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HSBC Taiwan Manufacturing PMI™

Sharp month-on-month contraction in Taiwanese manufacturing sector output

Key findings:

- Falling new orders contribute to decrease in production
- Jobs cut at marginal rate
- Both input costs and output prices fall

July survey data, compiled by Markit for HSBC, signalled a second consecutive month-on-month reduction in Taiwanese manufacturing sector output and the steepest contraction since January 2009, as new orders continued to decline. Reflective of a further increase in available spare capacity in the sector, backlogs of work were depleted, with staffing levels also falling. The general dampening in demand for Taiwanese manufactured goods led to a reduction in charges – the first in 12 months – while input costs fell for a second month running.

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 a deterioration. The latest PMI posted 46.1, down from 49.9 in June and its lowest reading since January 2009.

Manufacturers in Taiwan reported a reduction in new business received during July. This was the second consecutive contraction in new work intakes and the steepest month-on-month decline in two-and-a-half years. New export orders also fell. Panellists commented that both domestic and overseas demand had weakened, leading to the latest decline in new business. Subsequently, output also decreased sharply in July.

Excess capacity persisted, with backlogs of work depleted for a

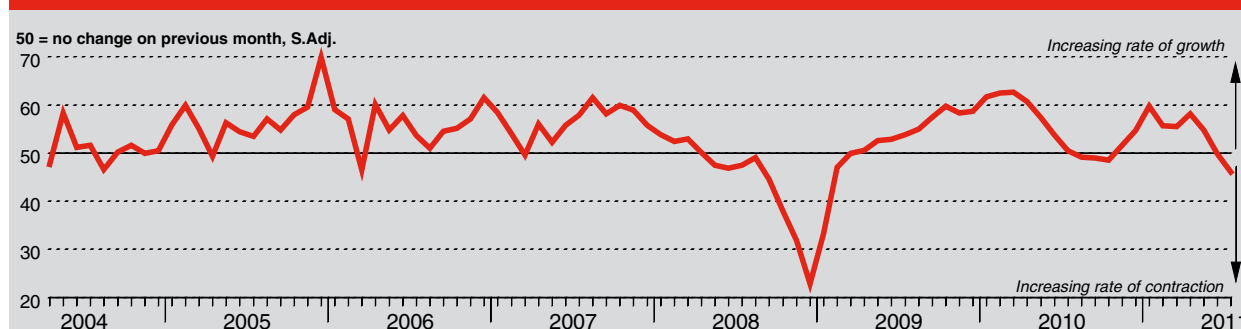
second month. The reduction in outstanding business was solid and slightly faster than that indicated in June. Finished goods stocks also declined in July. Anecdotal evidence suggested that manufacturers were realigning their stock levels due to the contraction in new business.

July's reduction in employment was driven by decreases in both new orders and output. However, the rate of job cuts was only marginal and broadly unchanged since June. Furthermore, the majority of panellists noted that staffing levels at their companies were consistent with those seen in June.

Purchasing activity fell in July for the first time since last November and at the sharpest pace since January 2009. The decrease reflected the contraction in output requirements. Despite this, suppliers' delivery times continued to lengthen, with respondents attributing this to shortages of materials at vendors. Both the reduction in input buying and delayed deliveries contributed to a slight decline in stocks of purchases.

Lower demand for materials and a general reduction in suppliers' charges led to a second consecutive decrease in input prices during July. The fall in costs was modest, but in sharp contrast to the series-record inflation recorded in February. Manufacturers reduced their output prices in July, due to lower demand and strong competition for new business.

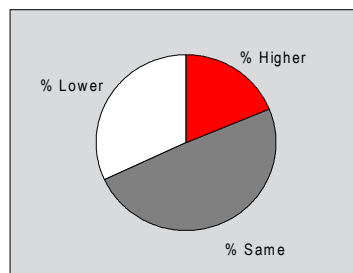
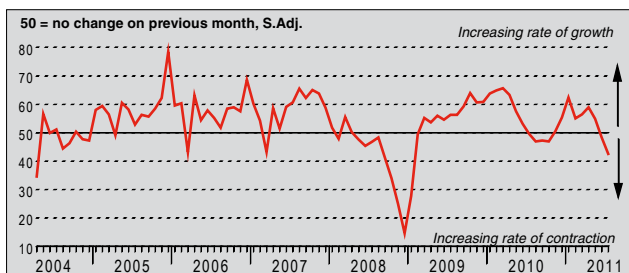
HSBC Taiwan Purchasing Managers' Index™ (PMI™)



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

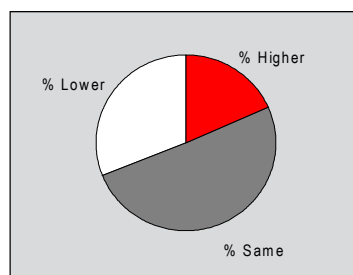
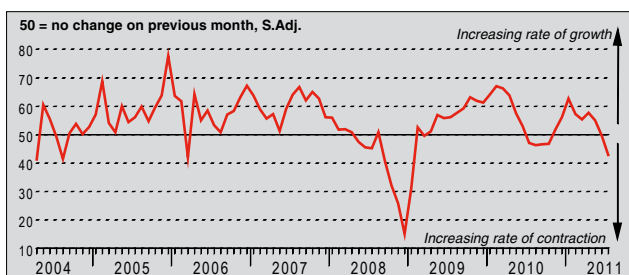
Q. Please compare your production/output this month with the situation one month ago.



Output in the Taiwanese manufacturing sector fell sharply in July, with approximately 32% of panellists noting that production at their units was lower than in the previous survey period. The July decline was the steepest month-on-month fall since January 2009. A further decline in incoming new business was cited as the main factor behind the latest decrease in output, which was the second in successive months.

New Orders Index

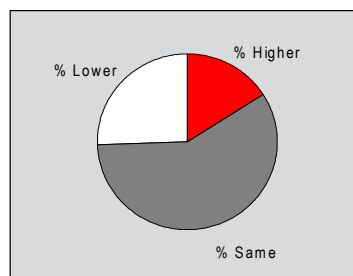
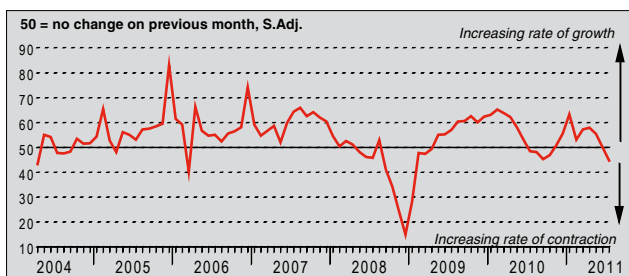
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



July data signalled a marked contraction in new orders received by manufacturers in Taiwan, with the month-on-month fall the steepest in two-and-a-half years. Panellists noting a fall in new work intakes (approximately 31%) commented that this mainly reflected reduced demand for goods from both domestic and overseas markets.

New Export Orders Index

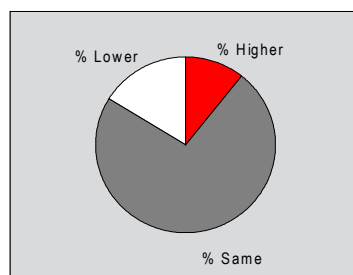
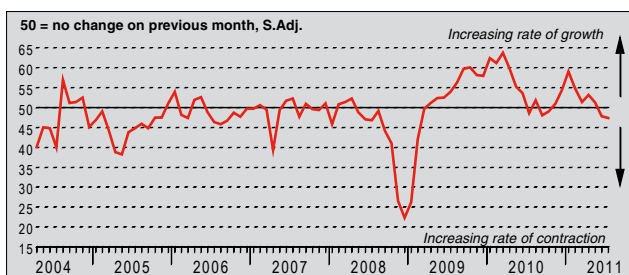
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by manufacturers in Taiwan were reported to have fallen markedly in July for the first time in nine months. Just over one-quarter of panellists noted a decrease in new business volumes, attributing this to a general dampening of demand in export markets, particularly in China and Europe.

Backlogs of Work Index

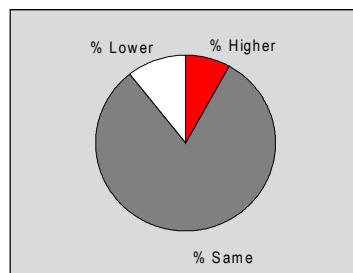
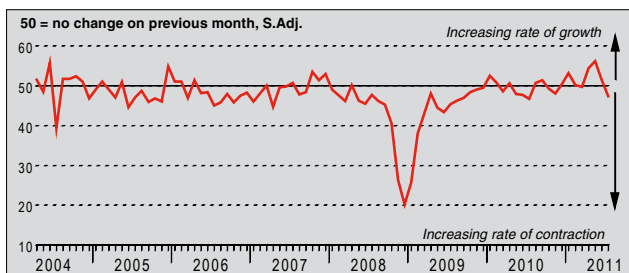
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in Taiwan decreased during July for a second consecutive month. The rate of depletion was solid, and slightly stronger than in the previous survey period. Anecdotal evidence suggested that the latest decline in outstanding business was largely driven by a reduction in new orders received, which enabled work-in-hand to be decreased.

Stocks of Finished Goods Index

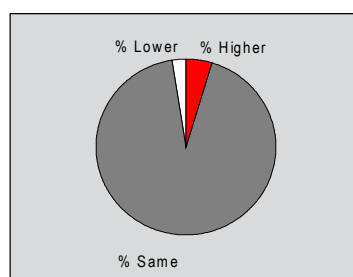
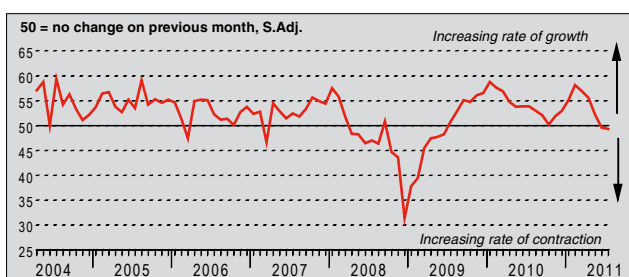
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in Taiwan reported a solid reduction in stocks of finished goods held during July. Nearly 11% of panellists noted that post-production inventories were lower than in June, attributing this to stock-level adjustments in light of lower new order intakes.

Employment Index

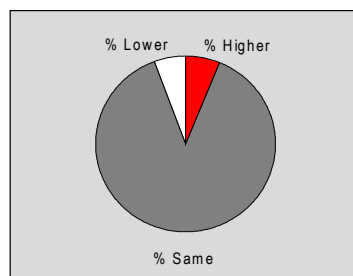
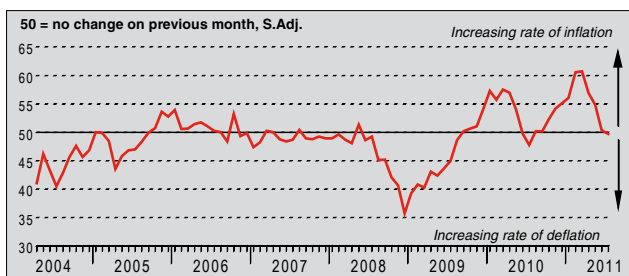
Q. Please compare the level of employment at your unit with the situation one month ago.



July data signalled a marginal reduction in employment in the Taiwanese manufacturing sector, extending the sequence of decline to two successive months. However, the majority of respondents (approximately 93%) indicated that employment was unchanged from the previous survey period.

Output Prices Index

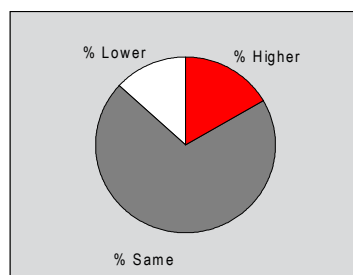
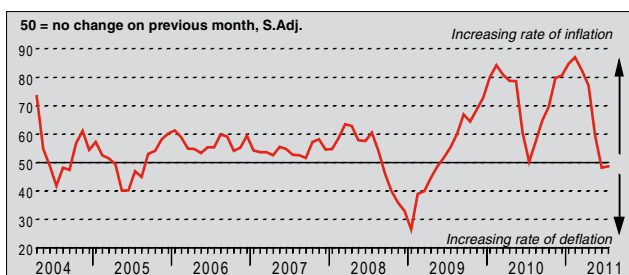
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted below the 50.0 no-change threshold in July, signalling a reduction in prices charged by manufacturers in Taiwan. However, the rate of reduction was fractional, with approximately 88% of panellists noting that they had held their tariffs constant. Where a fall in charges was indicated, reduced demand for goods was predominately cited as the main contributing factor. Decreased input costs were also mentioned, but to a lesser extent than demand factors.

Input Prices Index

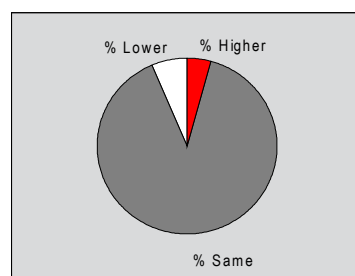
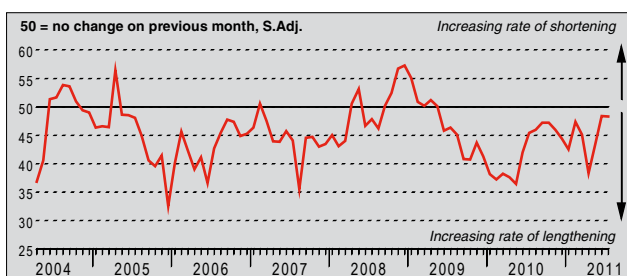
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in Taiwan decreased in July for a second month running. Anecdotal evidence suggested that lower demand for materials and a general reduction in prices charged by suppliers had primarily driven the reduction in costs. The latest fall in input prices was only modest, and slightly weaker than that recorded in June.

Suppliers' Delivery Times Index

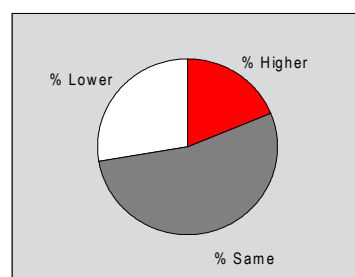
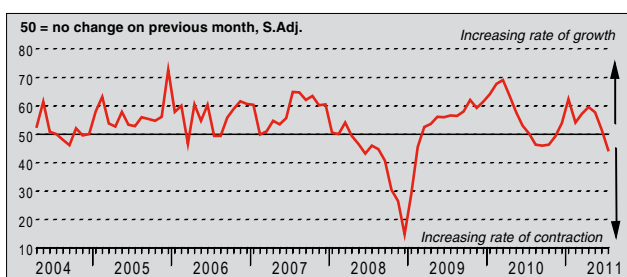
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened in July, as panellists commented that shortages of raw materials had impacted on vendor performance. Delays were also caused, to an extent, by the ongoing supply-chain implications of the earthquake and tsunami in Japan. This was the twenty-sixth month running where longer lead times have been indicated, with the latest deterioration broadly in line with that recorded in June and less marked than the historical series average.

Quantity of Purchases Index

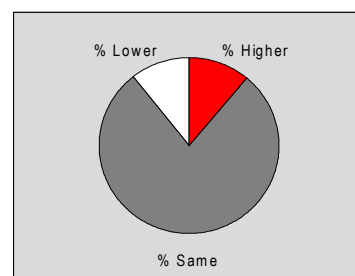
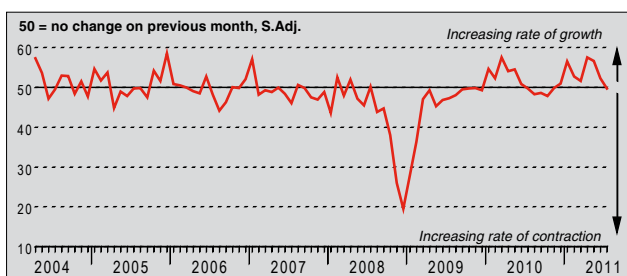
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



July data signalled a sharp reduction in purchasing activity at manufacturers in Taiwan. Panellists commented that the decline in input buying reflected the marked contraction in new business received and, therefore, output requirements. With approximately 28% of respondents indicating a fall in purchasing activity compared to the previous month, the rate of decrease was the steepest since January 2009.

Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index posted below the 50.0 no-change threshold in July, indicating a reduction in pre-production inventories held by manufacturers in Taiwan for the first time in eight months. Anecdotal evidence suggested that lower purchase volumes and delays in deliveries had contributed to the decrease in stocks. July's decline was only slight, with 78% of panellists indicating no-change in pre-production inventories from the previous survey period.

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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