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HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector output contracted in June for the first time in eight months.

Key findings:

- Decreased new order volumes led to a fall in output.
- June data signalled a slight reduction in employment.
- Input prices fell, and output charges rose only marginally.

June survey data, compiled by Markit for HSBC, signalled a decline in Taiwanese manufacturing sector output, mainly reflecting falling new work intakes. This was the first time that both the respective indexes had posted below the 50.0 no-change threshold since October 2010. Subsequently, pressure on operating capacity was alleviated, as indicated by a reduction in backlogs of work. Employment also decreased in June, albeit only slightly. A general fall in international prices for raw materials led to a decline in input costs in June. Output prices continued to rise, but only at a marginal rate.

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 49.9, down from 54.9 in May. The reading pointed to a fractional deterioration of business conditions in the Taiwanese manufacturing sector. Nonetheless, the contraction was in contrast to marked growth seen during the first five months of 2011.

New orders received by manufacturers in Taiwan decreased slightly during June, ending a seven-month period of growth. While new export business rose marginally, the rate of expansion slowed markedly since the previous month. Panellists commented that there had been a general dampening of demand, both domestically and abroad, which led to an overall fall in new business.

Reflective of the decrease in new orders, output also declined in June. Nonetheless, backlogs of work were depleted, indicating

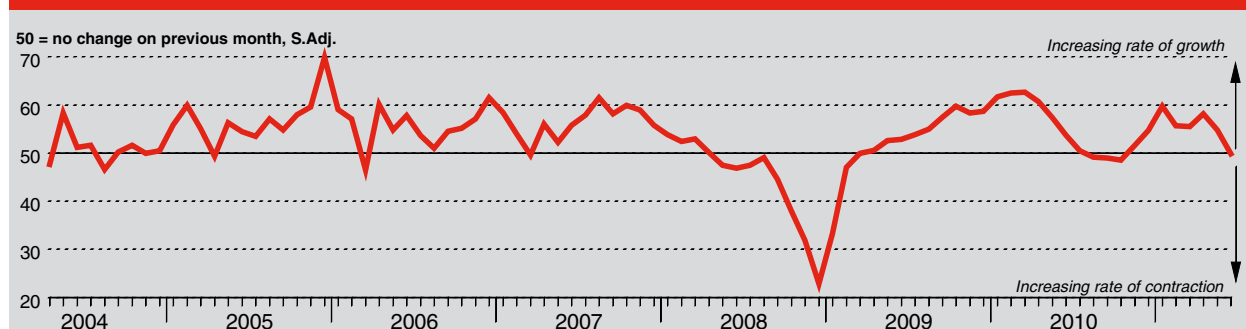
that pressure on operating capacity had been alleviated. Furthermore, stocks of finished goods increased, driven by the fall in new business, initiatives to boost stocks and delayed deliveries.

June data signalled the first reduction in staffing levels in the Taiwanese manufacturing sector since June 2009. However, the extent to which employment fell was marginal, with the majority of respondents indicating that staffing levels were unchanged since May.

Despite decreases in new orders and output, purchasing activity continued to rise in June. However, the latest increase in input buying was the weakest in the current seven-month period of growth. Anecdotal evidence suggested that initiatives to boost inventories had resulted in the overall rise in purchasing activity. This was also highlighted by an increase in pre-production inventories. Suppliers' delivery times continued to lengthen in June, although the extent of the deterioration was slower than the long-run trend. Panellists commented that whilst the ongoing effect of the earthquake and tsunami in Japan still negatively impacted on lead times, this was being partially offset by improving stock levels at vendors.

The recent two-year period of cost inflation ended in June, as input prices were reported to have fallen. Panellists attributed this to a general decrease in international prices. Charges rose for an eleventh month running, albeit the rate of output price inflation was only marginal and the weakest since September 2010. The fall in costs and strong competition for new business were cited as the main contributors to the weak rise in charges.

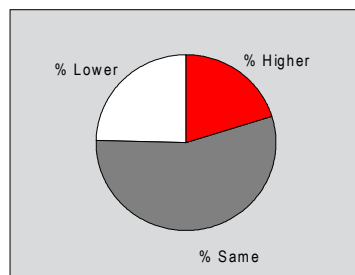
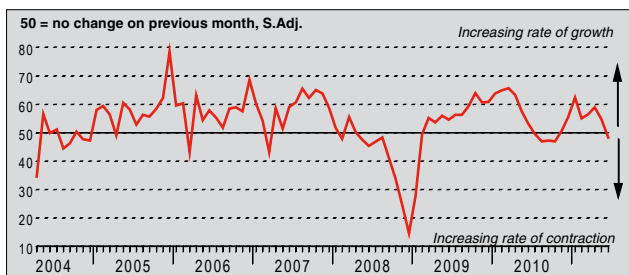
HSBC Taiwan Purchasing Managers' Index™ (PMI™)



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

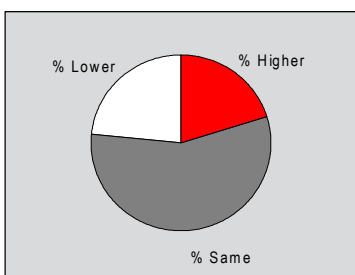
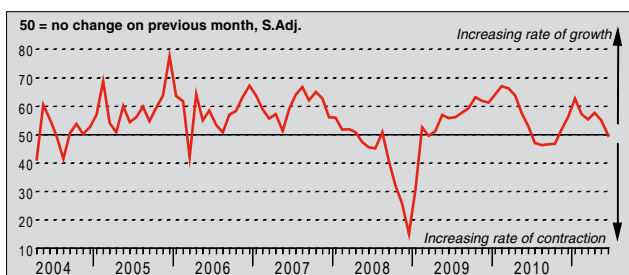
Q. Please compare your production/output this month with the situation one month ago.



June data signalled a contraction in Taiwanese manufacturing production, as the seasonally adjusted Output Index posted below the 50.0 no-change threshold for the first time in eight months. Approximately one-quarter of panellists noted that output was lower than in the previous survey period, predominately attributing this to a fall in new orders received. While the rate of decline was modest, it represented a sharp drop in the index from the marked expansion recorded in May.

New Orders Index

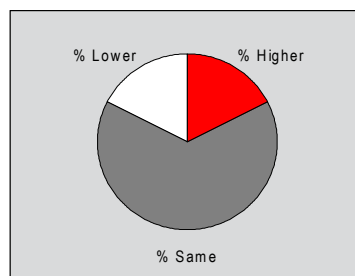
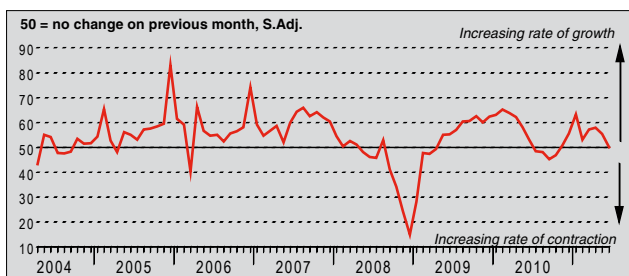
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



Manufacturers in Taiwan reported a reduction in new business received during June. This was the first decrease in new orders seen since October 2010, although the rate of contraction was only fractional. Where a decline in new work intakes was indicated, panellists cited softer demand as the main contributor, both domestically and from overseas.

New Export Orders Index

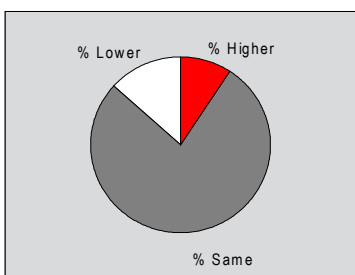
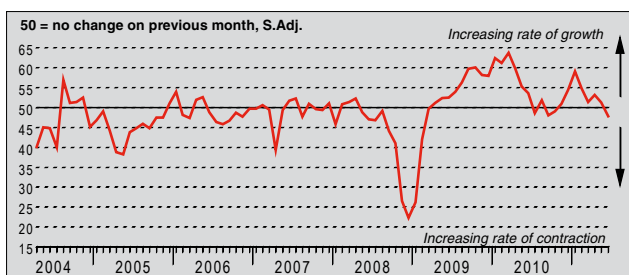
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index posted marginally above the 50.0 no-change threshold in June, signalling a slight increase in new export business received by manufacturers in Taiwan. However, the rate of growth slowed markedly since May to the weakest in the current eight-month sequence of expansion. While panellists noting a rise in new export orders commented that new work intakes from China had particularly increased, this was largely offset by reports from other respondents of falling new orders from the US and Europe.

Backlogs of Work Index

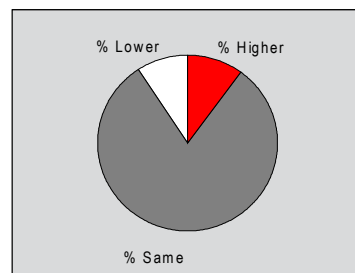
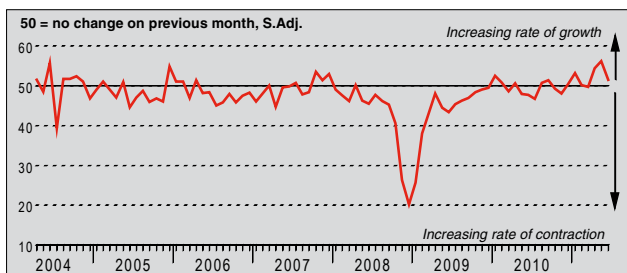
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in Taiwan fell during June. The extent of the depletion was moderate, but sharper than the long-run series average and in contrast to the accumulation of outstanding business seen over the previous seven months. Anecdotal evidence suggested that the reduction in backlogs of work reflected the decline in incoming new business received during the month, which alleviated pressure on operating capacity.

Stocks of Finished Goods Index

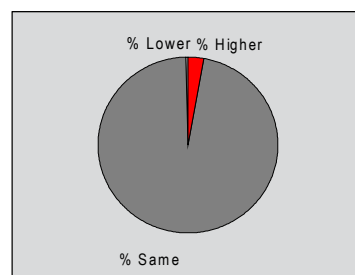
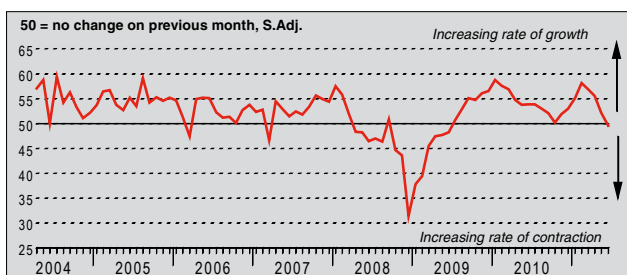
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Taiwanese manufacturers reported a modest rise in stocks of finished goods held during June. This was the third successive month where an increase in post-production inventories was recorded, but the latest accumulation was the weakest in that period. Nonetheless, the latest rise in finished goods stocks was strong in the context of historical data. Panellists cited a fall in new orders, initiatives to boost stocks and delayed deliveries as the main contributors to the increase in post-production inventories.

Employment Index

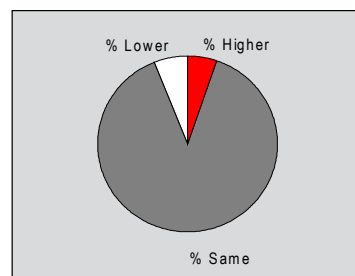
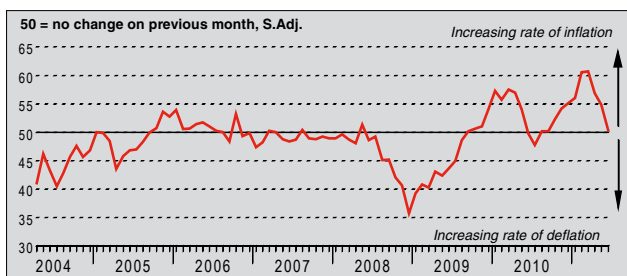
Q. Please compare the level of employment at your unit with the situation one month ago.



June data signalled the first fall in employment in the Taiwanese manufacturing sector for two years. Panellists noting a reduction in staffing levels attributed this to contractions in new orders and output. However, the extent to which jobs were cut was marginal, with the vast majority of panellists (approximately 97%) noting that employment was unchanged from the previous survey period.

Output Prices Index

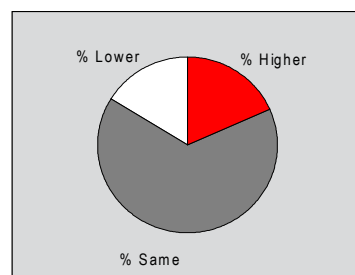
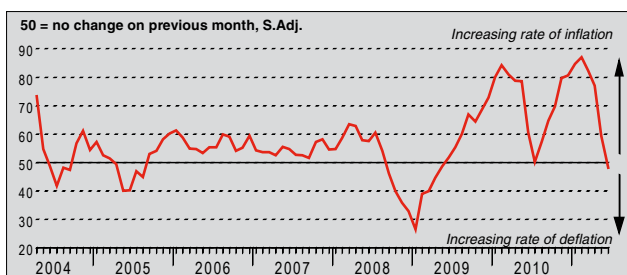
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted above the 50.0 no-change threshold in June, signalling a marginal rise in manufacturers' charges. However, the rate of output price inflation was the weakest in nine months, as input costs fell and competition for new business remained strong. The majority of panellists (approximately 89%) nonetheless noted that their output prices were unchanged since May.

Input Prices Index

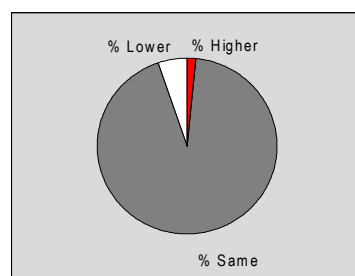
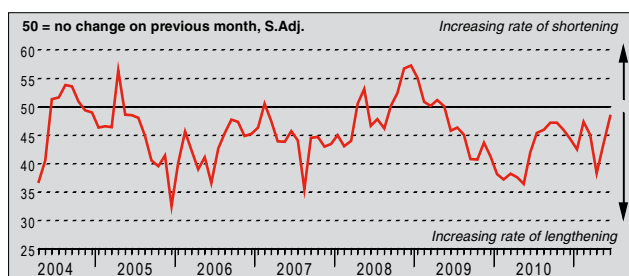
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



After accounting for seasonal factors, a modest reduction in input costs faced by Taiwanese manufacturers was indicated in June. Anecdotal evidence suggested that international prices for raw materials had generally decreased, while some panellists noted that a better alignment of supply and demand had eased cost pressures. June's fall in input prices ended a two-year period of cost inflation, with the relevant index having fallen sharply for a fourth month running from the series high recorded in February.

Suppliers' Delivery Times Index

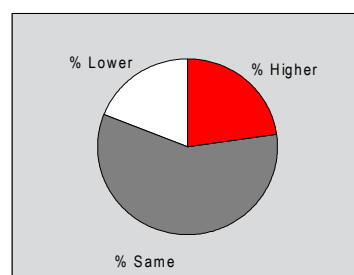
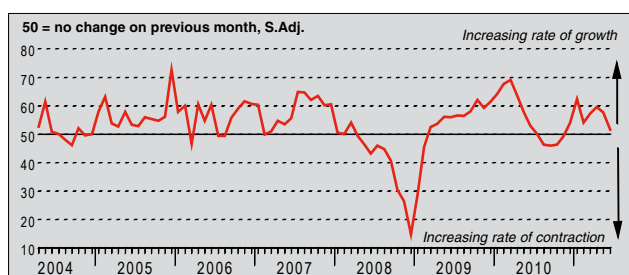
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened for a twenty-fifth consecutive month in June. Panellists commented that this reflected the ongoing impact from the earthquake and tsunami in Japan. However, the rate at which lead times deteriorated eased sharply for a second month running from the recent low recorded in April, and was slower than the long-run series average. Anecdotal evidence suggested that recovering stock levels at some suppliers lessened the extent of the latest lengthening of lead times.

Quantity of Purchases Index

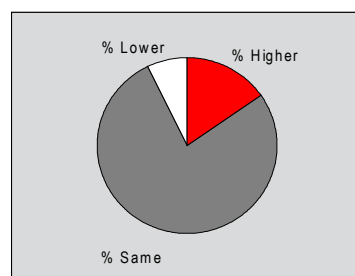
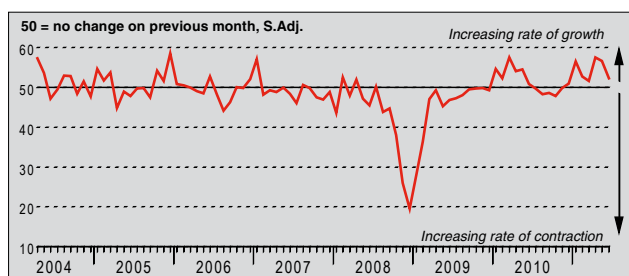
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



June data signalled a modest rise in purchasing activity at manufacturers in Taiwan, with nearly 23% of panellists noting an increase since May. However, the extent to which purchasing activity increased slowed for a second survey period to the weakest in the current seven-month sequence of growth, due to an overall contraction in new business received. Some companies linked higher input buying to efforts to reinforce inventories.

Stocks of Purchases Index

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



Taiwanese manufacturers reported a moderate rise in stocks of purchases held at their units during June, with many commenting that they were aiming to increase inventories. The rate of accumulation eased for a second consecutive month, reflective of a slowdown in purchasing growth, but remained strong in the context of historical data. Pre-production stocks have increased in each month since December 2010.

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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