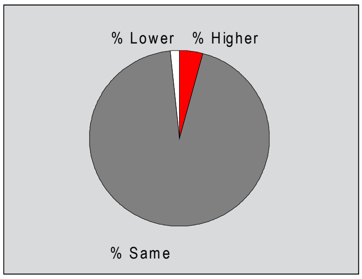


October data signalled a marginal decline in the stocks of finished goods held at manufacturers in Taiwan. This was in contrast to the previous survey period where a rise in post-production inventories was recorded. Panellists commented that the reduction in finished goods stocks reflected initiatives to decrease inventories due to contracting new order volumes. However, in line with the marginal decrease in stocks indicated, the majority of respondents (approximately 89%) noted that post-production inventories were unchanged during the month.

Employment Index

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

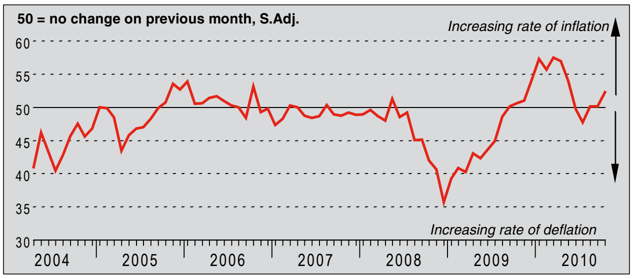


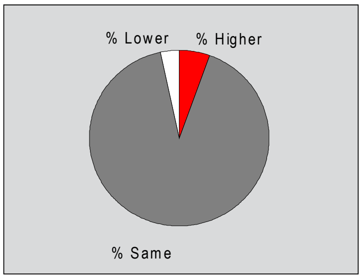


The seasonally adjusted Employment Index posted slightly above the 50.0 no-change threshold in October, signalling a fractional increase in staffing levels at Taiwanese manufacturers. This was the sixteenth successive month where a rise in headcounts was reported, although the latest increase was the weakest in that period and below the long-run average for the series. The vast majority of panellists (approximately 94%) indicated that employment was unchanged since September.

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.

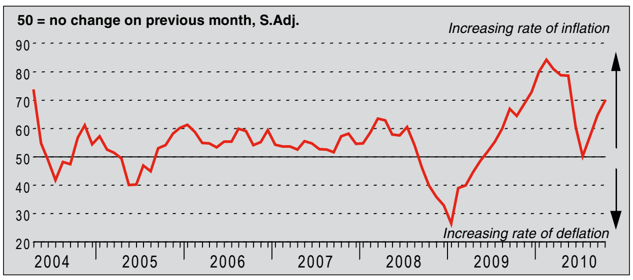


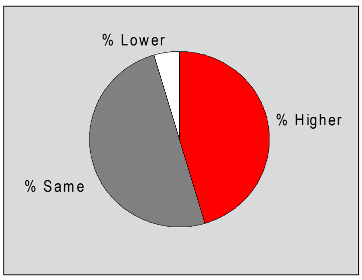


Manufacturers in Taiwan reported a rise in charges during October, with output price inflation now recorded in each of the last three months. Panellists commented that higher input costs had driven the rise in output prices, although the extent of the increase had been limited by strong competition for new business. Despite this, the latest increase in charges was the highest in five months, and was sharp in the context of historical data.

Input Prices Index

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

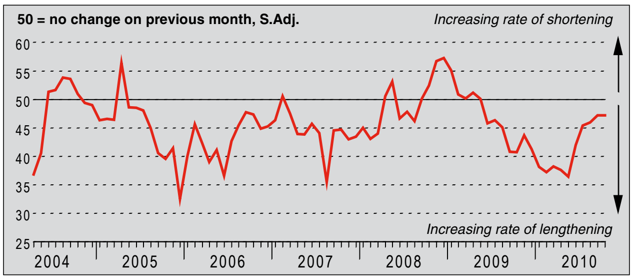


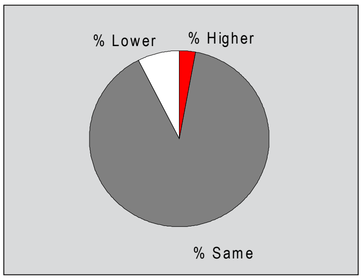


Input prices faced by manufacturers in Taiwan increased considerably during October. Moreover, the rate of input cost inflation accelerated for a third successive month to the strongest since May (the first five months of the year saw the sharpest increases in costs in the series history). Approximately 45% of panellists noted that costs had increased since September, attributing this to higher raw material prices. Also noted were unfavourable variations in the value of the Japanese yen.

Suppliers' Delivery Times Index

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

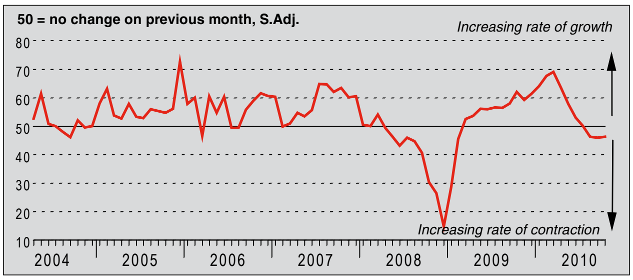


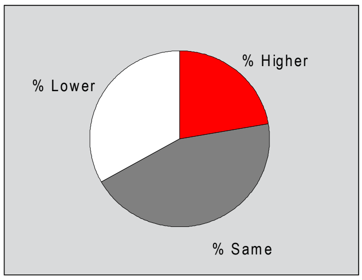


Manufacturers in Taiwan reported a lengthening in suppliers' delivery times during October, despite a further reduction in purchasing activity. The extent to which lead times slowed was unchanged from that indicated in September, although was weaker than the long-run average for the series. Anecdotal evidence suggested that shortages of certain materials and insufficient capacity at suppliers contributed to the lengthening in delivery times. Some panellists also noted delays in receiving imports from Japan.

Quantity of Purchases Index

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

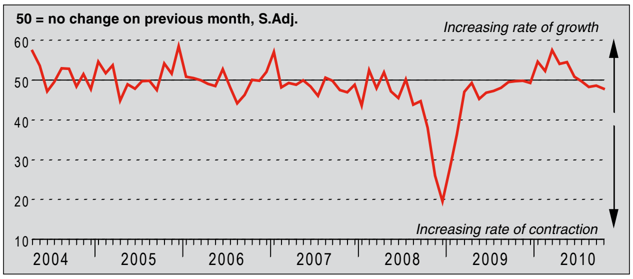


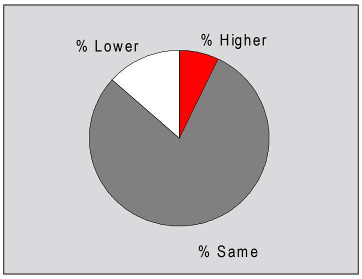


Purchasing activity at manufacturing companies in Taiwan fell during October, with decreases in input buying now recorded for three successive months. Approximately one-third of panellists indicated that input buying had reduced since September, commenting that sustained reductions in new orders and output had resulted in lower input requirements. Some companies also noted that the high cost of materials had led them to delay new purchases.

Stocks of Purchases Index

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





October data signalled a solid reduction in stocks of purchases held by manufacturers in Taiwan, which was the fourth in as many months. Moreover, the latest decrease in pre-production inventories was the fastest in the current sequence of decline, and sharper than the long-run average for the series. Panellists commented that decreases in output and new order volumes had led them to implement stock reduction initiatives.

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.