HSBC *Purchasing Managers' Index™* Press Release
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compiled by markit

HSBC Taiwan Manufacturing PMI™

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

Summary

The HSBC Taiwan *PMI™* – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – posted 54.9 in May, 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.

Comment

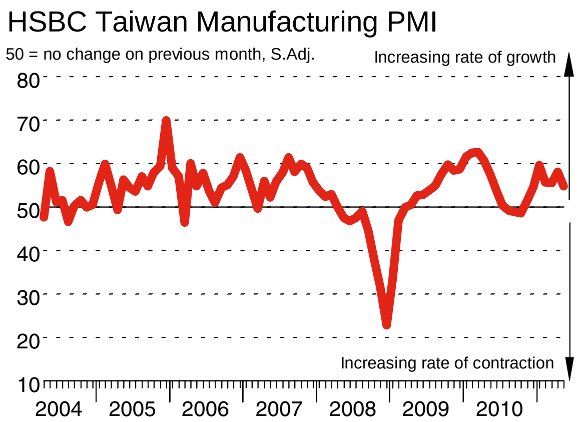
Commenting on the Taiwan Manufacturing PMI survey, Donna Kwok, Economist at HSBC in Asia said:

"The impact of supply-side disruptions related to recent events in Japan is cooling exports and output growth, although jobs continue to be created. Although Taiwan's exports machine is set to loose more steam this quarter, growth momentum is coming off from elevated levels. This underlines our view that manufacturing activity is more likely to moderate, not collapse, in the coming months."

Key points

- 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.

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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About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.