

Embargoed until: 10:00 (TAIPEI), 1 March 2011

HSBC Taiwan Manufacturing PMI™

Growth of Taiwanese manufacturing sector eased markedly in February. Price pressures intensified.

Key findings:

- Rise in new export orders weakest in three months.
- Employment continued to increase, and at the fastest pace since January 2010.
- Input and output prices rose at fastest rates in seven years of data collection.

February survey data, compiled by Markit for HSBC, signalled a marked improvement of business conditions within the Taiwanese manufacturing sector. However, the rate of expansion eased from January's nine-month high amid a slowdown in new order growth. Nonetheless, backlogs of work continued to accumulate, as constraints on operating capacity persisted. Subsequently, staffing levels rose again. Meanwhile, inflationary pressure intensified, with higher raw material prices driving the fastest increase in costs since data collection began in mid-2004.

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 55.8 in February, down from 59.8 in January. Nonetheless, this signalled growth for a fourth successive month, with the latest increase above the long-run series average.

Manufacturers in Taiwan reported a marked rise in incoming new business received during February, with expansion now recorded in each month since November 2010. The extent to which new orders increased slowed sharply since January, but was the second-strongest in nine months. New export order growth also eased, with the latest rise in new export business slower than the historical average.

February's increase in output was the weakest in three months. However, backlogs of work continued to accumulate, and at a marked rate as pressure on operating capacity remained.

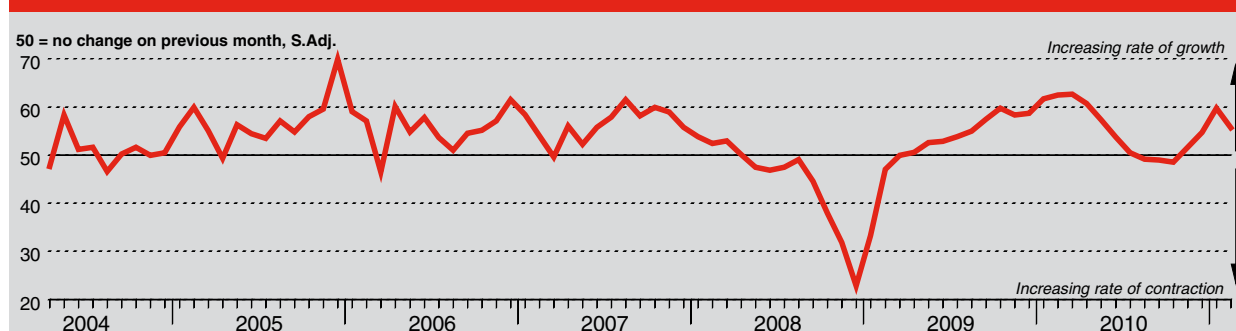
Stocks of finished goods held at manufacturers in Taiwan increased slightly during February. However, the vast majority of panellists (approximately 90%) indicated that post-production inventories were unchanged since January.

Reflective of sustained growth in workloads and a further accumulation of outstanding business, employment in the Taiwan manufacturing sector increased for a twentieth consecutive month. Moreover, the rate of job creation was the fastest since January 2010.

February data signalled a solid rise of purchasing activity at manufacturers in Taiwan. The latest increase in input buying slowed in line with weaker output growth. However, suppliers' delivery times lengthened again, due to the rise in purchasing activity and shortages of stocks at vendors.

Input costs faced by Taiwanese manufacturers increased considerably during February, with the rate of input price inflation the fastest since data collection began in April 2004. Higher raw material prices were cited as the main driver of costs. Subsequently, manufacturers increased their charges substantially, with the respective index also posting its highest level in the series history.

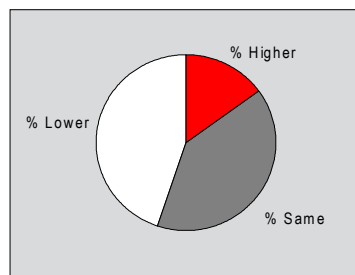
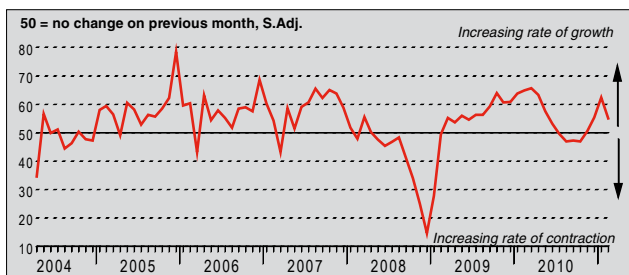
HSBC Taiwan Purchasing Managers' Index (PMI™)



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

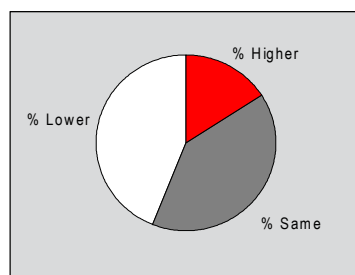
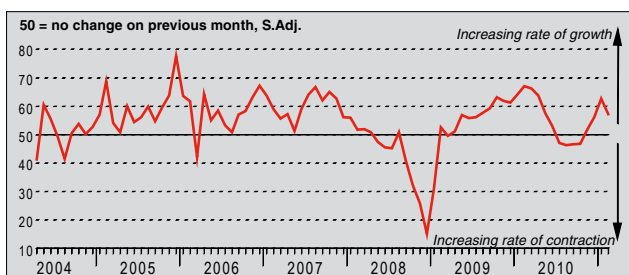
Q. Please compare your production/output this month with the situation one month ago.



February data signalled a marked increase of output in the Taiwanese manufacturing sector, extending the sequence of sustained growth to four months. Panellists commented that a further rise in incoming new business had supported the latest increase in production. The rate at which output expanded slowed sharply from January's nine-month high (due to a similar easing in new order growth), but remained above the average for the series.

New Orders Index

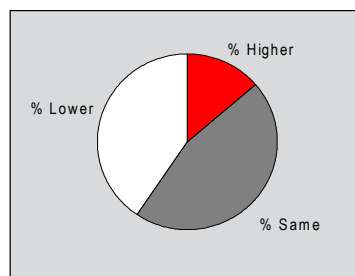
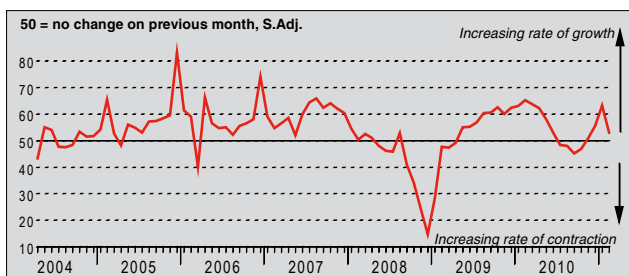
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



The seasonally adjusted New Orders Index posted above the 50.0 no-change threshold in February, signalling a rise in incoming new business received by manufacturers in Taiwan. Panellists reported that there had been a general improvement in demand, as global economic conditions continue to recover. However, the rate of expansion, whilst marked, slowed since January. Nonetheless, new business growth has now been sustained for four successive months.

New Export Orders Index

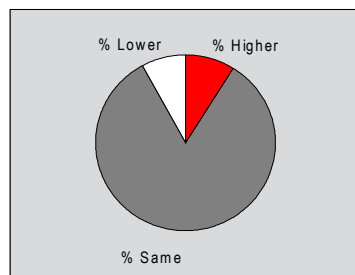
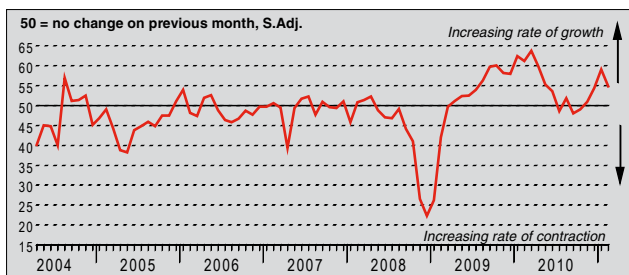
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by manufacturers in Taiwan rose solidly in February, with growth now recorded in each month since November 2010. Anecdotal evidence indicated that new business received from Europe and China had particularly increased. However, the extent to which new export business rose fell from January's recent high to the weakest in three months, and was the below the historical average for the series.

Backlogs of Work Index

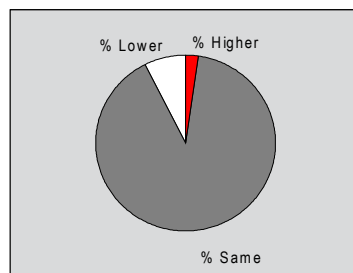
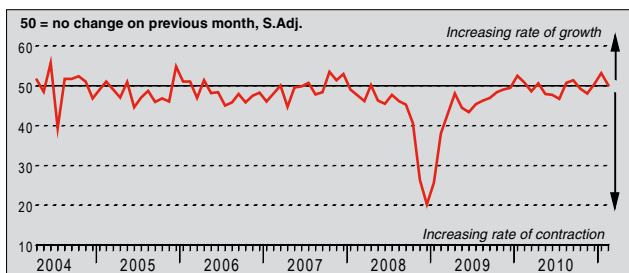
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Despite slower growth of new orders in February, backlogs of work at manufacturing companies in Taiwan continued to rise. Whilst the accumulation of backlogs was weaker than that indicated in January, it was marked and the second-fastest since May 2010. Furthermore, the latest increase was notably stronger than the long-run trend (which signals a marginal reduction of work-in-hand) indicating that pressures on production capacity persisted.

Stocks of Finished Goods Index

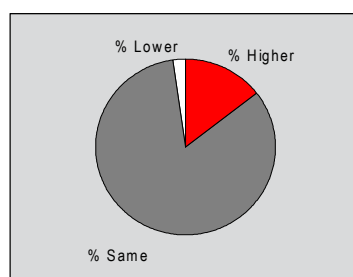
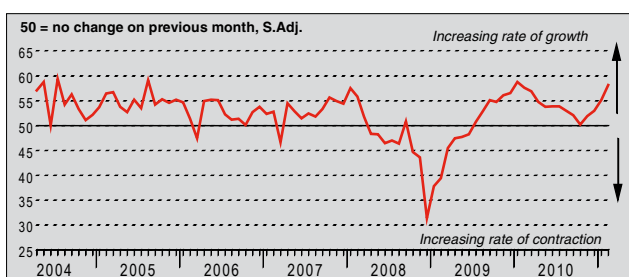
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index posted slightly above the 50.0 no-change threshold in February, indicating a marginal increase in post-production inventories at manufacturers in Taiwan. Where a rise in finished goods stocks was indicated, this was attributed to expectations of continued growth in new order volumes. The vast majority of panellists (approximately 90%) indicated that levels of post-production inventories were unchanged during the month.

Employment Index

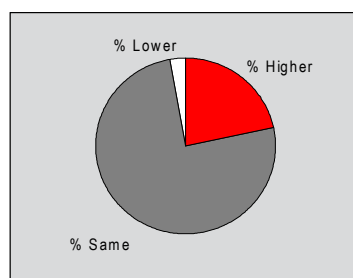
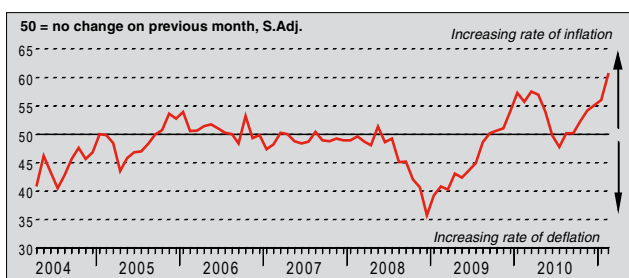
Q. Please compare the level of employment at your unit with the situation one month ago.



February data signalled a marked rise of employment in the Taiwanese manufacturing sector, extending the sequence of sustained growth to twenty months. Moreover, the rate of job creation was the strongest since January 2010, and notably sharp in the context of historical data. Anecdotal evidence suggested that the rise in staffing levels reflected sustained growth of new orders, which was putting pressure on operating capacity (as indicated by the increase in outstanding business).

Output Prices Index

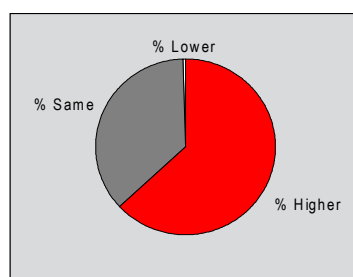
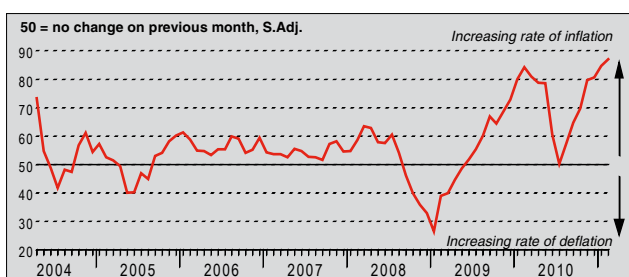
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Taiwanese manufacturers increased their output prices for a seventh successive month in February. Moreover, the rate of output price inflation accelerated markedly since January's nine-month high to the fastest in the series history. Approximately 22% of panellists commented that they had raised their charges in the month, generally attributing this to a sharp increase in input costs.

Input Prices Index

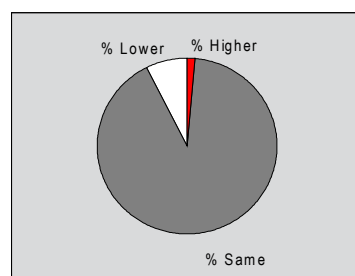
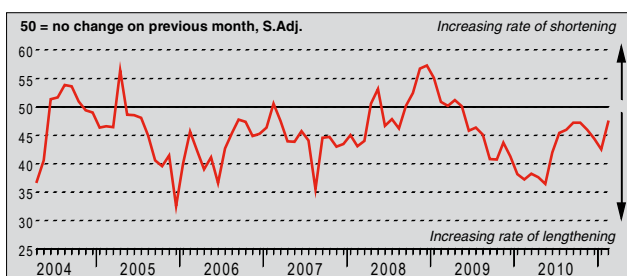
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by manufacturers in Taiwan increased at a considerable pace in February. Moreover, the seasonally adjusted Input Prices Index rose to a series high for a second-month running, with 63% of panellists registering inflation. Higher raw material prices, particularly for metals and plastics, were predominately cited as the main drivers of the rise in costs. Input price inflation has now recorded in each of the last twenty-one months.

Suppliers' Delivery Times Index

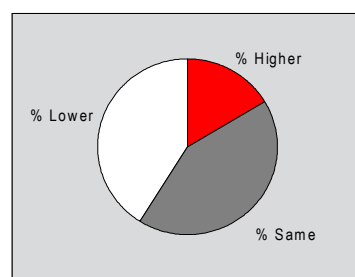
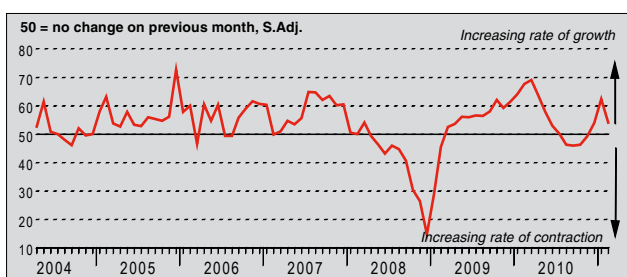
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a solid lengthening in suppliers' delivery times during February, noting that this reflected increased purchasing activity and shortages of stocks at vendors. However, the extent to which supplier performance deteriorated eased markedly since January. This was in line with a weaker rise in input buying. Nonetheless, lead times have now lengthened in each of the last twenty-one months.

Quantity of Purchases Index

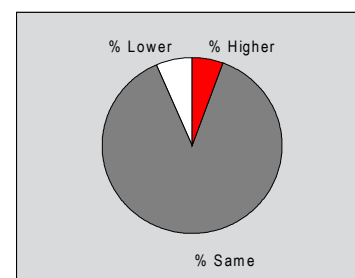
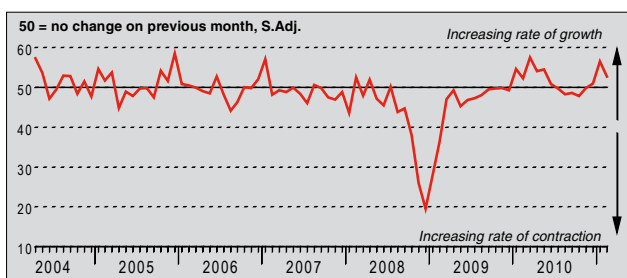
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



After allowing for seasonal factors, purchasing activity at manufacturers in Taiwan was reported to have increased markedly during February. This reflected further growth in new business. The extent to which input buying rose eased since January, but was nonetheless the second-strongest since May 2010 and above the long-run series average. The slowdown in the rise of purchasing activity was in line with a weaker expansion of new orders.

Stocks of Purchases Index

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



February data signalled a solid increase in stocks of purchases held at manufacturers in Taiwan. This was the third successive month where pre-production inventories have risen, with panellists attributing this to an increase in input buying, and the necessity to hold stocks to accommodate higher output. Whilst the rate of accumulation slowed from January's ten-month high, it remained above the long-run trend (which indicates a modest reduction in stocks of purchases).

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.