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HSBC Taiwan Manufacturing PMI™

Rate of month-on-month decrease in Taiwanese manufacturing sector output remains sharp

Key findings:

- Further reduction in new business is primary contributor to lower production
- Manufacturers continue to decrease holdings of pre- and post-production goods
- Input price inflation moderates, but charges fall again

September survey data, compiled by Markit for HSBC, signalled a fourth successive decline in Taiwanese manufacturing sector output. The rate of contraction was the fastest in that period. Falling new order volumes continued to be the main driver of the reduction in output, with firms also looking to realign holdings of inventories to reflect decreased demand. Subsequently, backlogs of work were depleted. Nonetheless, employment rose, albeit only marginally. Meanwhile, the increase in input costs weakened on the month, but prices charged fell again amid strong competitive pressures.

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 44.5, down from 45.2 in August. This was the fourth successive month where PMI data have signalled worsening business conditions, with the latest reading the lowest since January 2009.

New order volumes contracted for the third month running in September, with the latest decline the sharpest in that period. Panellists commented that both domestic and overseas demand had weakened during the month. Underpinning this, new export business was reported to have decreased. While the decline was slightly slower than in August, it remained marked. Anecdotal evidence suggested that waning global economic conditions had

contributed to the fall in new export business. New orders from Europe were particularly mentioned as having declined.

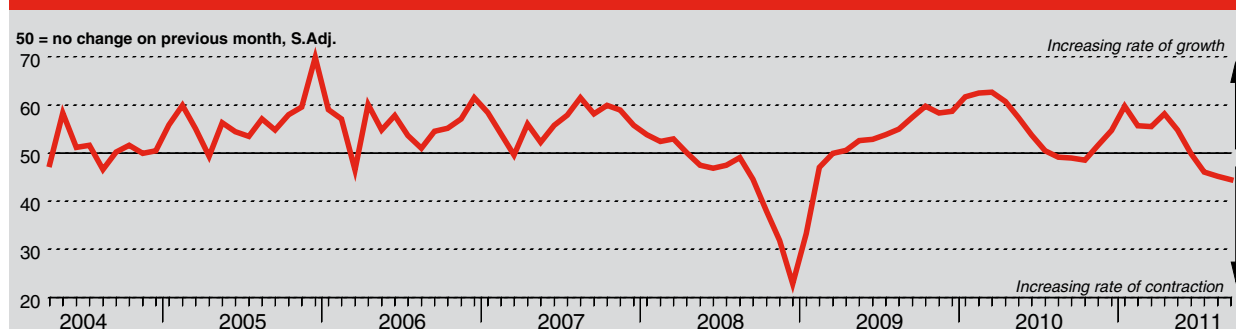
Production also fell at a sharp rate in September, reflective of lower new order volumes. Despite this, backlogs of work were notably depleted, indicating that spare operating capacity persisted in the sector. While the decrease in new business contributed to the reduction in outstanding business, this was compounded by initiatives to decrease stocks of finished goods amid the weaker demand environment.

September data signalled an increase in employment in the Taiwanese manufacturing sector, despite sustained declines in output and work-in-hand. Nonetheless, the rise was marginal, with the vast majority of respondents indicating no change in staffing levels.

Reflective of lower production requirements, purchasing activity at manufacturers in Taiwan decreased markedly during September. The reduction in demand for inputs eased capacity pressures and increased inventory levels at suppliers. Subsequently, delivery times shortened in September. Stocks of purchases were depleted as companies looked to reduce holdings of pre-production goods.

Input price inflation eased during September, with the latest rise in costs below the long-run trend. Prices charged fell for a third consecutive month. Anecdotal evidence suggested that strong competition for new business and a weaker rise in costs contributed to the decrease in output prices.

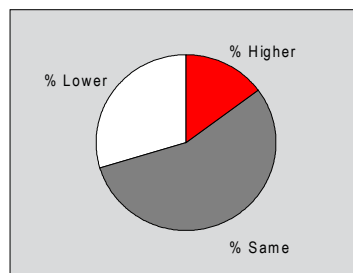
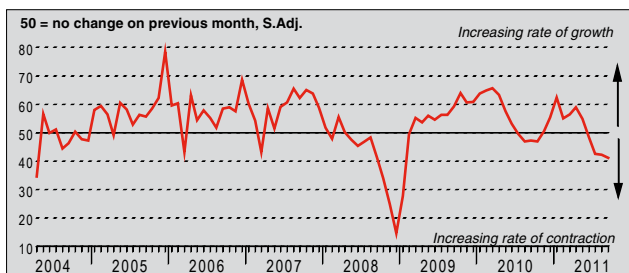
HSBC Taiwan Purchasing Managers' Index™ (PMI™)



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

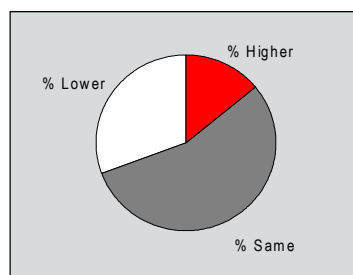
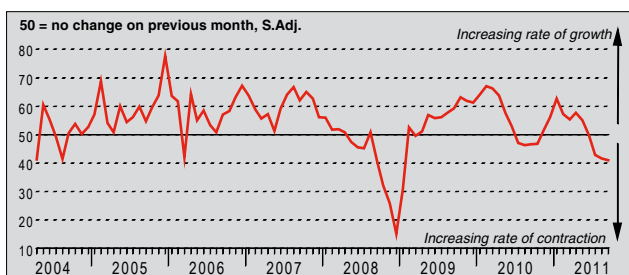
Q. Please compare your production/output this month with the situation one month ago.



September data signalled a marked contraction of output in the Taiwanese manufacturing sector. Moreover, the rate of decline accelerated to one of the strongest in the series history. That said, the rate of decrease was notably weaker than those recorded at the trough of the global downturn in 2008/09. Panellists noting a lower level of production compared to August attributed this to a further sharp reduction in new orders received. Output has now fallen for four successive months.

New Orders Index

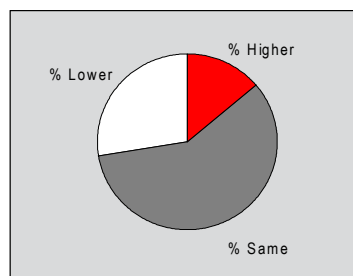
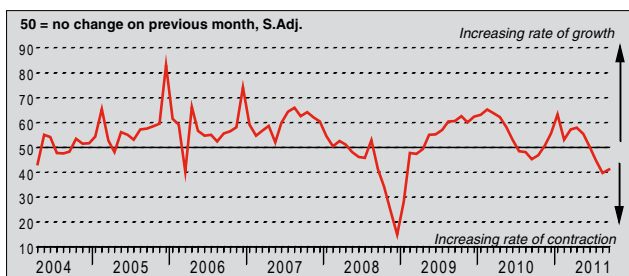
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



New orders received by manufacturers in Taiwan decreased during September, extending the period of sustained decline to four months. The rate of contraction was sharp, and accelerated to the fastest since January 2009. Approximately 31% of respondents noted a lower level of new business compared to the previous month, commenting that this reflected reduced demand, both from domestic and overseas clients.

New Export Orders Index

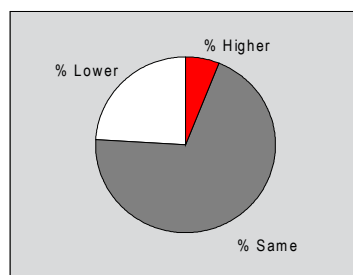
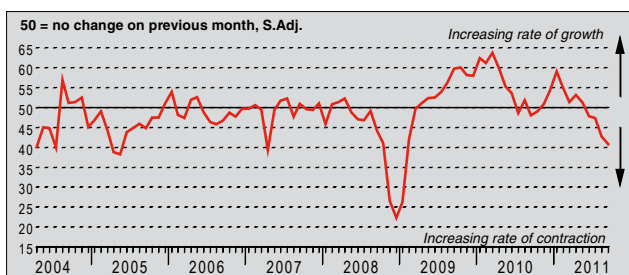
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturers in Taiwan reported a reduction in new business received from export markets in September. This was the third month in succession where new export business decreased and, while the rate of decline remained marked, it was marginally weaker than that registered in August. Nonetheless, approximately 28% of panellists recorded a fall in new export orders, citing weaker demand in overseas markets due to waning economic conditions. Lower new business volumes from Europe were mentioned in particular.

Backlogs of Work Index

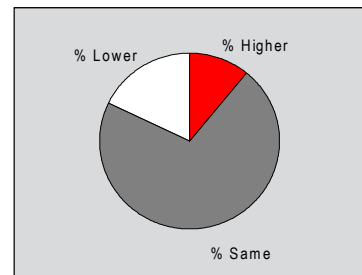
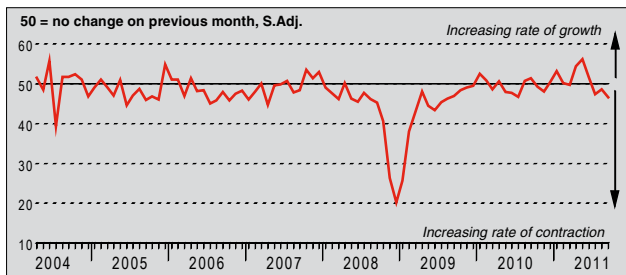
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work held at manufacturers in Taiwan decreased for a fourth successive month in September. Moreover, the rate of depletion accelerated to the fastest in that sequence, and was sharp in the context of historical data. Anecdotal evidence suggested that spare operating capacity persisted due to further reductions in incoming new business. Many companies also looked to decrease stocks of finished goods, which contributed to the decline in outstanding business.

Stocks of Finished Goods Index

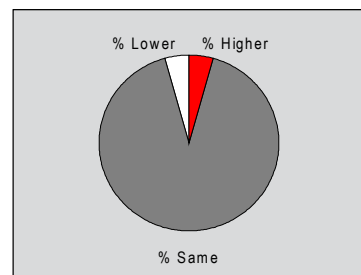
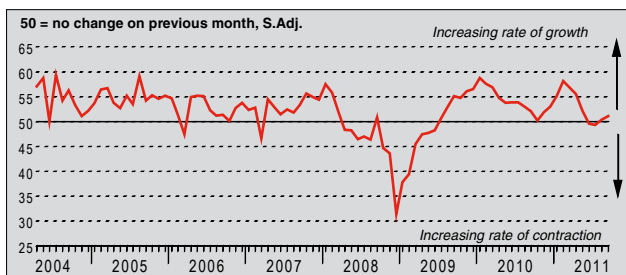
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in Taiwan reported a reduction in stocks of finished goods held during September. This was the third month running where post-production inventories were depleted, with the latest decrease the strongest in that sequence. Approximately 18% of respondents recorded a lower level of finished goods stocks compared to the previous survey period, commenting that initiatives to reduce inventories had been implemented following weak new order intakes in recent months.

Employment Index

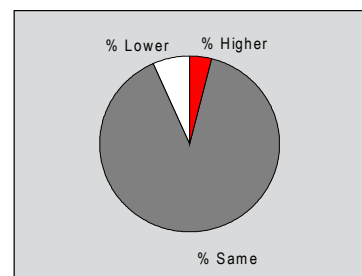
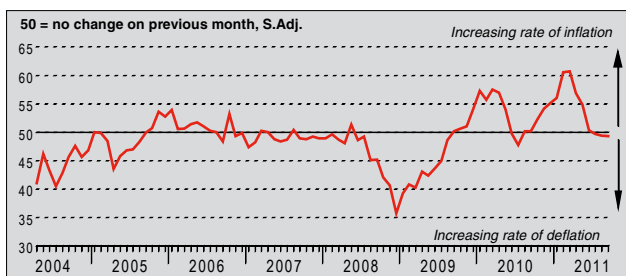
Q. Please compare the level of employment at your unit with the situation one month ago.



September data signalled a rise in employment in the Taiwanese manufacturing sector. This was despite marked contractions in new orders and backlogs of work. However, only around 4% of panellists noted an increase in staffing levels compared to the previous survey period, with the rate of job creation marginal. The vast majority of respondents (approximately 91%) registered no change in employment since August.

Output Prices Index

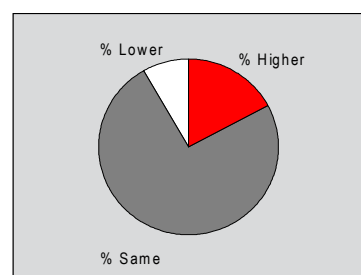
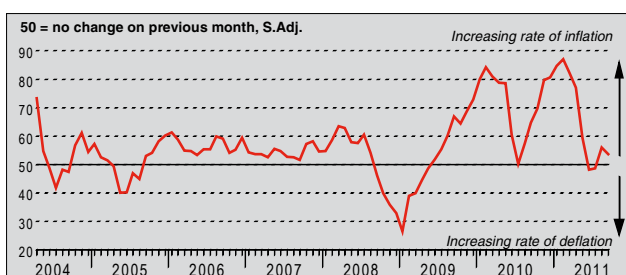
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by manufacturers in Taiwan fell during September for a third successive month. The rate of decrease has been marginal throughout that period, with the majority of respondents (approximately 89% in September) noting no change in average tariffs from the previous survey period. Where a fall in output prices was recorded, this was attributed to strong competition for new business due to dampened demand. A weaker rise in input costs was also mentioned.

Input Prices Index

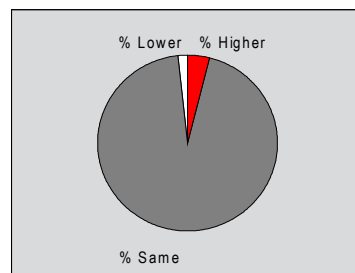
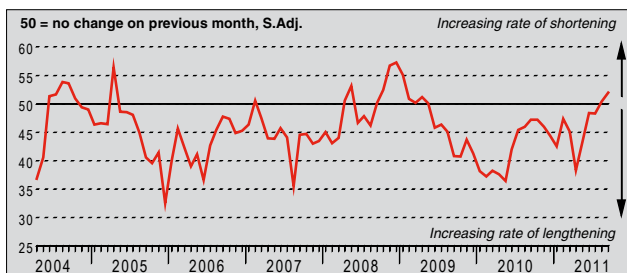
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a rise in input costs faced during September. Approximately 17% of panellists indicated higher input prices compared to August, commenting that this reflected increased raw material costs. While the rate of input price inflation was solid, it slowed since August and was below the long-run series average. Anecdotal evidence suggested that this reflected a slower rise in raw material costs, particularly as demand for inputs continued to weaken.

Suppliers' Delivery Times Index

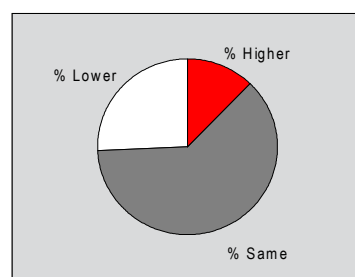
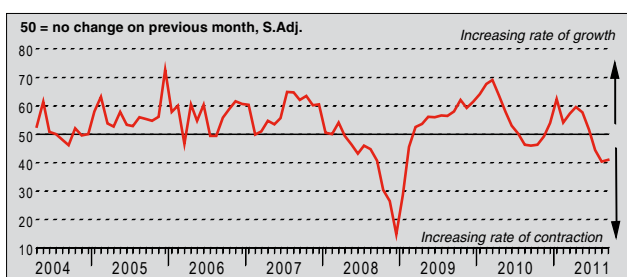
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



A second consecutive monthly shortening of suppliers' delivery times was reported by Taiwanese manufacturers in September. Anecdotal evidence suggested that the improvement in vendor performance reflected reduced purchasing activity, easing pressure on operating capacity and sufficient stock levels at suppliers. The extent of the shortening of lead times was modest, with the vast majority of respondents (approximately 94%) indicating no change in vendor performance since August.

Quantity of Purchases Index

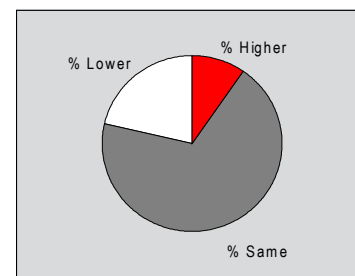
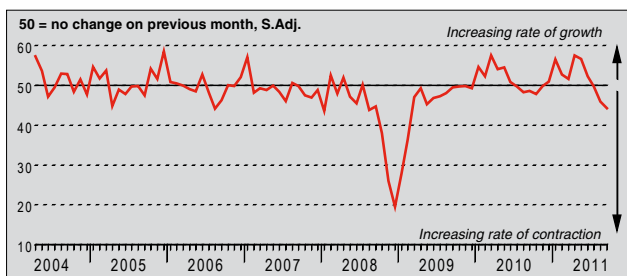
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Manufacturers in Taiwan reported a marked reduction in purchasing activity during September. Panellists cited lower new order intakes and output, alongside initiatives to decrease holdings of pre-production inventories, as the main contributors to the decline in input buying. The latest fall in purchasing activity was the third in as many months and, while the rate of reduction slowed slightly since August, it remained strong in the context of historical data.

Stocks of Purchases Index

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



September data signalled a marked decline in stocks of purchases held at manufacturers in Taiwan. Levels of pre-production inventories have decreased in each of the last three months, with the latest reduction the fastest in that sequence and stronger than the long-run trend. Approximately 21% of respondents indicated lower levels of stocks of purchases compared to the previous survey period, noting that this reflected initiatives to reduce holding of inventories.

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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