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HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector output contracts for third month running

Key findings:

- Falling levels of output driven by decrease in new business
- Reduction in backlogs signals excess capacity in the sector
- Output prices fall again, but input costs rise

August survey data, compiled by Markit for HSBC, signalled a further contraction in Taiwanese manufacturing sector output. Moreover, the rate of decrease accelerated since July to the fastest since January 2009. The fall in production was once again driven by a reduction in new business received, with backlogs of work also depleted. Furthermore, finished goods stocks decreased as inventories were cleared. Despite these indications of excess capacity and subdued demand, employment increased, albeit only marginally. Meanwhile, output prices fell again amid competitive pressures. However, costs rose at a robust rate, pointing to a squeeze on margins.

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 45.2, down from 46.1 in July to its lowest reading in 31 months. This signalled a marked contraction; worsening business conditions have been recorded over each of the last three survey periods.

New business received by manufacturers in Taiwan decreased sharply during August. This was the third successive month where new work intakes contracted, with the latest decline the steepest in that period. Panellists noted a general weakening in demand both domestically and overseas, with the rate of decline in new export orders quickening to the fastest since January 2009.

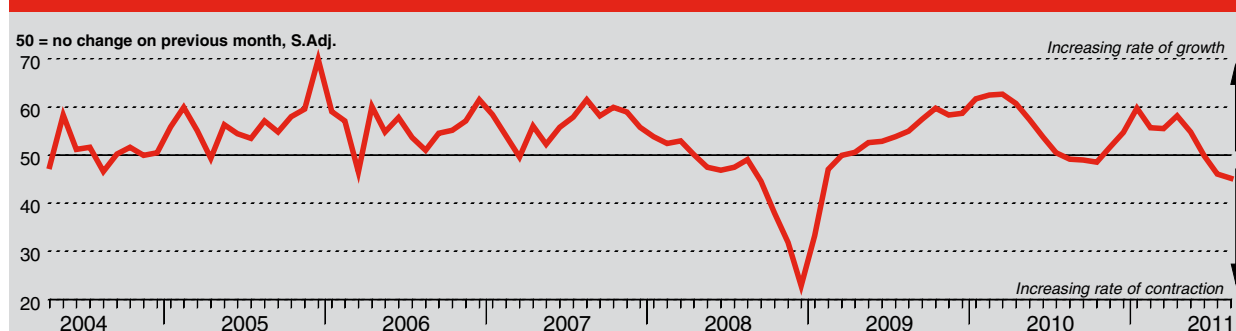
Reflective of the decrease in overall new orders, output fell at a marked rate in August. However, the contraction was only fractionally faster than that seen in July. Despite this, backlogs of work declined, with the rate of depletion accelerating to the sharpest in two-and-a-half years. This suggested that spare capacity persisted within the manufacturing sector. Furthermore, stocks of finished goods also fell, with panellists commenting that they were looking to reduce inventories amid decreasing levels of new business.

August data signalled a rise in employment for the first time in three months. However, the increase was only slight, with the vast majority of respondents indicating that staffing levels at their units were unchanged since July.

Purchasing activity at Taiwanese manufacturers declined markedly during August, in line with the reduction in output requirements. Subsequently, suppliers' delivery times were reported to have improved, as pressure on vendors' capacity eased. Stocks of purchases were depleted for a second month running.

Input costs faced by manufacturers in Taiwan increased during August, driven by higher raw material prices. The rate of cost inflation was marked, but lower than those seen in the first five months of 2011, and below the long-run series trend. In contrast, output prices fell again, as a weak demand environment and strong competition for new business led a number of manufacturers to offer discounts.

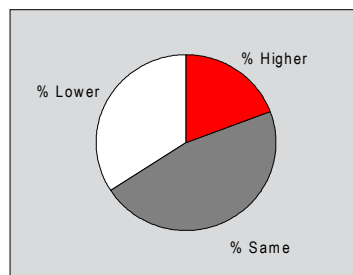
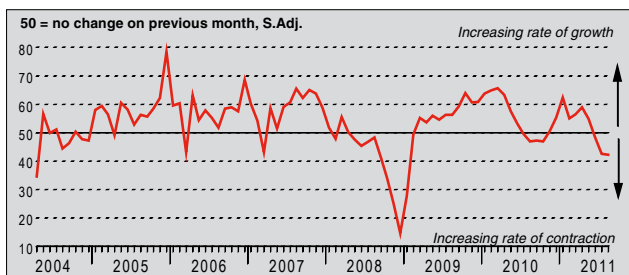
HSBC Taiwan Purchasing Managers' Index™ (PMI™)



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

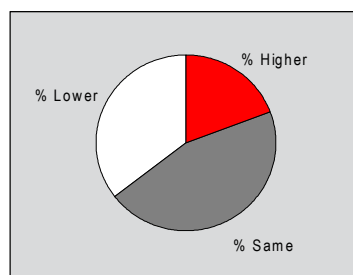
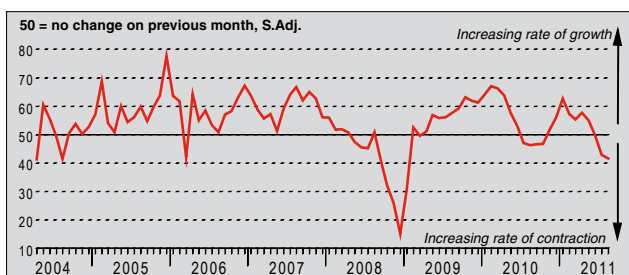
Q. Please compare your production/output this month with the situation one month ago.



August data signalled a sharp contraction in output in the Taiwanese manufacturing sector. The latest decrease was only fractionally steeper than that recorded in July, but marked the third successive month of decline, with the latest deterioration the fastest since January 2009. Approximately 34% of panellists reported a reduction in output compared to the previous month, and attributed this to a further decrease in new business volumes.

New Orders Index

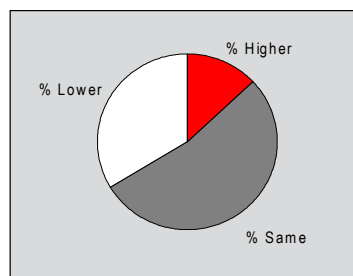
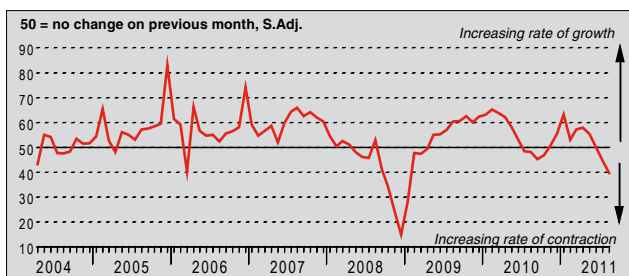
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



Manufacturers in Taiwan reported a marked decrease in new orders received during August, extending the sequence of sustained decline to three months. Moreover, the rate of contraction accelerated since July to the fastest in over two-and-a-half years. Anecdotal evidence suggested that the latest reduction in new business reflected a general weakening of demand, with both domestic and overseas orders affected.

New Export Orders Index

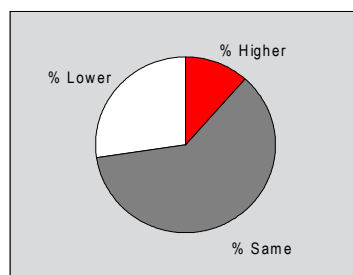
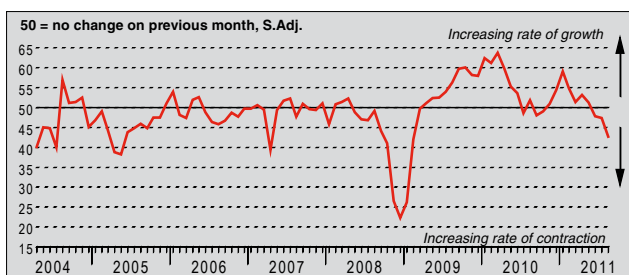
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by manufacturers in Taiwan decreased sharply during August. Just over one-third of panellists noted a lower level of new export business compared to July, citing weakened client demand as the main contributor. New orders received from Europe were particularly noted to have fallen, while lower levels of incoming new business from the US and China were also reported. The rate at which new export orders contracted accelerated markedly during the month, with the latest reduction the sharpest since January 2009.

Backlogs of Work Index

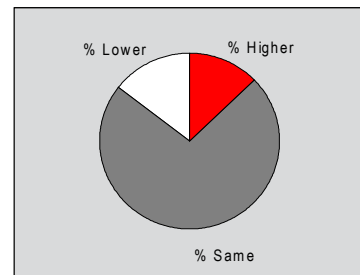
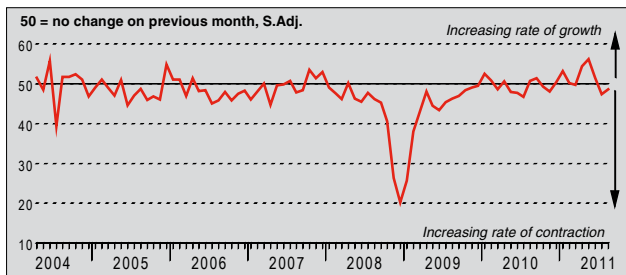
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Taiwanese manufacturers reported a third successive decrease in backlogs of work during August. Moreover, the latest depletion of outstanding business was the fastest in that period and notably strong in the context of historical data. Respondents commented that a further sharp fall in new business received had led to the decline in work-in-hand, and suggested that spare capacity existed at manufacturers in Taiwan.

Stocks of Finished Goods Index

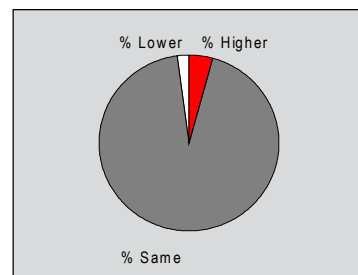
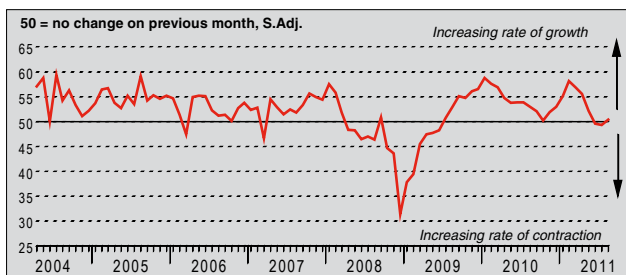
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



August data signalled a reduction in stocks of finished goods held by manufacturers in Taiwan. This was the second consecutive decline in post-production inventories, although the latest decrease was marginally weaker than that recorded in July, and slower than the long-run series average. Approximately 15% of panellists indicated a depletion of finished goods stocks, attributing this to inventory reduction initiatives as new orders fell.

Employment Index

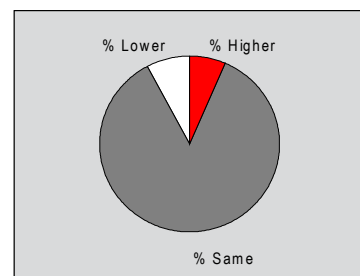
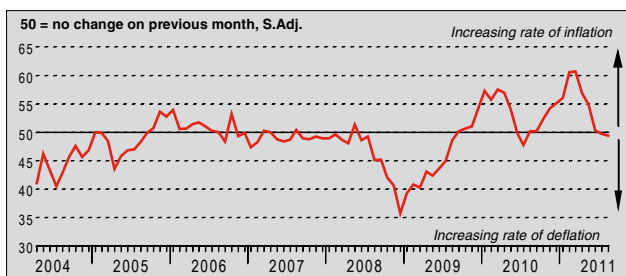
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Taiwanese manufacturing sector increased during August, despite reductions in output and new business. However, the increase in staffing levels was only marginal and weaker than the long-run trend. Highlighting this, the majority of respondents (94%) noted no change in employment from the previous month.

Output Prices Index

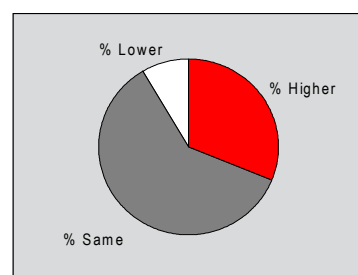
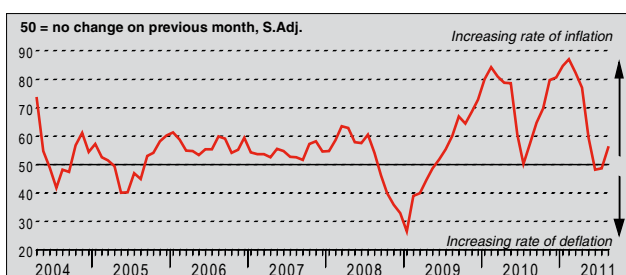
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Taiwanese manufacturers reported a reduction in their prices charged during August, noting that this reflected a weaker demand environment and strong competition for new business. While the decline in output prices was marginal, it was the second in successive months. Nonetheless, it was slower than the historical average, with approximately 86% of panellists indicating that their charges were unchanged since July.

Input Prices Index

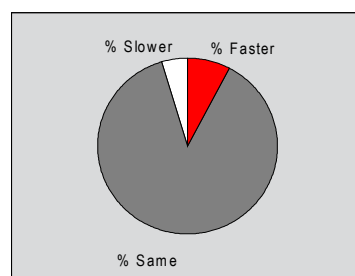
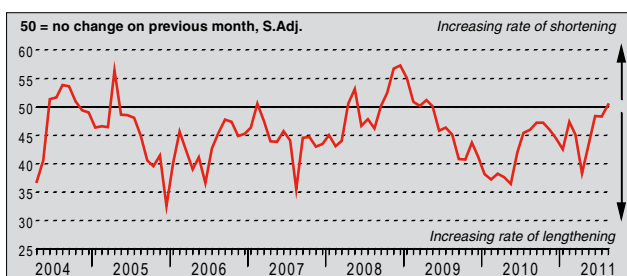
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in Taiwan rose markedly during August, in contrast to modest reductions in costs seen over the previous two survey periods. Approximately 31% of panellists reported higher input prices compared to those seen in July, citing a rise in raw material costs as the main contributor. Nonetheless, the latest increase in input prices was below the long-run series average, and notably weaker than rises seen in the first five months of the year.

Suppliers' Delivery Times Index

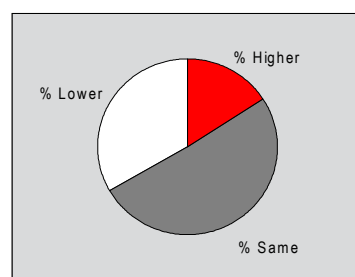
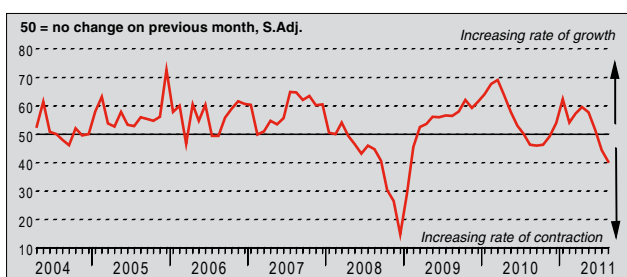
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan indicated a shortening of suppliers' delivery times during August, which was the first improvement in vendor performance in over two years. Respondents noting a quickening of lead times commented that reduced purchasing activity had eased pressure at suppliers. However, the extent to which vendor performance improved was only slight, with approximately 88% of panellists reporting no change from the previous survey period.

Quantity of Purchases Index

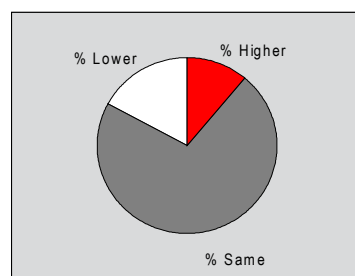
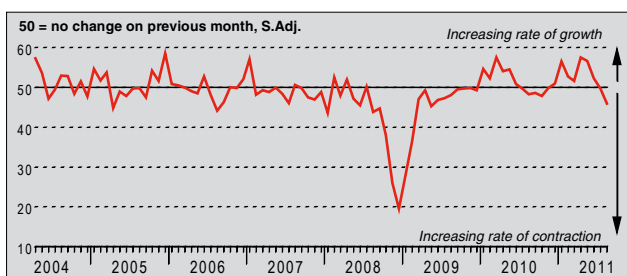
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturers in Taiwan fell sharply during August. With one-third of panellists recording a lower level of input buying, the rate of decrease accelerated since July to the fastest in over two-and-a-half years. Anecdotal evidence suggested that sustained reductions of both new business and output had led to the latest decrease in purchase volumes, which was the second in successive months.

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 fell during August. The latest depletion was the second in as many months, and the fastest since May 2009. Approximately 17% of respondents noted a decline in pre-production inventories compared to the previous survey period, attributing this to the sharp reduction in purchase volumes.

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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