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## HSBC Taiwan Manufacturing PMI™

Growth of Taiwanese manufacturing sector strongest since May.

### Key findings:

- Strong increase in new orders supported marked expansion in output.
- Employment continued to increase, extending growth period to a year-and-a-half.
- Output price inflation fastest in eight months.

December survey data, compiled by Markit for HSBC, indicated a strong finish to the year for the Taiwanese manufacturing sector. A marked expansion in incoming new business supported a strong increase in output, while staffing levels also continued to improve, with the latest increase in employment the sharpest in four months. However, both input and output price inflation accelerated again. Rises in costs and charges were amongst the steepest in their respective series histories.

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 indicate deterioration. The PMI posted 54.7 in December, a solid increase on November's 51.7. The latest reading signalled an improvement in business conditions that was stronger than the long-run series average.

Incoming new business received by manufacturers in Taiwan increased for a second successive month in December. Moreover, the latest expansion in new work intakes was marked, and the strongest since May. New orders received from overseas markets also rose during the month. Panellists commented that demand from Europe was a principal source of export growth.

December data signalled a marked rise in output, reflective of

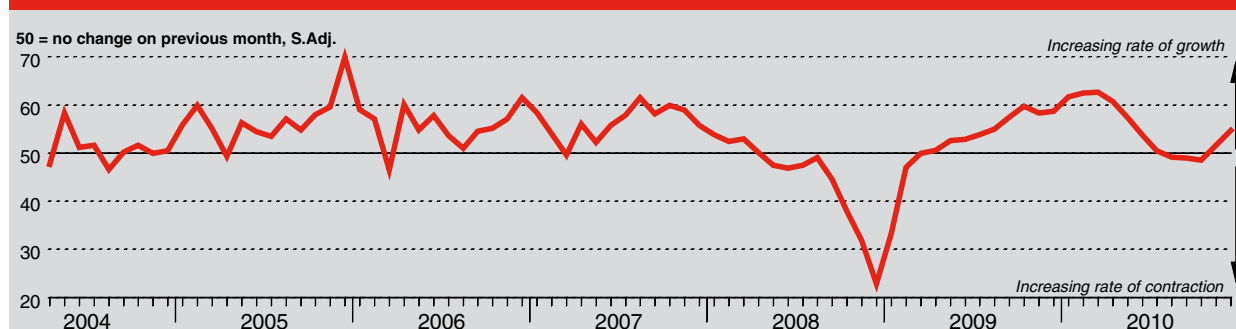
the expansion in overall new business. However, backlogs of work at manufacturers in Taiwan increased and the rate of accumulation was notably sharp in the context of historical data. This indicated that output growth was not sufficient to meet the rise in new work intakes. Some panellists noted that shortages of certain materials had led to delays in production. Stocks of finished goods increased only slightly, with the majority of respondents reporting that inventories were unchanged since November.

Employment in the Taiwanese manufacturing sector rose for an eighteenth month running in December. Sustained rises in output and new orders drove the increase in staffing levels, which was the strongest since August.

Manufacturers in Taiwan reported a rise in purchasing activity during December, ending a four-month sequence of reduction. The increase in input buying reflected higher production requirements, and was above the long-run series average. In line with the rise in purchasing activity, suppliers' delivery times lengthened during the month. The deterioration in vendor performance was compounded by shortages of certain materials.

Input costs faced by manufacturers in Taiwan increased at their sharpest rate in nine months. Moreover, December's input price inflation was steep in the context of historical data. Output prices rose at their strongest pace since April 2010.

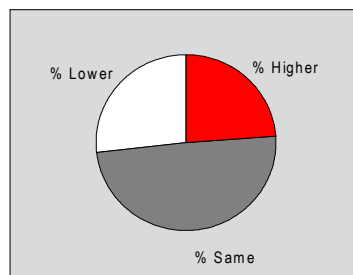
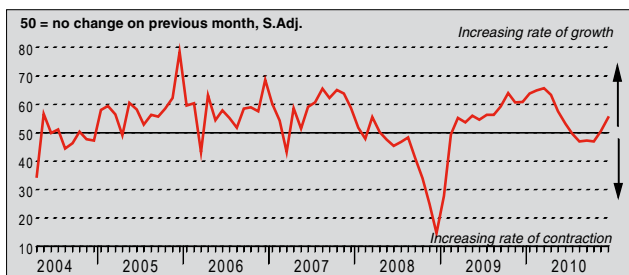
HSBC Taiwan Purchasing Managers' Index (PMI™)



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

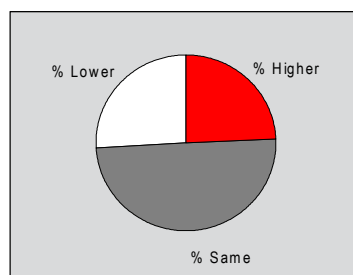
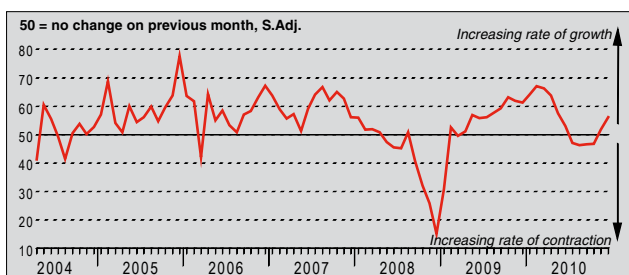
Q. Please compare your production/output this month with the situation one month ago.



After accounting for seasonal factors, December data signalled a marked rise of Taiwanese manufacturing output. Moreover, the rate of growth accelerated since November and was strong in the context of historical data. This was the second successive month where an expansion in output has been recorded, following a four-month sequence of contraction. Panellists commented that growth in new order volumes had supported the increase in production.

### New Orders Index

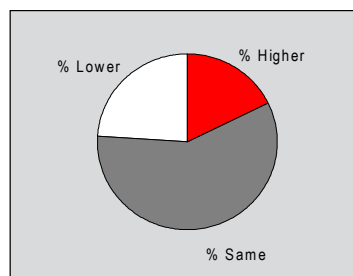
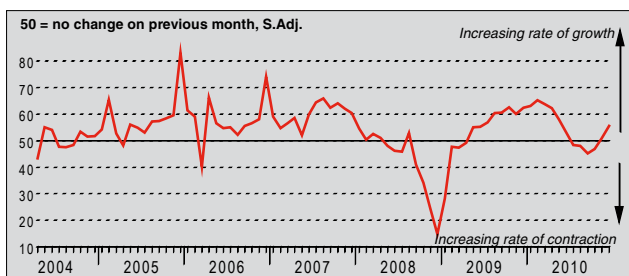
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



Manufacturers in Taiwan reported a marked rise of incoming new business in December. Anecdotal evidence suggested that the increase in new order volumes reflected a general improvement in demand, both domestically and overseas. Some panellists also noted that the automobile market was a source of new business. The latest growth in new order volumes, which was the second in consecutive months, was the strongest since May.

### New Export Orders Index

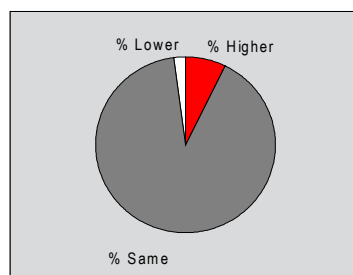
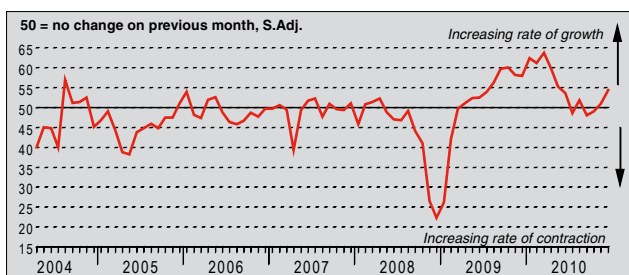
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index posted above the 50.0 no-change threshold in December, signalling a rise in new export business received by manufacturers in Taiwan. Moreover, this was the second month running where growth in new export orders was reported, with the latest expansion the strongest since May. Panellists commented that demand from Europe in particular had improved in December. Some panellists noted higher orders received from the US.

### Backlogs of Work Index

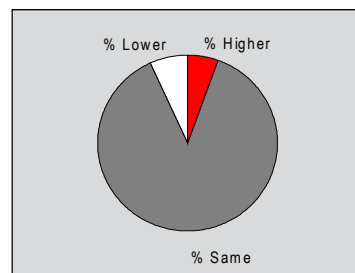
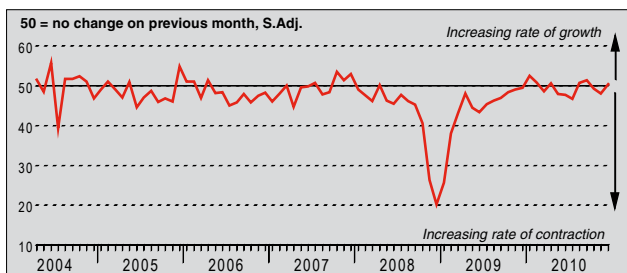
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in Taiwan increased solidly during December, reflective of the strong growth in new business seen during the month. Anecdotal evidence also suggested that shortages of some materials had impacted on production to a degree. This was the second successive month where outstanding business was reported to have increased, with the latest rise the fastest in seven months.

### Stocks of Finished Goods Index

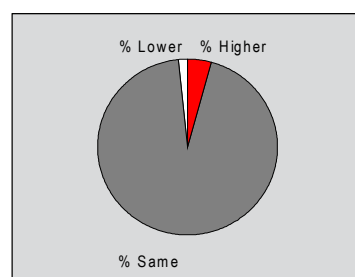
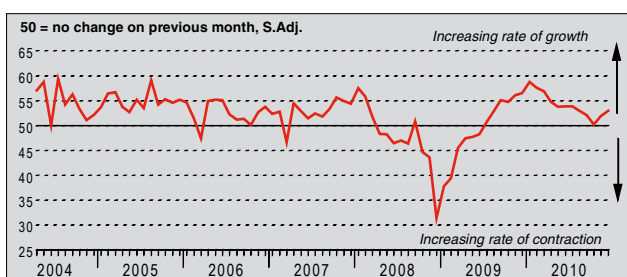
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at manufacturers in Taiwan increased marginally during December. This followed two months of falling inventories. Anecdotal evidence suggested that initiatives to increase stocks was the main driver of the rise in post-production inventories. However, other manufacturers noted that they were still looking to reduce stocks. Subsequently, the majority of panellists (approximately 88%) noted that post-production inventories were unchanged during the month.

### Employment Index

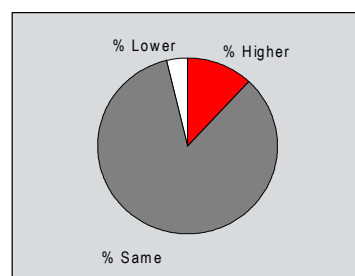
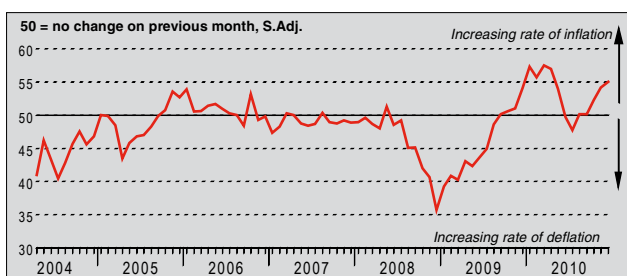
Q. Please compare the level of employment at your unit with the situation one month ago.



December data signalled a solid rise of employment in the Taiwanese manufacturing sector. The increase in staffing levels accelerated again from the sixteen-month low reported in October, and was the strongest since August. Increased new order volumes and the subsequent rise in output requirements were cited as the principal drivers of job creation during the month. However, the majority of panellists (94%) indicated that employment was unchanged since November.

### Output Prices Index

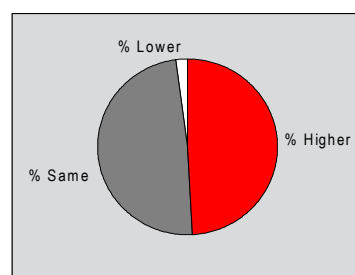
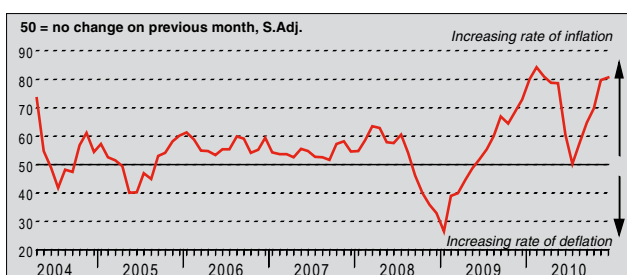
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a marked rise in output prices during December. Charges have now increased in each of the last five months, with the latest rise the strongest in this sequence and notably sharp in the context of historical data (only increases seen in the first four months of the year have been steeper). Panellists indicating an rise in output prices commented that inflation was driven by higher input costs.

### Input Prices Index

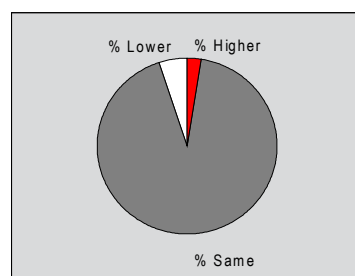
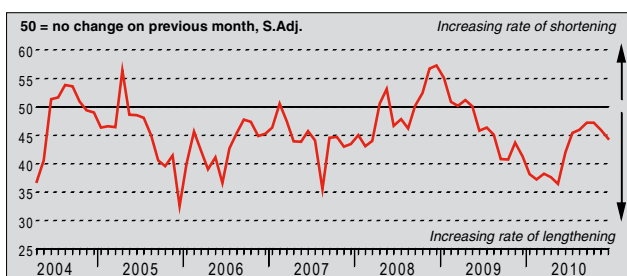
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



December data signalled a considerable rise in input prices faced by manufacturers in Taiwan. Input cost inflation has been sustained since June 2009, with the latest increase in costs the third steepest in the series history. Approximately 49% of panellists indicated that input prices were higher than in November, and attributed this to increased raw material prices. Many manufacturers noted that suppliers had increased their charges, whilst a number commented that futures prices of certain commodities had risen.

## Suppliers' Delivery Times Index

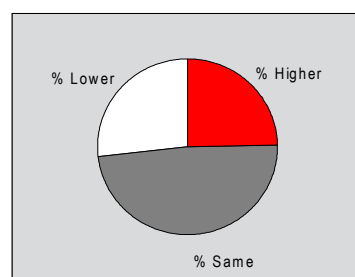
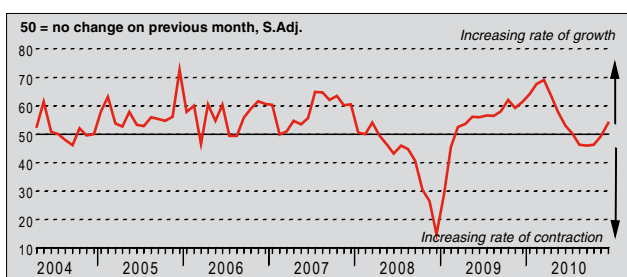
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a marked lengthening in suppliers' delivery times during December. Moreover, the latest deterioration in vendor performance was the sharpest since June, and strong in the context of historical data. Panellists commented that a rise in input buying had placed pressure on capacity at suppliers, which contributed to the delay in lead times during the month. This was compounded by short supplies of certain materials.

## Quantity of Purchases Index

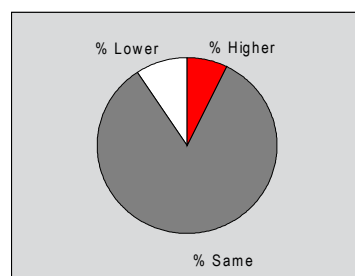
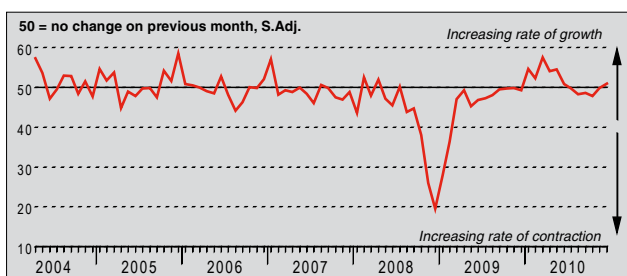
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



December data signalled a solid rise in purchasing activity at manufacturing companies in Taiwan, with approximately one quarter of panellists noting that input buying had increased during the month. Anecdotal evidence suggested that this reflected a marked rise in output requirements. The increase in purchasing activity was the first indicated in five months, and was slightly faster than the long-run average for the series.

## Stocks of Purchases Index

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



Stocks of purchases at manufacturers in Taiwan increased marginally during December. This ended a five-month sequence where pre-production inventories had reduced. Panellists indicating a rise in stocks of purchases attributed this to initiatives to replenish inventories. However, the majority of respondents (approximately 83%) noted that pre-production inventories were unchanged during the month.

## 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.**

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