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HSBC Taiwan Manufacturing PMI™

Sharpest contraction in Taiwanese manufacturing sector output in 33 months

Key findings:

- Lower new orders from both export and domestic markets lead to fall in production
- Holdings of pre- and post-production inventories continue to decrease
- Both input and output prices reduce

October survey data, compiled by Markit for HSBC, signalled a fifth successive contraction in Taiwanese manufacturing sector output, with the rate of decline the sharpest in that sequence. Manufacturers continued to face weakened demand from both domestic and export markets, leading to the strongest reduction in new business since January 2009. This, in turn, resulted in the lower level of production and a further decrease in backlogs of work. Employment was flat on the month. Meanwhile, reflective of weaker demand for inputs, suppliers cut the cost of materials. Output prices also fell and at a solid 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 a deterioration. October's PMI posted 43.7, down from 44.5 in September. The latest reading pointed to a worsening in business conditions that was the sharpest since January 2009.

New business received by manufacturers in Taiwan decreased substantially during October. This was primarily driven by a reduction in demand, both domestically and overseas, due to weakening global economic conditions. Overall new order volumes have now fallen in each of the last five months, although the latest decrease was the strongest in that period.

Output reduced markedly, in line with the decline in new work

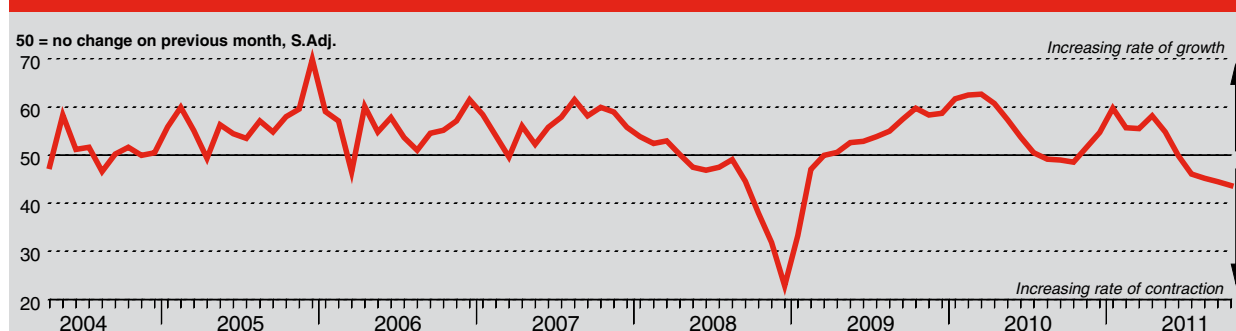
intakes. Nonetheless, backlogs of work at manufacturers in Taiwan fell for a fifth consecutive month. This indicated that spare operating capacity in the sector persisted. The rate of depletion remained marked, and was broadly unchanged since September. Stocks of finished goods decreased for a fourth month running in October. Panellists commented that they had utilised existing inventories as part of initiatives to control stocks.

October data signalled a flat level of employment since September. The vast majority of respondents noted that staffing levels were unchanged, with anecdotal evidence suggesting that recruitment plans had been dampened by the current softness in demand.

Purchasing activity fell sharply during October, reflective of lower production requirements. Despite the decline in input buying, suppliers' delivery times lengthened, albeit at a marginal rate. Manufacturers continued efforts to reduce stocks of purchases, with inventories decreasing for a fourth successive month.

Input costs faced by manufacturers in Taiwan decreased in October for the first time in three months. Panellists commented that the reduction in suppliers' tariffs reflected lower demand for inputs. Prices charged by Taiwanese manufacturers fell for a fourth successive month, with the rate of deflation the sharpest since July 2009. Lower costs and strong competition for new business drove the decrease in output prices.

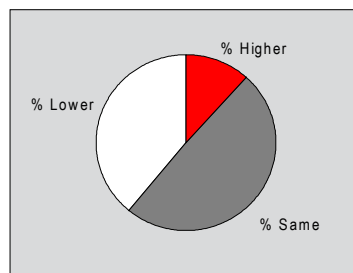
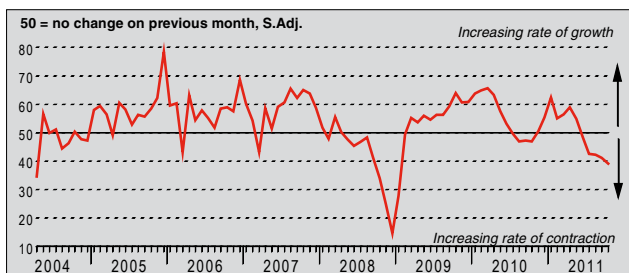
HSBC Taiwan Purchasing Managers' Index™ (PMI™)



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

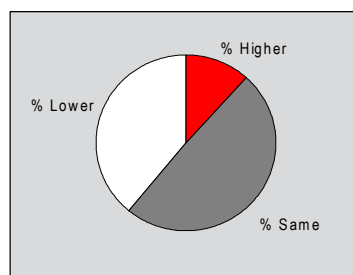
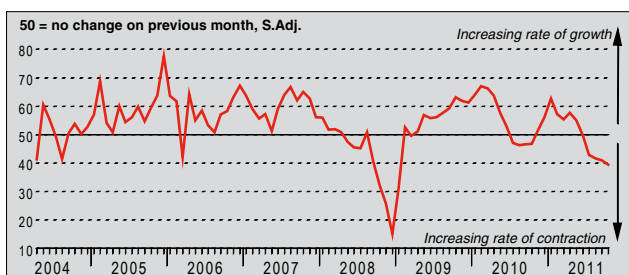
Q. Please compare your production/output this month with the situation one month ago.



October data signalled a sharp contraction in output in the Taiwanese manufacturing sector, extending the sequence of sustained decline to five months. Anecdotal evidence suggested that a further reduction in new work intakes was the main driver of the decrease in production. Exactly 39% of respondents indicated a fall in output during the month, compared with around 12% noting a rise. The overall rate of contraction was the strongest since January 2009.

New Orders Index

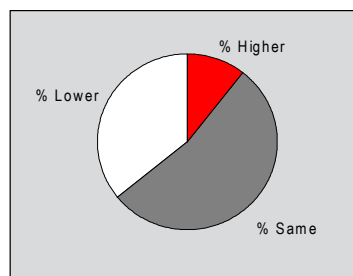
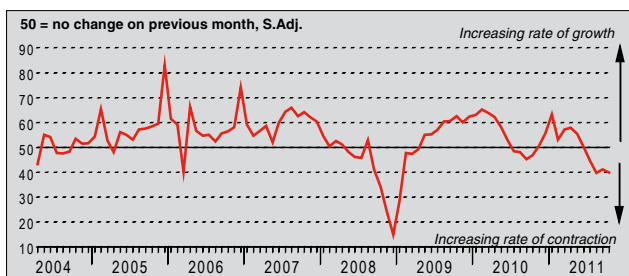
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



New orders received by manufacturers in Taiwan fell for a fifth successive month in October. Moreover, the rate of decline was the sharpest in that period, and the fifth-fastest in the series history. Panellists registering a lower level of new work intakes compared with the previous survey period commented that this reflected a general softening in demand. New business from both domestic and export markets were down as global economic conditions deteriorated.

New Export Orders Index

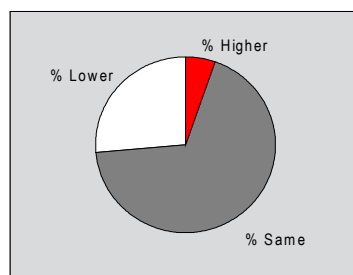
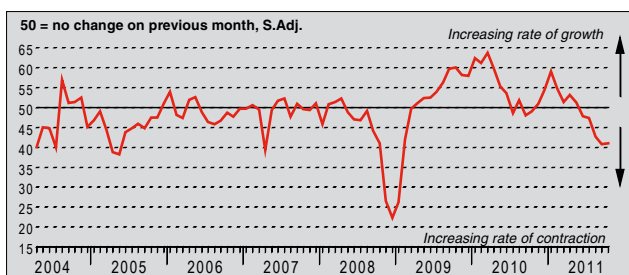
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturers in Taiwan reported a substantial reduction in new export orders received during October. The rate of contraction was slightly faster than that recorded in September, and broadly in line with that seen in August. Approximately 36% of panellists registered a decrease in new work intakes received from export markets, attributing this to weakened demand, particularly in China and Europe. New export business has now fallen for four consecutive months.

Backlogs of Work Index

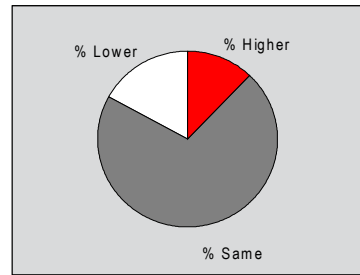
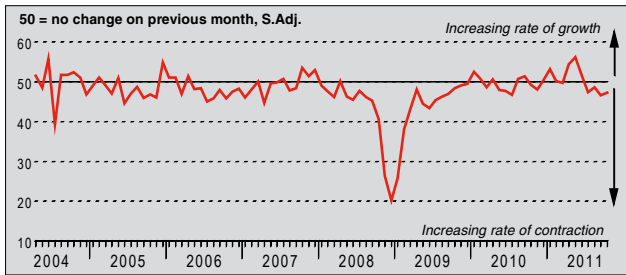
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work held at manufacturers in Taiwan fell sharply during October, indicating that spare operating capacity in the sector persisted. The rate of depletion was fractionally weaker than in September, but remained marked in the context of historical data. Panellists cited a further reduction in new work intakes as the main contributor to the latest reduction in levels of outstanding business, which was the fifth in successive months.

Stocks of Finished Goods Index

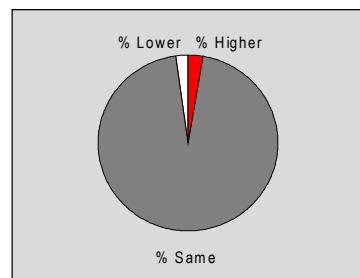
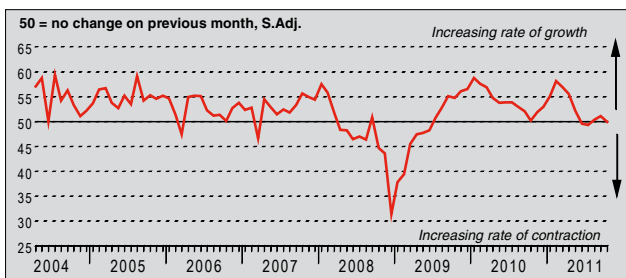
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at manufacturers in Taiwan decreased during October, extending the sequence of sustained depletion to four months. The rate of decline was solid, but marginally weaker than that recorded in September. Panellists commented that existing stocks were utilised as part of initiatives to control levels of post-production inventories in response to decline in new orders.

Employment Index

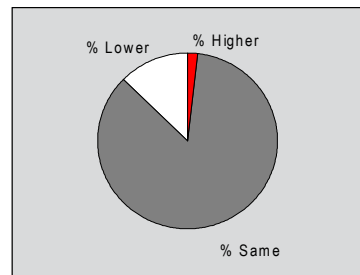
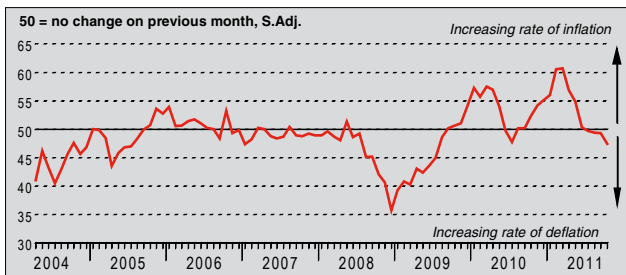
Q. Please compare the level of employment at your unit with the situation one month ago.



The seasonally adjusted Employment Index posted in line with the 50.0 no-change threshold in October, indicating that staffing levels were consistent with those seen in September. Anecdotal evidence suggested that lower output had dampened hiring in the manufacturing sector. The vast majority (95%) of firms signalled no change in employment.

Output Prices Index

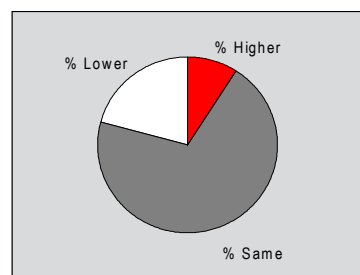
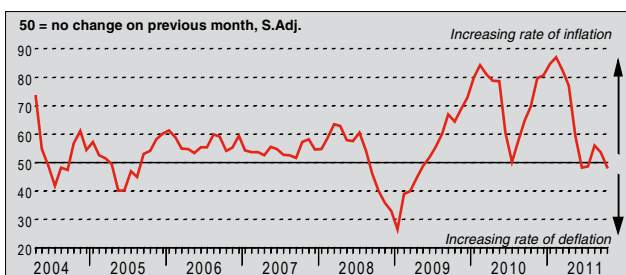
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by manufacturers in Taiwan decreased for a fourth successive month in October. Moreover, the extent to which charges were reduced was the fastest since July 2009 and sharper than the long-run trend. Anecdotal evidence suggested that a fall in input costs and strong competition for new business were the main contributors to the decline in output prices.

Input Prices Index

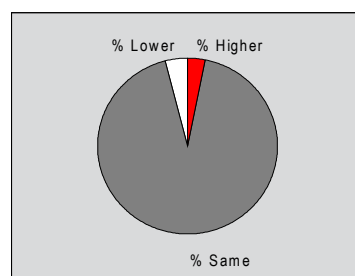
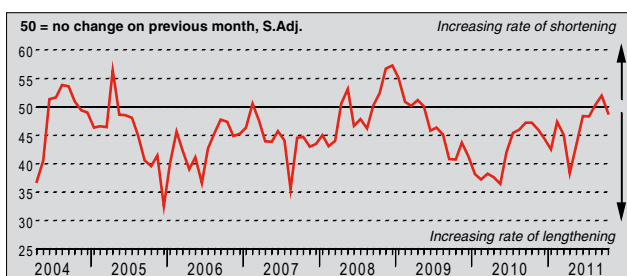
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



October data signalled a decline in input costs faced by manufacturers in Taiwan. This was the first reduction in input prices for three months. Approximately 21% of respondents registered a lower level of costs compared to the previous survey period, commenting that a fall in raw material prices was the main driver. Anecdotal evidence suggested that decreased demand for materials had led to the reduction in prices charged by suppliers.

Suppliers' Delivery Times Index

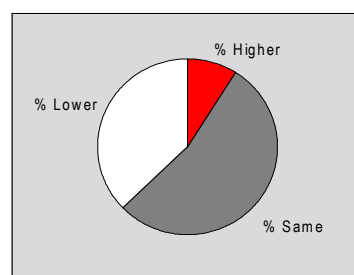
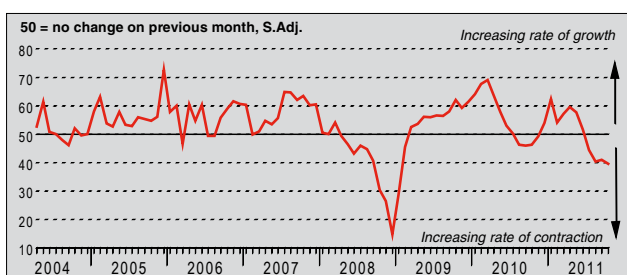
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Taiwanese manufacturers reported a lengthening of suppliers' delivery times during October. This was in contrast to the previous two months where vendor performance had improved. However, the vast majority of respondents (approximately 93%) indicated that delivery times were unchanged since September.

Quantity of Purchases Index

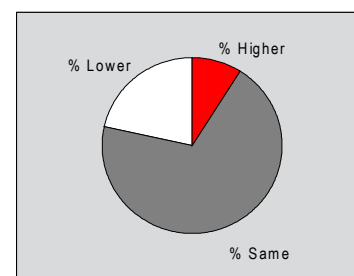
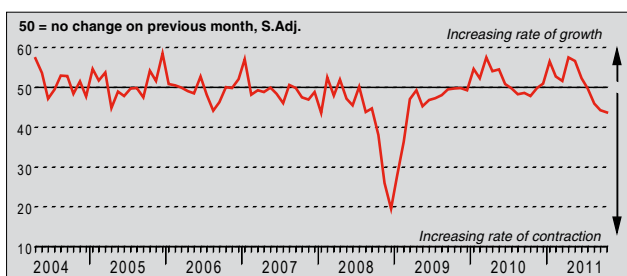
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Taiwanese manufacturers reported a reduction in purchasing activity during October. Anecdotal evidence suggested that the decrease in purchase volumes reflected lower production requirements. With approximately 37% of respondents registering a decrease in input buying, the rate of decline was marked, and the strongest in the current four-month sequence of contraction.

Stocks of Purchases Index

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



October data signalled a fall in stocks of purchases at manufacturers in Taiwan. Pre-production inventories have now decreased in each of the last four months, with the latest decline the sharpest since February 2009. Panellists commented that contractions in new business and output had led them to implement stock reduction initiatives.

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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