HSBC Purchasing Managers' Index™ 2011

compiled by markit

Embargoed until: 10:00 (TAIPEI), 31 January 2011

HSBC Taiwan Manufacturing PMI™

January PMI signalled fastest expansion of Taiwanese manufacturing sector in nine months, but inflationary pressures continued to build.

Key findings:

- New export orders increased sharply, particularly from Europe and China.
- Job creation strongest since March 2010.
- Input costs rose at fastest rate in series history.

January survey data, compiled by Markit for HSBC, indicated that Taiwan's manufacturing sector started 2011 on a strong note, maintaining the resurgance in growth recorded at the end of 2010. A sharp rise in new business supported expansions of output and employment. Backlogs of work also increased markedly, suggesting that constraints on operating capacity worsened. Furthermore, rises in both input and output prices accelerated again, with input cost inflation the strongest in the series history.

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 59.8 in January, up sharply from 54.7 in December. The latest reading signalled a strengthening of business conditions that was the third in successive months, and the fastest since April 2010.

New order volumes received by manufacturers in Taiwan expanded substantially during January. Panellists attributed this to an improvement in customer demand, with the increase in new business strong in the context of historical data. New orders received from overseas markets also rose sharply, with anecdotal evidence particularly citing Europe and China as sources of new export business growth.

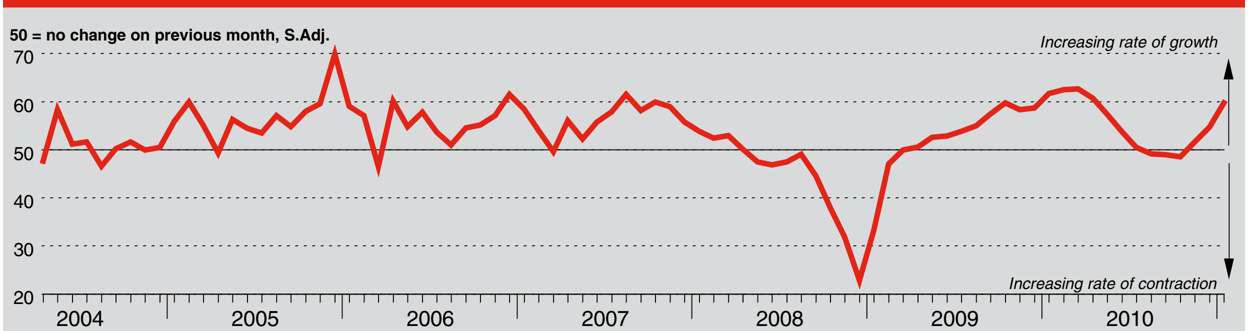
January data signalled a strong rise in output at manufacturers in Taiwan, reflective of the steep growth in overall new order volumes. Nonetheless, backlogs of work also increased, and at the fastest rate since April 2010. Panellists commented that operating capacity had not been sufficient to meet the rise in new order requirements. Some companies also noted that delayed shipments had acted to increase outstanding business.

Employment in the Taiwanese manufacturing sector rose at the strongest pace in ten months during January. The latest job creation was driven by the need to expand operating capacity amid sustained new business growth. However, some panellists noted that they had filled positions previously left vacant, in part due to improving economic conditions.

Purchasing activity at manufacturers in Taiwan increased markedly during January. Anecdotal evidence suggested that this reflected both a rise in new orders and initiatives to increase stocks of pre-production inventories. Growth in input buying led to a sharp lengthening in suppliers' delivery times, as operating capacity and stock levels at vendors were strained.

Input costs faced by manufacturers in Taiwan increased at the fastest rate in the series history during January. The considerable rise in input prices was driven by further increases in raw material prices. Charges also rose, reflective of the increase in costs, and at a pace above the long-run trend. However, this remained relatively modest compared to the rise 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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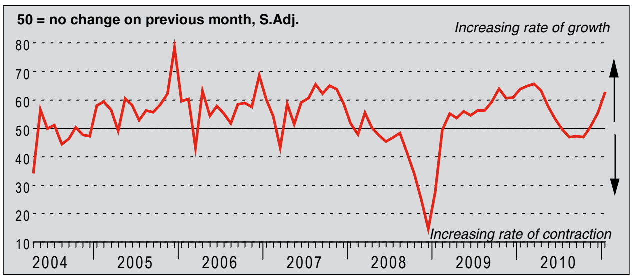
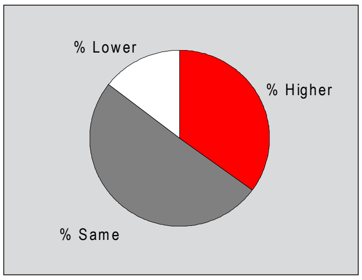
Output Index

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

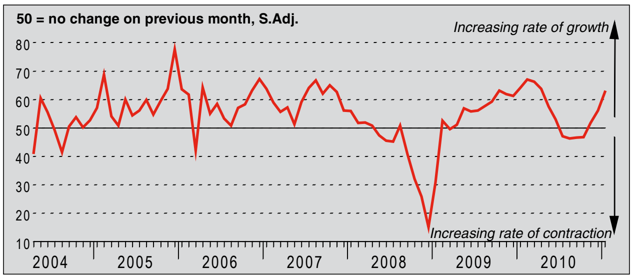


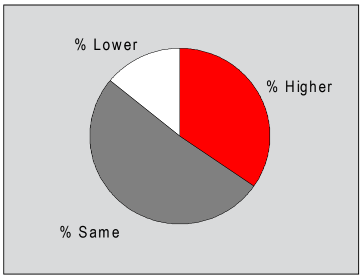


Output in the Taiwan manufacturing sector increased substantially during January, extending the sequence of sustained growth to three months. Moreover, the rate of expansion accelerated in January to the strongest since last April, and was comfortably above the long-run average for the series. Exactly 35% of panellists indicated that output had increased compared to the previous month, attributing this to strong new order growth.

New Orders Index

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

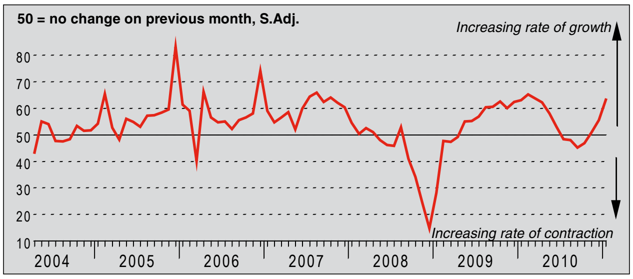


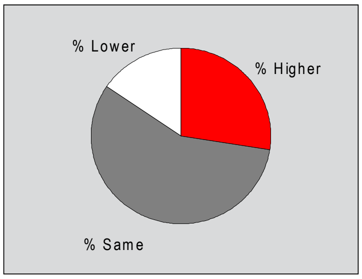


January data signalled a strong rise in incoming new business received by manufacturers in Taiwan. Panellists commented that growth in new order volumes reflected an improvement in demand amongst clients. The latest increase in new business was the third in successive months, with the pace of expansion the sharpest since April 2010 and notably strong in the context of historical data.

New Export Orders Index

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

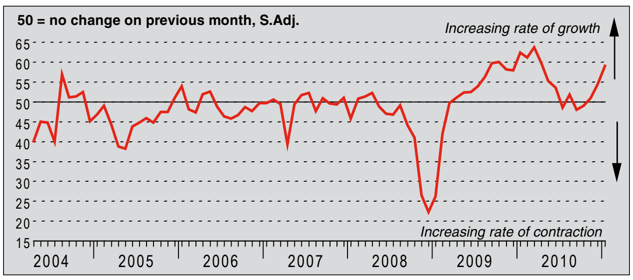


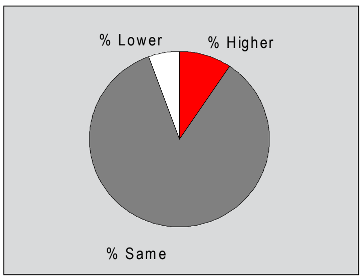


Manufacturers in Taiwan reported a sharp rise in new business received from overseas markets during January. The rate of new export order growth accelerated markedly since December, and was the fastest in ten months. Anecdotal evidence suggested that China and Europe were key sources of new business growth. The latest rise in new export orders was the third in as many months, and solidly above the long-run trend for the series.

Backlogs of Work Index

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

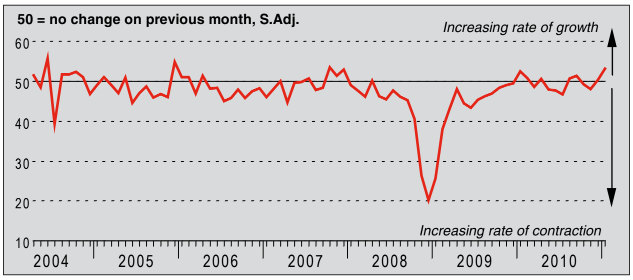


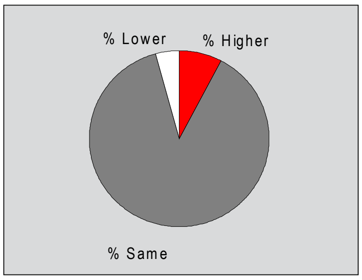


Backlogs of work at manufacturing companies in Taiwan increased markedly during January, with rising volumes of work-in-hand now reported for three successive months. Panellists noted that higher levels of outstanding business reflected strong new order growth, with the expansion in output not sufficient to fully meet requirements. Highlighting this, the latest increase in backlogs has been outpaced only six times in the series history. However, some companies commented that delayed shipments had also contributed to the rise in outstanding business.

Stocks of Finished Goods Index

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

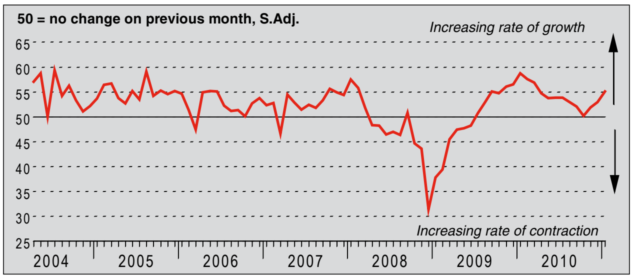


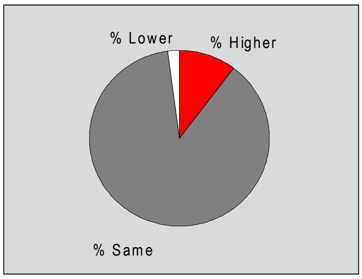


Stocks of finished goods held at manufacturers in Taiwan increased solidly during January. This was the second consecutive month where post-production inventories rose, although the extent of the accumulation was faster in the latest survey period, and one of the strongest in the series history. Panellists commented that the rise in finished goods stocks reflected higher new order volumes, with some companies aiming to increase inventories.

Employment Index

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

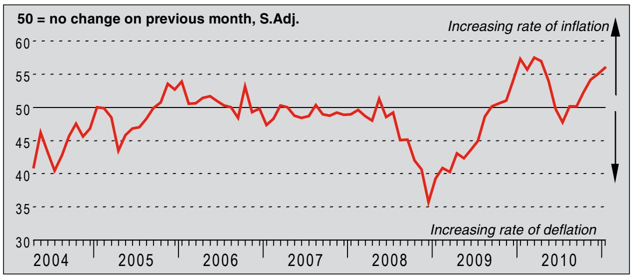


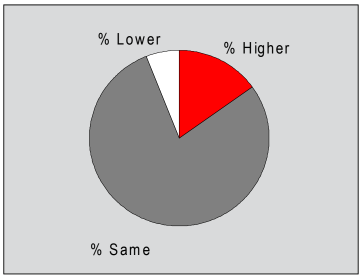


January data signalled a marked rise in employment within the Taiwanese manufacturing sector. Anecdotal evidence suggested that the increase in staffing levels predominately reflected sharp growth in both new orders and output. Some companies also noted that they were filling positions that had previously been vacant, partly due to an improvement in economic conditions. The rate at which employment rose accelerated for a third successive month to the strongest since March 2010. Moreover, the extent of job creation was faster than the long-run average for the series.

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.

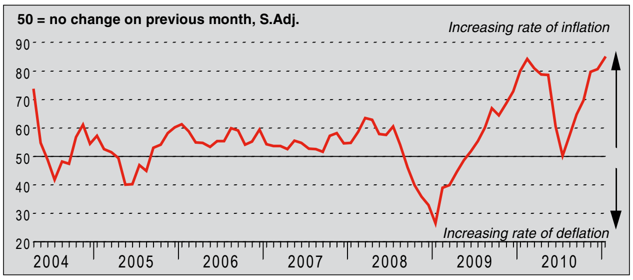


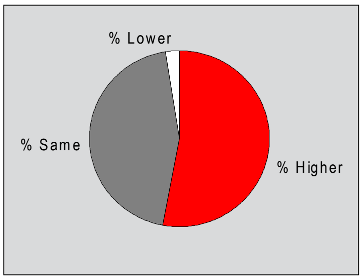


Manufacturers in Taiwan reported a marked rise in output prices during January. Approximately 15% of panellists indicated that their charges had increased from the previous month, citing higher input costs as the primary driver. The rate of output price inflation was notably sharp in the context of historical data, however the majority of panellists (approximately 79%) noted that charges were unchanged during the month, suggesting that manufacturers were absorbing a large proportion of cost increases.

Input Prices Index

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

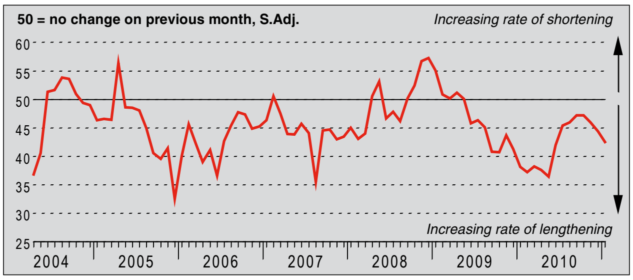


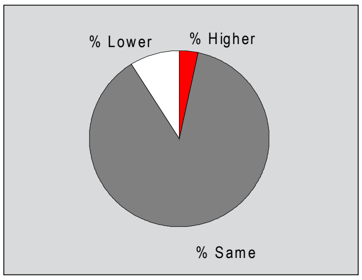


Input prices faced by manufacturers in Taiwan increased considerably during January. The rate of input cost inflation continued its ascent from the fourteen-month low seen in July 2010, and was the fastest in the series history. Exactly 53% of panellists indicated that input prices were higher than in the previous month, attributing this to increased raw material costs. Input prices have now risen in each month since June 2009.

Suppliers' Delivery Times Index

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

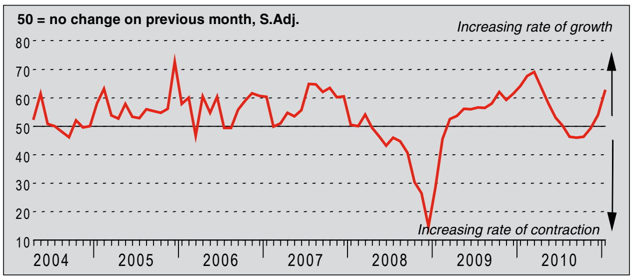


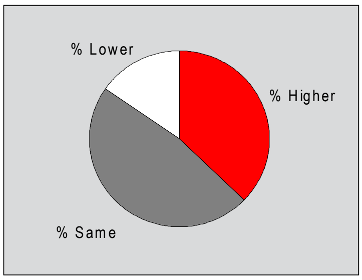


Taiwanese manufacturers reported a marked lengthening in suppliers' delivery times during January. Moreover, the extent of the deterioration in vendor performance was the sharpest in seven months. Anecdotal evidence suggested that longer lead times were driven by increased purchasing activity, which placed pressure on operating capacity at suppliers. Some panellists also commented that insufficient stocks at vendors had contributed to delayed deliveries.

Quantity of Purchases Index

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

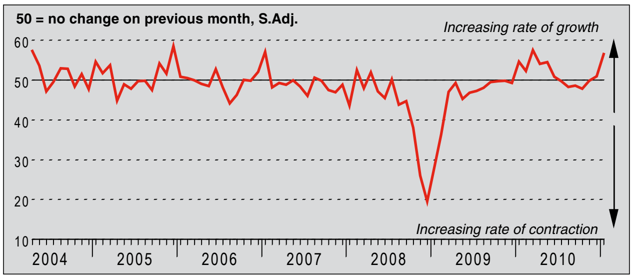


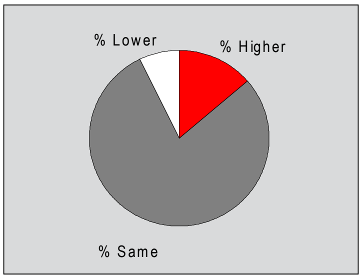


January data signalled a substantial rise in purchasing activity at manufacturers in Taiwan. This was the second successive month where input buying increased, with the latest expansion the strongest since April 2010 and above the long-run trend for the series. Panellists commented that the rise in purchasing activity predominately reflected sharp growth of both new orders and output. However, some companies noted that they were starting to increase stock holdings.

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 markedly during January. Panellists commented that the latest increase in pre-production inventories, which was the second in consecutive months, was supported by a strong expansion in incoming new business. Some companies noted that they expect new orders to increase further in the coming months, leading them to rebuild stock levels in anticipation of higher production requirements.

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