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HSBC Taiwan Manufacturing PMI™

Operating conditions in Taiwanese manufacturing sector strengthened markedly in March.

Key findings:

- New export growth accelerated.
- Cost pressures persist, leading to record rise in output charges.
- Japanese earthquake and tsunami increase lead times for inputs.

March survey data, compiled by Markit for HSBC, signalled marked growth of the Taiwanese manufacturing sector. The rate of expansion slowed slightly since February, but remained strong in the context of historical data. The increase in new export orders regained momentum in March, but growth of overall new work intakes slowed. Nonetheless, output rose at a slightly faster rate than in the previous survey period, and staffing levels were increased in response. Input prices continued to rise sharply, and manufacturers responded with a record increase in output charges.

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 55.6 in March, down slightly from February's 55.8 to a three-month low. Nonetheless, the latest reading signalled a marked strengthening of business conditions in the Taiwanese manufacturing sector, that was above the long-run trend.

Incoming new orders received by manufacturers in Taiwan increased for a fifth successive month in March. Many panellists commented that their clients were restocking inventories, which led to a general improvement in demand. However, the rate of new order growth slowed for a second successive month, with some respondents noting that higher input costs had led some customers to delay purchases. Nonetheless, new business received from export markets rose again, and at a faster rate

than in the previous survey period.

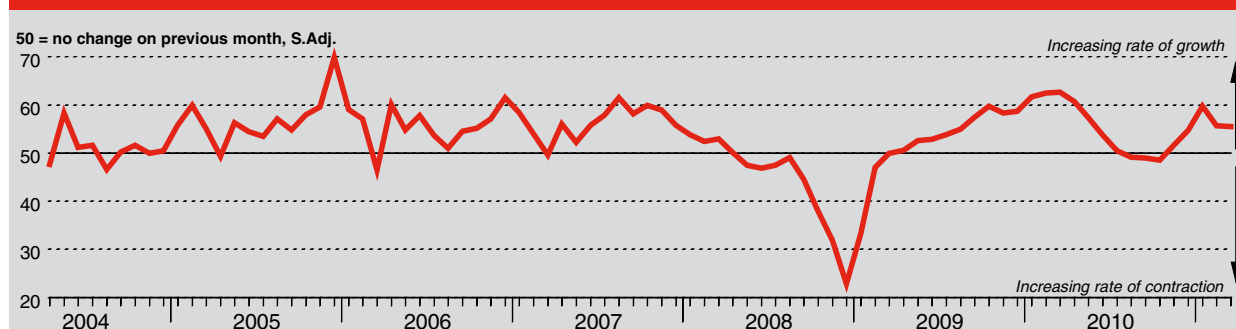
The increase in overall new business supported a further marked expansion of output. Despite this, backlogs of work increased, reflective of sustained new order growth and shortages of materials. However, the accumulation of outstanding business was the weakest in four months. Meanwhile, stocks of finished goods decreased during March. This was the first reduction of post-production inventories since November 2010, with panellists commenting on an increased volume of shipments in the month.

Despite slowing marginally since February, March's rise in employment remained notably sharp in the context of historical data. Increased workloads and plans to boost production capacity drove the latest rise in staffing levels, which was the twenty-first in as many months.

March data signalled a marked increase of purchasing activity at manufacturers in Taiwan, which predominately reflected higher output requirements. However, some panellists also noted that they were buying in advance of expected rises in costs and shortages of materials. The increase in purchase volumes and the current lack of inputs led to a further lengthening of lead times. Moreover, this was compounded by the disruption to the supply side of the Japan earthquake and tsunami.

Despite easing modestly since February, input costs continued to rise at a notably steep rate in March, driven by higher raw material prices. This led to a further sharp increase in charges that was the fastest in the series history.

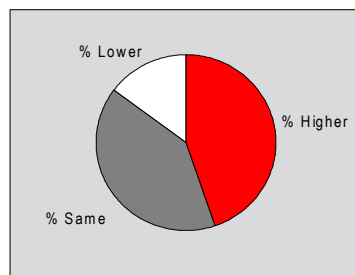
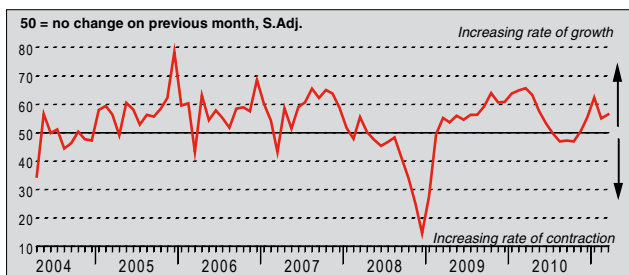
HSBC Taiwan Purchasing Managers' Index (PMI™)



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

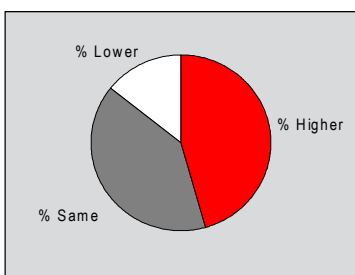
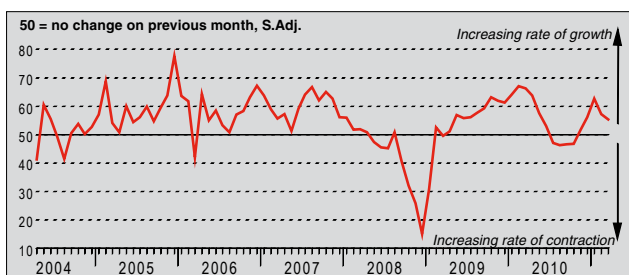
Q. Please compare your production/output this month with the situation one month ago.



Output in the Taiwanese manufacturing sector increased markedly during March. The rate of growth was marginally stronger than in the previous survey period, but remained slower than the nine-month high recorded in January. Panellists commented that a further rise in incoming new business had boosted production, which has now expanded in each of the last five months. The latest increase in output was above the long-run series average.

New Orders Index

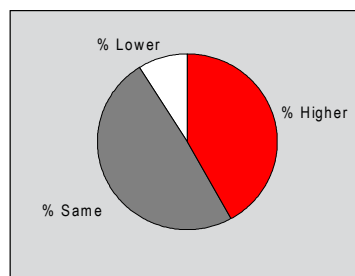
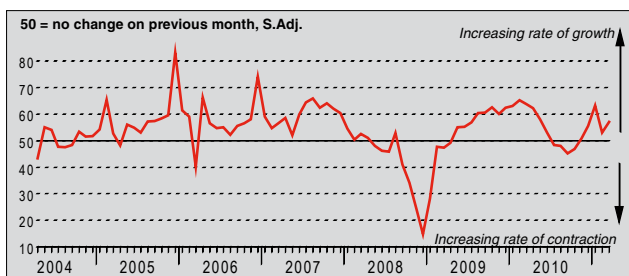
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



Manufacturers in Taiwan reported a marked rise in incoming new business received during March. Anecdotal evidence suggested a general improvement in demand had supported the latest increase in new orders, with a number of panellists commenting that their clients were restocking inventories. However, the rate of new business growth slowed for a second successive month to the weakest since November 2010, as higher raw material prices and charges led some customers to delay purchases.

New Export Orders Index

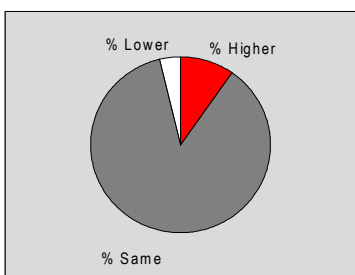
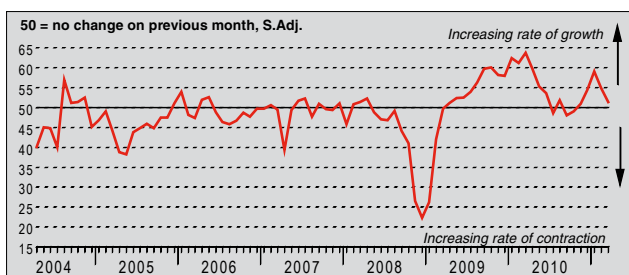
Q. Please compare the level of new export orders received this month with the situation of one month ago.



March data signalled a marked rise in new export business received by manufacturers in Taiwan, sustaining the sequence of growth since November 2010. Panellists reporting a rise in new export business particularly noted that demand from Europe and China had improved. The latest expansion accelerated from February's three-month low and was strong in the context of historical data.

Backlogs of Work Index

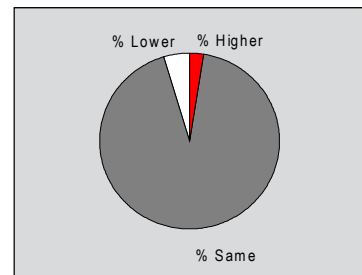
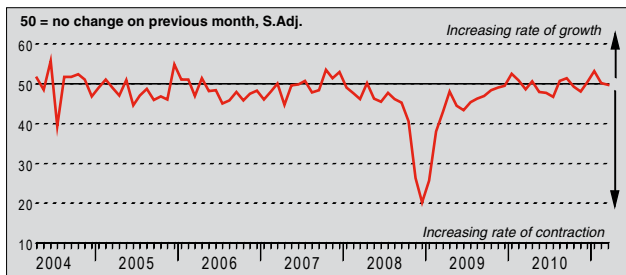
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturing companies in Taiwan increased modestly during March, suggesting that production capacity remained constrained. Higher levels of new work intakes and shortages/delayed shipments of materials were cited as the main contributors to the rise in outstanding business, with inadequate staffing mentioned to a lesser extent. The accumulation of backlogs was the weakest since November 2010, reflective of slower new order growth.

Stocks of Finished Goods Index

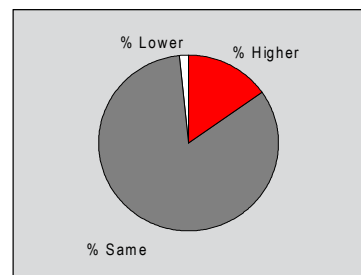
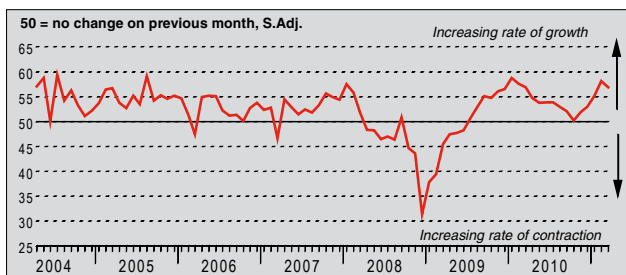
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in Taiwan reported a reduction in stocks of finished goods in March for the first time in four months. Where a decline in post-production inventories was indicated, this was attributed to an increased volume of shipments. However, the overall decrease in stocks of finished goods was only slight, with the majority of panellists (approximately 93%) indicating that inventories were unchanged since February.

Employment Index

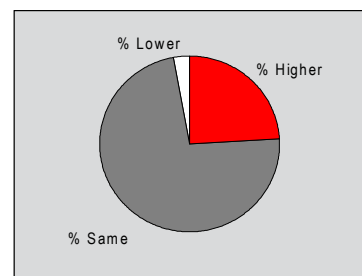
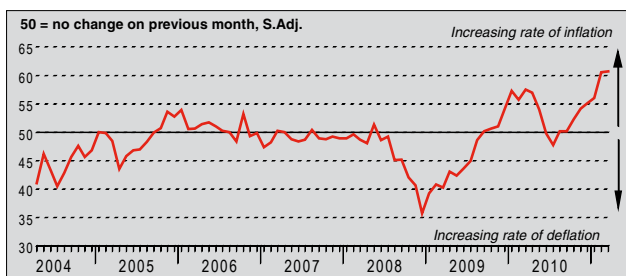
Q. Please compare the level of employment at your unit with the situation one month ago.



March data signalled a marked rise in Taiwanese manufacturing employment. The rate of job creation slowed marginally since February, but was the second strongest in thirteen months and solidly above the long-run trend. Approximately 15% of respondents indicated that staffing levels at their units had increased, citing sustained growth of both new business and output as the main drivers. Many panellists also noted that they were aiming to boost production capacity.

Output Prices Index

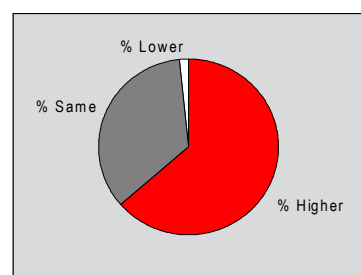
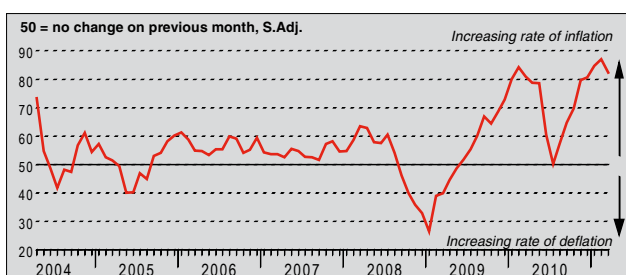
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a substantial rise in their charges during March. Moreover, the rate of output price inflation accelerated slightly from the survey high recorded in February to reach a new peak. Approximately 24% of panellists indicated that their charges were higher than in the previous survey period, attributing this to a further rise in input costs. Output prices have now increased in each month since August 2010.

Input Prices Index

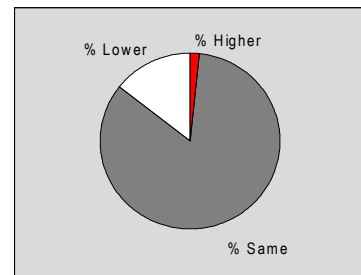
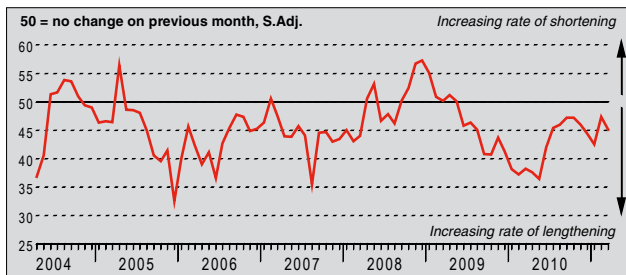
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in Taiwan increased considerably during March, with rising costs now recorded for twenty-two successive months. The rate of input cost inflation slowed from last month's series high but, with approximately 64% of panellists recording higher costs, remained notably steep in the context of historical data. Anecdotal evidence suggested that a further rise in raw material prices drove the increase in input costs.

Suppliers' Delivery Times Index

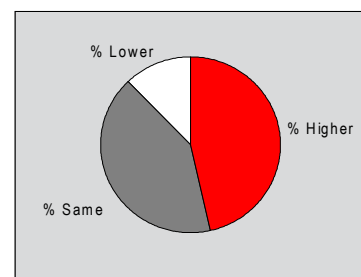
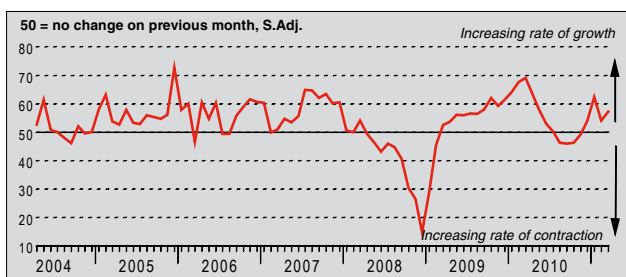
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a marked lengthening of suppliers' delivery times during March. The extent to which vendor performance deteriorated was marked and slightly stronger than the long-run trend. Approximately 14% of panellists indicated that lead times were longer than in the previous survey period, with the impact of the Japan earthquake and tsunami frequently cited as a contributing factor. A general rise in input buying and shortages of materials also impacted on delivery times.

Quantity of Purchases Index

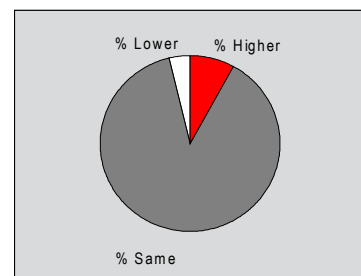
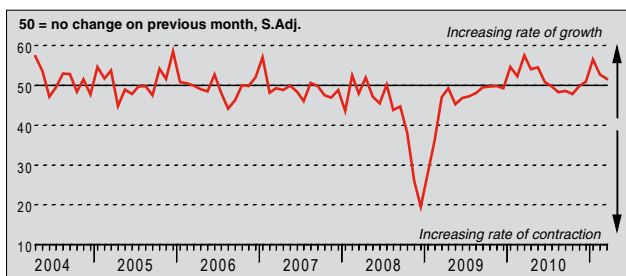
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturers in Taiwan increased markedly in March, extending the sequence of sustained growth to four months. Approximately 46% of panellists signalled a rise in input buying, commenting that this primarily reflected further growth of workloads and activity. However, some companies also noted that due to further expected rises in input costs and shortages of materials, they were purchasing in advance of requirements. The extent to which purchasing activity increased was the second strongest since May 2010.

Stocks of Purchases Index

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



March data signalled a modest rise in stocks of purchases held at manufacturers in Taiwan. Pre-production inventories have increased for four consecutive months, with the latest rise the second-weakest in that period. Nonetheless, the accumulation of pre-production inventories was in contrast to the historical average for the series (which signals a modest reduction in stocks). Where a rise in pre-production inventories was indicated, this was attributed to concerns over shortages of materials, higher costs and longer lead times.

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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