HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Taiwan Manufacturing PMI™

Operating conditions in Taiwanese manufacturing sector strengthened markedly in March

Summary

The HSBC Taiwan PMI™ – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – 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.

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.

Comment

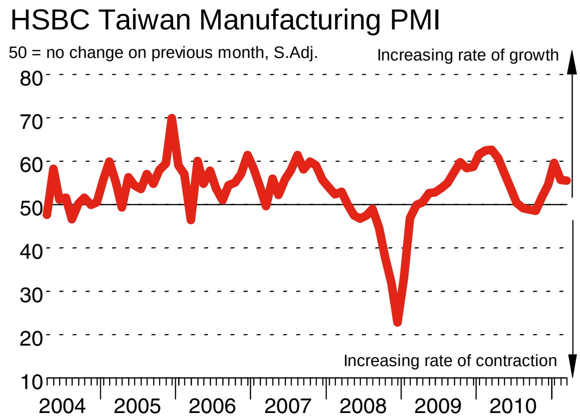
Commenting on the Taiwan Manufacturing PMI survey, Donna Kwok, Economist at HSBC in Asia said:

"After the sharp rebound of Western demand towards the end of 2010, Taiwan's manufacturing activity is starting to normalize - albeit at levels high enough to sustain the on-going labour market recovery. More businesses are starting to pass on the burden of higher input costs to their customers, but the absence of real wage inflation is likely still helping to keep a lid on this trend."

Key points

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

Historical Overview



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Notes to Editors:

The HSBC Taiwan Report on Manufacturing 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: 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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