HSBC *Purchasing Managers' Index*™ Press Release

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compiled by markit

HSBC Taiwan Manufacturing PMI™

Deterioration of Taiwanese manufacturing sector operating conditions weakest in six months in December

Summary

The HSBC Taiwan *PMI™* – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – posted 47.1, up from 43.9 in November. The latest reading pointed to a further worsening of business conditions, but the rate of deterioration slowed notably from the previous survey period.

New business received by companies in Taiwan fell for the seventh month running in December. The rate of contraction remained sharp, but eased to the weakest since June. New work intakes from export markets also decreased, but the decline was the second-slowest in the current six-month period of contraction. Panellists cited weakened demand both at home and overseas as the main driver of the reduction in new orders.

A concurrent slower decline in output was recorded in December. Backlogs of work continued to decrease, suggesting that spare capacity persisted. However, the rate of depletion eased sharply. Stocks of finished goods fell for a sixth successive month in December, reflective of weaker demand conditions and companies' initiatives to reduce post-production inventories.

December data signalled a rise in employment in the Taiwanese manufacturing sector, following two months where staffing levels were broadly stagnant. Nonetheless, the increase in employment was only marginal, with the vast majority of respondents indicating no change in staffing levels.

In line with weaker declines in new orders and output, purchasing activity reduced at a slower rate in December. Nonetheless, the decrease in purchase volumes remained marked. Despite this, delivery times lengthened again, and to a greater extent than in the previous survey period. Anecdotal evidence attributed longer lead times to supply bottlenecks in Japan and the ongoing effects of floods in Thailand. Stocks of purchases were depleted as manufacturers aimed to control pre-production inventories.

Input costs faced by manufacturers in Taiwan fell for a third successive month in December, reflective of subdued demand for raw materials. A modest reduction in output prices was recorded, with panellists attributing this to competitive pressures and lower input costs. However, the majority of respondents indicated that they had held their charges steady since November.

Comment

Commenting on the Taiwan Manufacturing PMI survey, Donna Kwok, Economist at HSBC in Asia said:

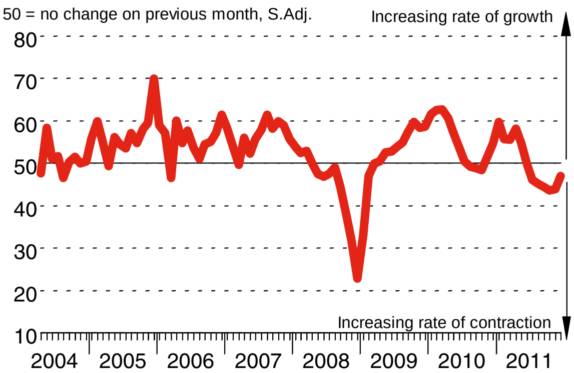
"Although production and new business inflows are still declining, the pace of deterioration eased across the board for the second straight month – enough to push manufacturing employment back into expansion mode. Half a year of inventory de-stocking means that a small boost for production could be around the corner soon. That said, with Europe still slipping into recession and China's domestic economy still seeking a firm footing, Taipei policy makers won't be ending their vigilant surveillance of Taiwan's growth outlook just yet."

Key points

- Reductions in both new orders and output slow since November
- Falling backlogs suggest spare capacity persists, however depletion weakest since July
- Input costs and output prices both decrease in December

Historical Overview

HSBC Taiwan Manufacturing PMI



Sources: HSBC, Markit

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Notes to Editors:

The HSBC Taiwan Report on Manufacturing 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 industry contribution to Taiwanese GDP. 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: 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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