

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

HSBC Taiwan Manufacturing PMI™

Growth of Taiwanese manufacturing sector eased to five-month low in May.

Key findings:

- Weaker rise in new orders led to slower expansion of output.
- Inflationary pressures eased notably.
- The impact of the earthquake and tsunami in Japan continued to affect delivery times and input costs.

May survey data, compiled by Markit for HSBC, signalled marked growth of output in the Taiwanese manufacturing sector. However, the rate of expansion slowed from April's three-month high, as the increase in incoming new business weakened during the month. Nonetheless, backlogs of work rose again, helping to support a further rise in staffing levels. May data pointed to a notable easing of inflationary pressures in the Taiwanese manufacturing sector, with the latest increase in input costs substantially slower than in April. However, input price inflation remained marked, as the affects of the earthquake and tsunami in Japan acted to raise costs.

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 latest PMI posted 54.9, down from 58.2 in April. The reading pointed to a marked strengthening of business conditions, although the extent of the improvement slowed since April to a five-month low. Despite this, May's expansion was above the long-run trend.

New orders received by manufacturers in Taiwan rose for a seventh successive month in May, buoyed by ongoing improvements in global economic conditions. However, the rate of growth slowed to the weakest since November 2010. The increase in new export business also eased. However, the

expansions of both overall and new export business remained marked, and were stronger than their respective historical averages.

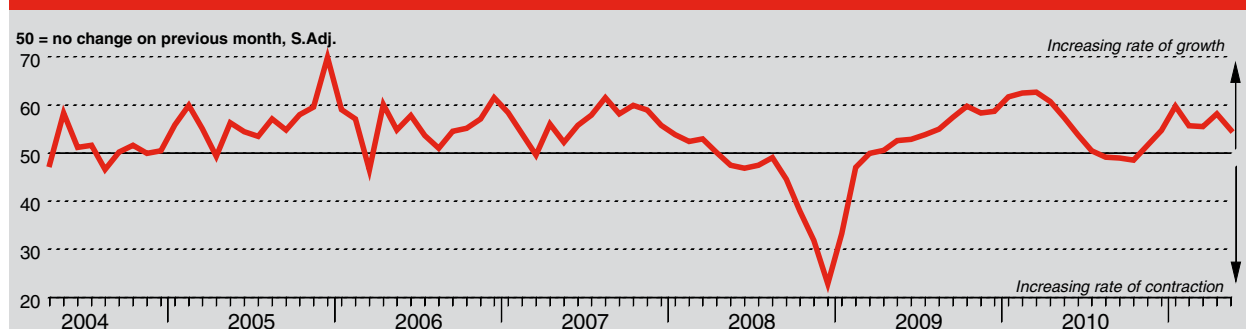
Reflective of further growth of overall new orders, output was reported to have increased during May, but at a slower rate. Nonetheless, there was another accumulation of outstanding business, suggesting that pressure on operating capacity persisted. Despite this, stocks of finished goods rose, and at the fastest pace in the series history.

Manufacturers in Taiwan reported a modest rise in employment during May, citing further growth of workloads as the main driver. However, in line with a weaker expansion in output, the rate of job creation eased. Nonetheless, staffing levels have now increased for twenty-three successive months.

Purchasing activity continued to rise at a marked rate in May, supported by an increase in output requirements, as well as initiatives to rebuild stocks. Manufacturers indicated a further lengthening of suppliers' delivery times that, whilst weaker than in April, remained sharp.

May data signalled a substantial easing in the rate of input cost inflation reported by Taiwanese manufacturers. However, input prices continued to rise at a marked rate, led by the affects of the earthquake and tsunami in Japan and general shortages of materials. Subsequently, output prices rose for a tenth month running, but the extent of the latest increase was the slowest since last November.

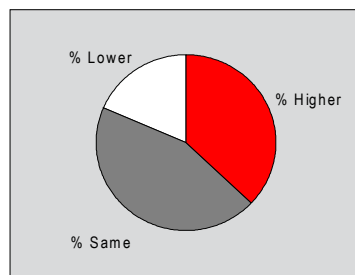
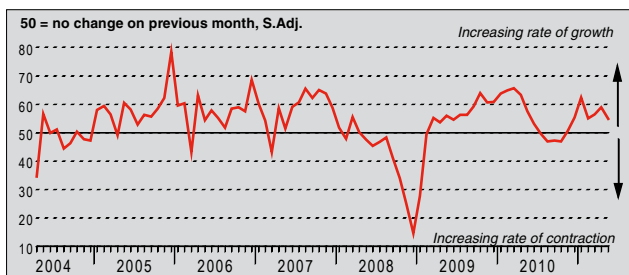
HSBC Taiwan *Purchasing Managers' Index™ (PMI™)*



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. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

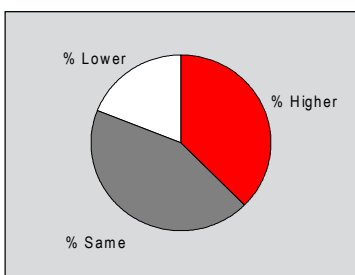
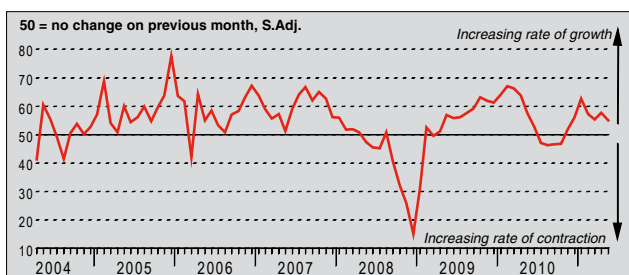
Q. Please compare your production/output this month with the situation one month ago.



May data signalled a marked rise in output in the Taiwanese manufacturing sector, extending the sequence of sustained growth to seven months. Panellists indicating a rise in production attributed this to a further increase in incoming new business. However, in line with a slower rate of new order growth, the pace at which output expanded eased to the weakest since November 2010. Nonetheless, this remained above the long-run series average.

New Orders Index

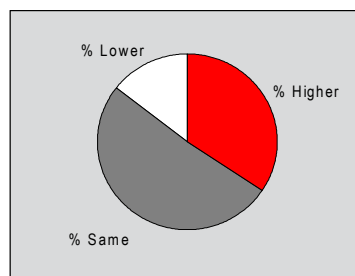
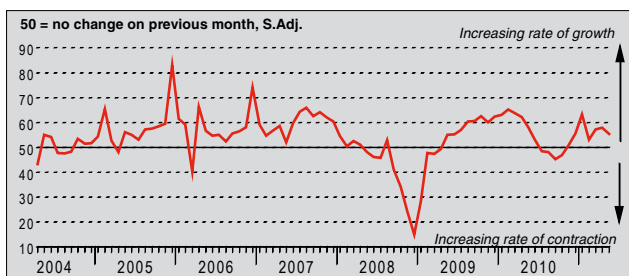
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



Manufacturers in Taiwan reported a marked rise in incoming new business received during May. Anecdotal evidence suggested that the latest growth in new orders reflected ongoing improvements in global economic conditions. However, the rate of expansion slowed from April's three-month high to the weakest since November 2010. Nonetheless, growth of new orders has now been recorded for seven successive months, with the latest increase slightly stronger than the historical average.

New Export Orders Index

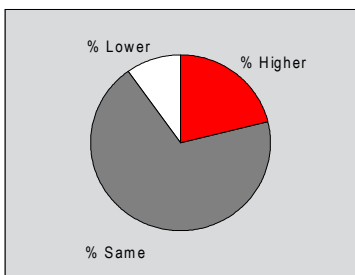
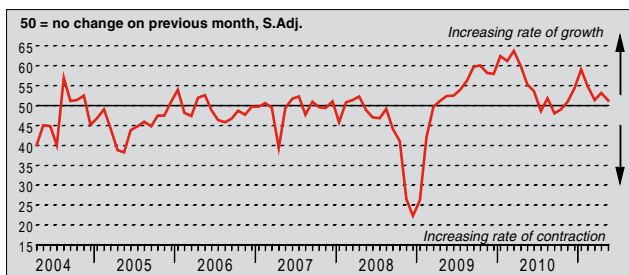
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New orders received by Taiwanese manufacturers from export markets increased markedly during May. However, the rate of growth slowed to the weakest in three months. Nonetheless, the latest rise in new export business remained above the long-run trend, with panellists commenting that the increase was supported by improving global economic conditions. China, South East Asia and Europe were reported to have been strong sources of new business during the month. New export orders have now expanded in each month since November 2010.

Backlogs of Work Index

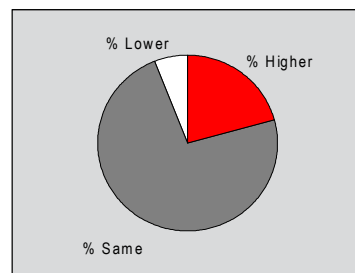
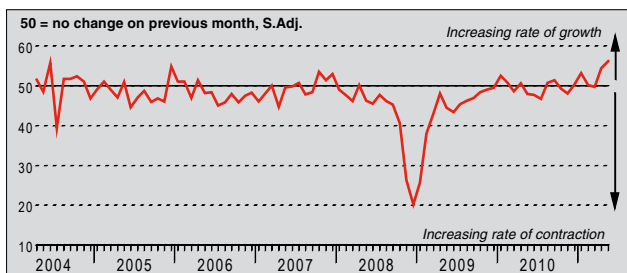
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturing companies in Taiwan increased during May, suggesting that operating capacity was constrained to a degree. Anecdotal evidence cited a further rise in new orders and shortages of raw materials and labour as the main contributors to the increase in outstanding business. The rate of accumulation slowed since April, but remained above the historical trend, which indicates a depletion of backlogs of work on average.

Stocks of Finished Goods Index

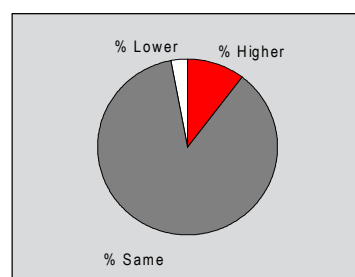
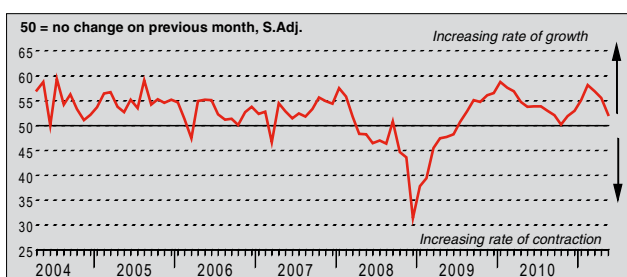
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held at factories in Taiwan increased markedly during May. Moreover, the rate of increase was the fastest in the series history. Panellists indicating that levels of post-production inventories were higher than in the previous month commented that this reflected higher stock requirements due to rising new order volumes. Stocks of finished goods have risen in five of the last six survey periods.

Employment Index

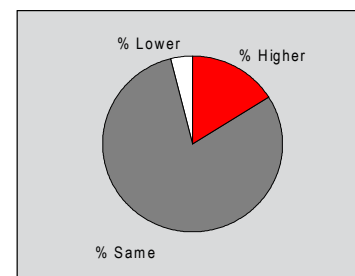
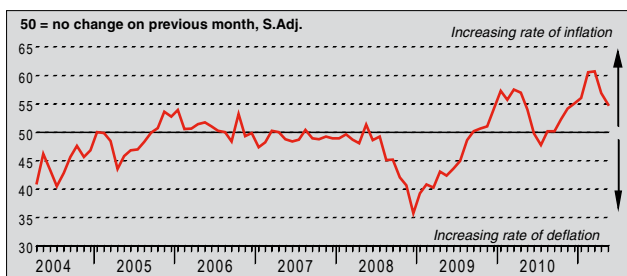
Q. Please compare the level of employment at your unit with the situation one month ago.



May data signalled a modest rise in employment in the Taiwanese manufacturing sector, with respondents attributing this to further growth of both new orders and output requirements. Furthermore, staffing levels have now increased for twenty-three successive months. However, the extent of the rise slowed for a third successive month, and was broadly in line with the long-run series average, due to weaker recent expansions in workloads.

Output Prices Index

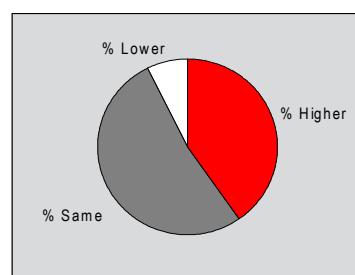
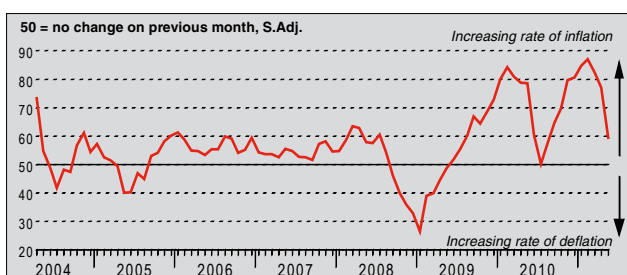
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan indicated a rise in their charges during May, for the tenth time in as many months. Panellists commented that a further increase in input costs had driven the latest rise in output prices. The rate of output price inflation slowed for a second successive month to the weakest since November 2010 as input cost inflation slowed, but nonetheless remained strong in the context of historical data.

Input Prices Index

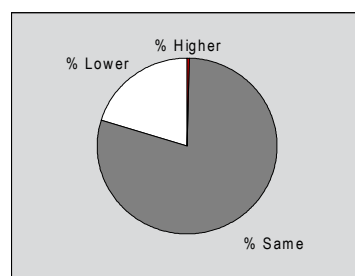
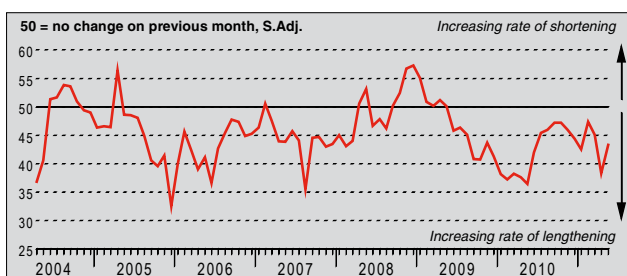
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by manufacturers in Taiwan increased markedly during May, with anecdotal evidence suggesting that rises in raw material prices had contributed to the latest increase in costs. Some panellists also noted that the impact of the earthquake and tsunami in Japan had driven purchase prices higher. However, the rate of input cost inflation slowed substantially since April, with the seasonally adjusted Input Prices Index posting one of its largest month-on-month declines in the series history. Nonetheless, input prices have risen in each month over the last two years.

Suppliers' Delivery Times Index

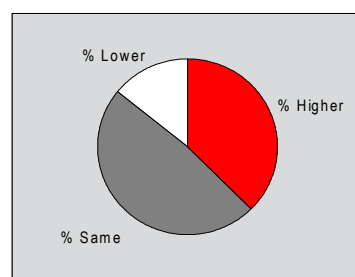
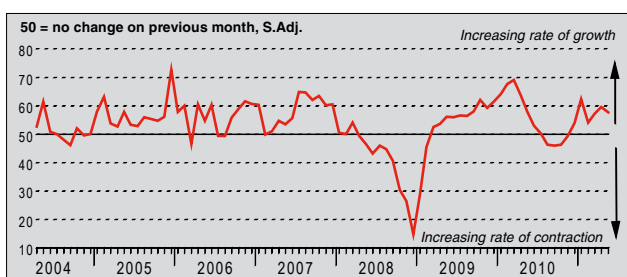
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Taiwanese manufacturers reported a further lengthening of suppliers' delivery times during May. Approximately 20% of panellists indicated that vendor performance had deteriorated in the month, commenting that this predominately reflected the ongoing supply-side impact of the earthquake and tsunami in Japan, with other companies mentioning general shortages of materials. The extent to which lead times lengthened eased notably since April, but remained sharper than the long-run trend.

Quantity of Purchases Index

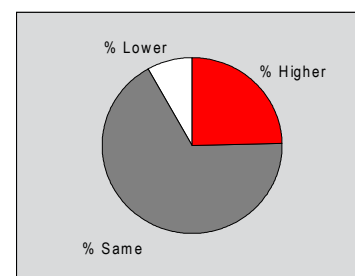
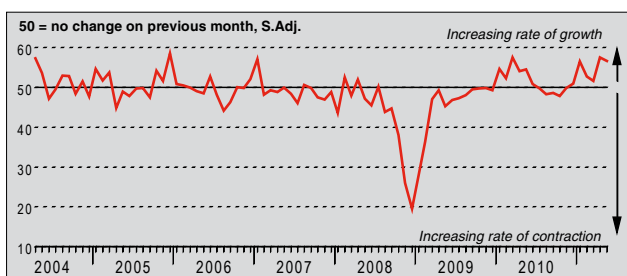
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



May data signalled a marked rise in purchasing activity at manufacturers in Taiwan. Whilst the rate of increase slowed since April, it was the second-fastest in four months, and strong in the context of historical data. Panellists predominately noted that further growth in both new orders and output requirements had led to the rise in input buying, which was the sixth in successive months. However, some companies also indicated that they were aiming to rebuild stocks.

Stocks of Purchases Index

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



Stocks of purchases held at manufacturers in Taiwan increased for a sixth month running in May. Moreover, the latest accumulation was marked, and the second-strongest in the current period of growth. Approximately one-quarter of respondents indicated that levels of pre-production inventories at their units were higher than in the previous month, commenting that this largely reflected increased output requirements, with some panellists also noting that they were aiming to rebuild stocks.

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 Economics 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. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.