HSBC Purchasing Managers' Index™ 2012

Embargoed until: 10:00 (TAIPEI), 2 January 2012

HSBC Taiwan Manufacturing PMI™

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

Key findings:

- 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

December survey data, compiled by Markit for HSBC, signalled another fall in Taiwanese manufacturing sector output. While the latest decrease was the seventh in consective months, the rate of contraction slowed to the second-weakest in this sequence. Similarly, the decline in new orders eased. Nonetheless, contractions in both production and new business remained marked, and led to an overall deterioration in business conditions. Backlogs of work declined again, signalling that spare capacity persisted in the sector. However, the rate of depletion slowed sharply. Employment rose, but only marginally. Meanwhile, both input costs and output prices decreased during December.

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. December's PMI 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.

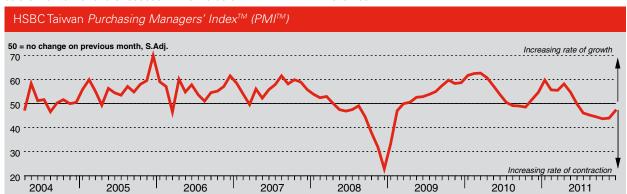
New business received by companies in Taiwan fell for the seventh month running in December. The rate of contraction remained sharp, but eased to the weakest since June. New work intakes from export markets also decreased, but the decline was the second-slowest in the current six-month period of contraction. 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.



The HSBC Taiwan Purchasing Managers' IndexTM (PMITM) 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*TM and *PMI*TM 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.

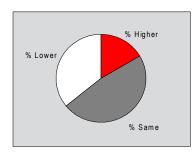




Output Index

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



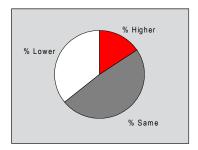


Taiwanese manufacturers recorded a further reduction in output during December. Although remaining marked, the rate of decline eased to the slowest since June. The weaker drop in production mirrored a slower decline in the level of new orders placed with manufacturers during the latest survey period. Approximately 36% of panellists noted a fall in output, versus 17% that registered an increase.

New Orders Index

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



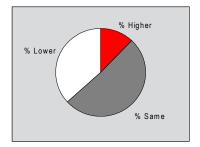


The rate of decline in new orders in the Taiwanese manufacturing sector eased further in December to its weakest for six months. However, the latest contraction was still marked, with approximately 36% of panel members reporting a decrease in new work since November. Those panellists that recorded a drop in new orders cited weak demand conditions both domestically and abroad.

New Export Orders Index

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



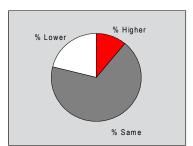


New export orders received by manufacturers in Taiwan continued to fall in December, extending the current sequence of decline to six months. There were a number of reports of weaker demand from clients based in Europe. Although still substantial, the rate of contraction eased for the second month running to the slowest since July.

Backlogs of Work Index

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



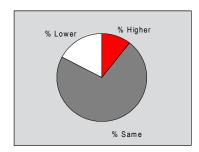


Backlogs of work at Taiwanese manufacturers decreased further in December, in line with the trend observed since June. That said, the pace of decline eased sharply since November to the weakest in five months. Where a fall in outstanding business was recorded, this was generally attributed by survey respondents to lower new orders.

Stocks of Finished Goods Index

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



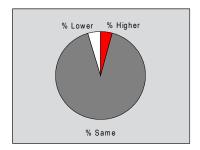


Post-production inventories held by Taiwanese manufacturers contracted further in December, extending the current period of decline to six months. However, the latest fall was modest and the weakest in four months. Around 17% of panellists reported a reduction in stocks of finished goods, which they primarily attributed to lower new orders.

Employment Index

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



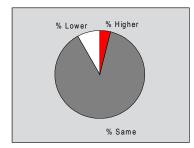


After adjusting for seasonal factors, the Employment Index signalled an increase in staffing levels at Taiwanese manufacturers during December. Although marginal, the rise in payroll numbers marked an improvement following broadly no-change in the previous two months. Where a rise in payroll numbers was reported, this was generally attributed by panellists to higher production and new orders.

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.



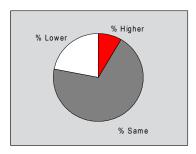


December data pointed to a reduction in prices charged by Taiwanese manufacturers for their finished goods for the sixth consecutive month. The rate of decline remained modest, easing to the weakest since September. Around 8% of firms noted a decrease in output prices during the latest month, which they attributed to muted demand and lower purchasing costs.

Input Prices Index

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



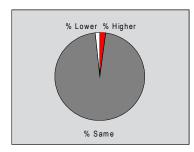


Input prices faced by manufacturers in Taiwan fell for a third successive month in December. Although remaining moderate, the rate of decline in purchasing costs quickened to the sharpest since April 2009. Anecdotal evidence suggested that subdued demand for raw materials had in a number of cases resulted in suppliers dropping their prices.

Suppliers' Delivery Times Index

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



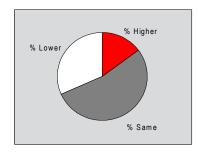


Average vendor lead times faced by manufacturers in Taiwan lengthened further in December. Slower deliveries were linked by survey respondents to supply bottlenecks in Japan and disruption in Thailand following floods. The latest deterioration in supplier performance was the third in succession and the most marked since May.

Quantity of Purchases Index

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





The amount of raw materials and semi-manufactured goods purchased by Taiwanese manufacturers for use in production fell for a sixth consecutive month in December. However, the rate of decline was the weakest since July and much slower than in the previous month. Those panellists that reported a reduction in purchasing activity generally attributed this to lower new orders.

Stocks of Purchases Index

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





Mirroring a slower decline in purchasing activity, stocks of purchases held by manufacturers in Taiwan fell at a weaker rate in December. The pace of contraction eased to the least marked in five months. A decrease in pre-production inventories was recorded at 19% of firms, compared with just under 10% that indicated a rise.

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' IndexTM (PMITM) 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.

Warning

The intellectual property rights to the HSBCTaiwan Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*TM and *PMI*TM 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.