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HSBC Taiwan Manufacturing PMI™

Deterioration of Taiwanese manufacturing sector operating conditions eases to marginal rate

Key findings:

- Slower contractions of both output and new orders
- Recent trend of depleting backlogs eases to broad stabilisation
- Both input costs and output prices fall again in January

January data showed a further deterioration in Taiwanese manufacturing sector operating conditions, extending the current sequence of contraction to eight months. However, the latest deterioration was the second-weakest in this period. Slower decreases in both output and new orders helped to support the easing in the worsening of operating conditions. Furthermore, employment and levels of outstanding business were broadly stable on the month. Meanwhile, input costs fell again, albeit marginally, while charges were decreased at a modest pace.

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. January's PMI posted 48.9, up from 47.1 in December. The latest reading pointed to an eighth successive month of worsening business conditions. However, the rate of deterioration eased for the third survey period running, and was only marginal.

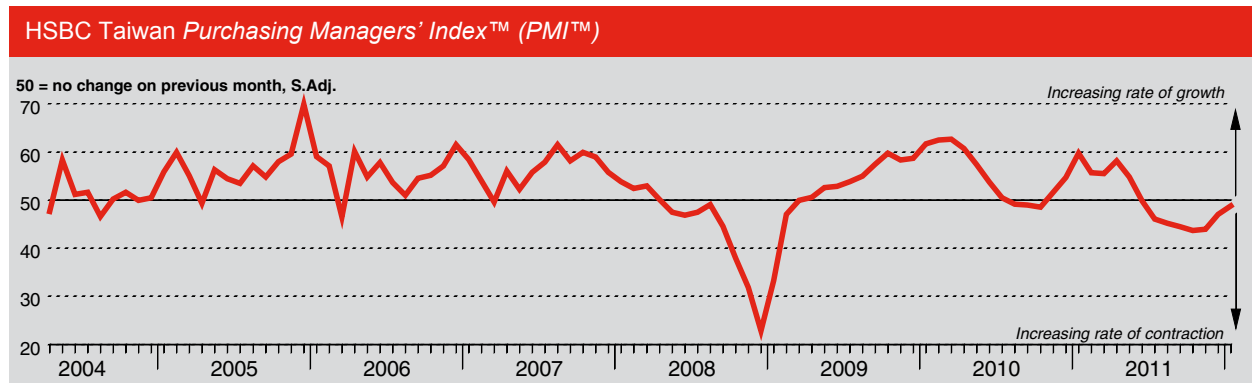
Manufacturers in Taiwan reported a further decline in new business received during January, attributing this to weaker demand, both at home and overseas. However, the rate of reduction slowed to the weakest since June 2011. Similarly, the fall in new export orders also eased, with the latest decrease the weakest in the current seven-month period of contraction.

In line with the slower reduction in overall new work intakes, the rate at which output declined also eased. Levels of outstanding business were broadly unchanged in January, pointing to stabilisation in backlogs after seven months of depletion. Stocks of finished goods continued to fall, but at only a moderate pace that was the weakest since August 2011.

January data signalled a broadly flat level of employment in the Taiwanese manufacturing sector. Attempts to increase production capacity at some companies were offset by non-replacement of leavers at others, leading to the overall stagnation in staffing levels. The vast majority of respondents noted no change in employment since December.

Purchasing activity continued to fall in January. However, reflective of weaker contractions in output and new business, the rate of decline slowed. Suppliers' delivery times lengthened again, and at a sharper pace than in December. Stocks of purchases decreased for the seventh consecutive month.

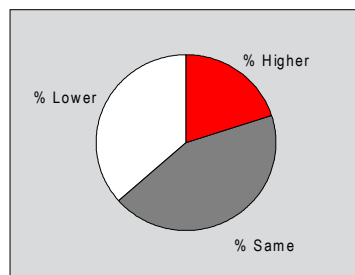
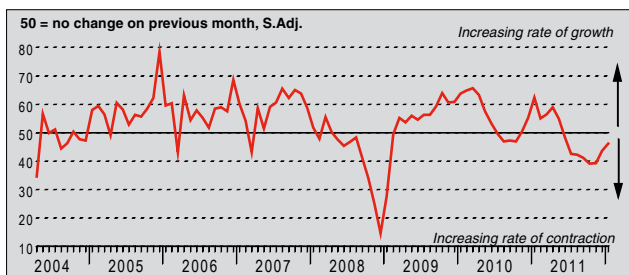
Taiwanese manufacturers reported a slight decrease in input costs during the latest survey period. Input prices fell for a fourth successive month, but to the weakest extent in this sequence. Reduced demand for raw materials, and the subsequent fall in their costs, was cited as the main contributor to input price deflation. Output prices were also lower than in the previous survey period. Panellists commented that the moderate reduction in charges reflected the need to stimulate demand.



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

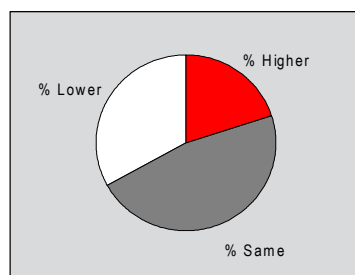
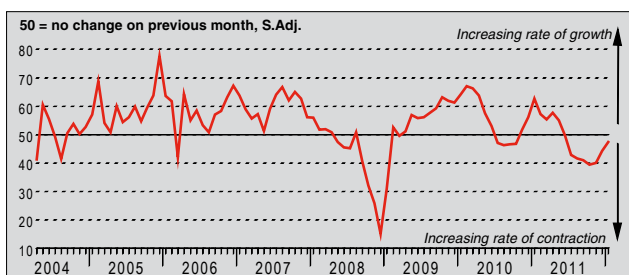
Q. Please compare your production/output this month with the situation one month ago.



January data signalled a contraction in output in the Taiwanese manufacturing sector, extending the sequence of sustained decline to eight months. Panellists commented that a further reduction in new business had contributed to the latest decrease in production. However, the rate of reduction eased solidly to the weakest since June 2011.

New Orders Index

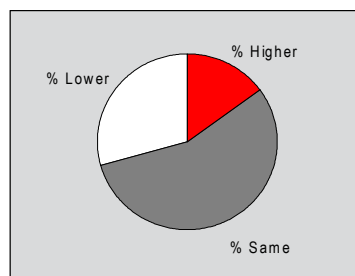
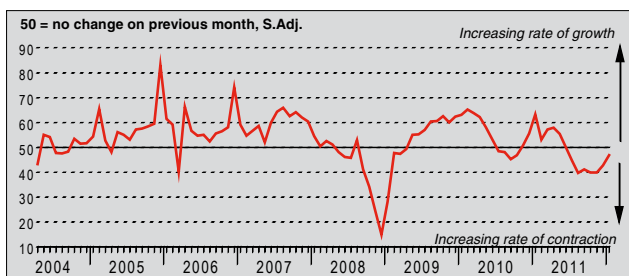
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



New orders received by manufacturers in Taiwan were reported to have decreased during January. Anecdotal evidence suggested that weakening client demand, both at home and overseas, had led to the fall in new work intakes. However, the rate of decline slowed for a third successive survey period, and was the second-weakest in the current eight-month sequence of reduction.

New Export Orders Index

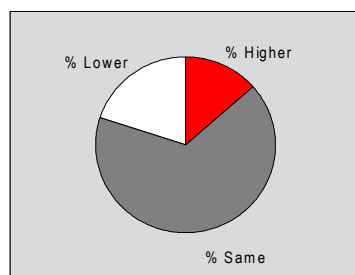
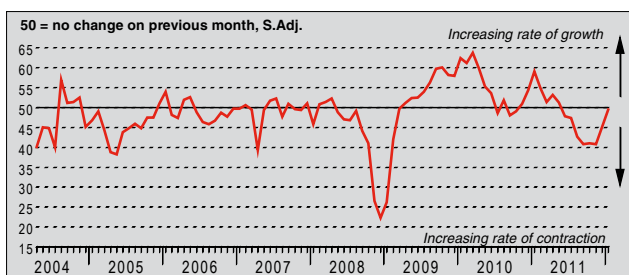
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturers in Taiwan reported a reduction in new business received from export markets during January. Respondents noting a lower level of new export orders attributed this to unstable economic conditions in some markets, particularly Europe. The latest decline was the seventh in successive months. However, the rate of decrease eased solidly since December to the weakest in the current sequence of falling new export orders.

Backlogs of Work Index

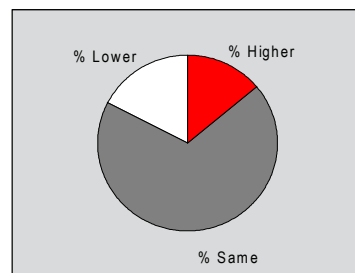
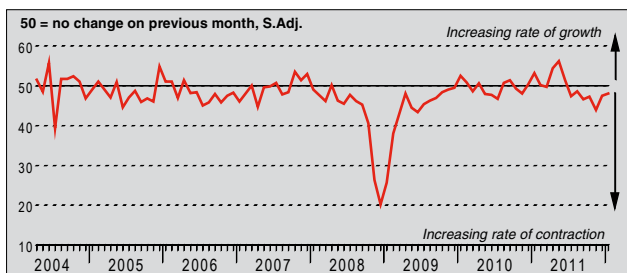
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index posted fractionally below the 50.0 no-change threshold in January, signalling that falling levels of outstanding business seen in each of the previous seven months had stabilised in the latest survey period. This was in line with weaker contractions of both new orders and output, and suggested that spare capacity previously indicated had been largely absorbed.

Stocks of Finished Goods Index

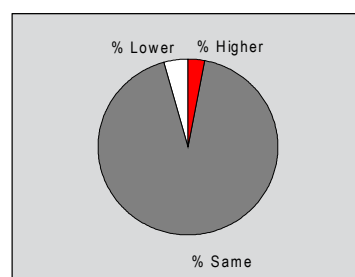
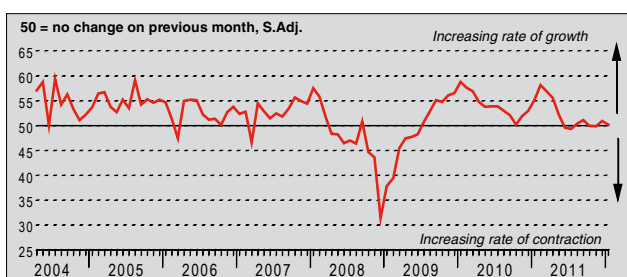
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at manufacturers in Taiwan decreased during January. Post-production inventories have fallen over each of the last seven months, with the latest decline attributed to inventory control measures. However, with approximately 17% of respondents noting a reduction in post-production inventories, compared with around 14% indicating an accumulation, the rate of depletion was modest and the slowest since August 2011.

Employment Index

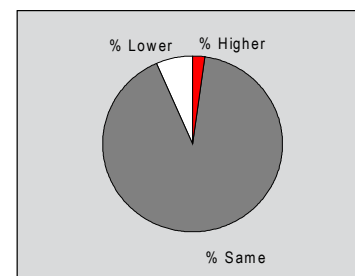
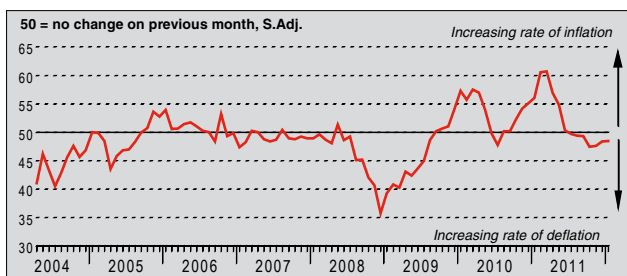
Q. Please compare the level of employment at your unit with the situation one month ago.



The seasonally adjusted Employment Index posted negligibly above the 50.0 no-change threshold in January, signalling a broadly unchanged level of staff in the Taiwanese manufacturing sector. The vast majority of respondents (around 93%) reported no difference in employee numbers compared to the previous month.

Output Prices Index

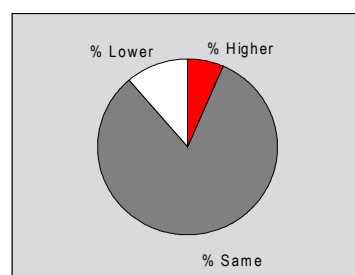
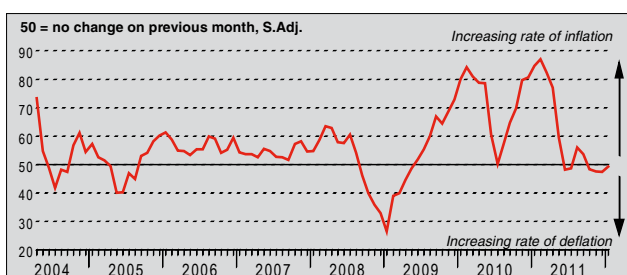
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers in Taiwan reported a reduction in their prices charged during January, extending the sequence of sustained output price cuts to seven months. Respondents registering a decrease in charges commented that this reflected attempts to stimulate demand. However, the rate at which output prices fell was modest and broadly unchanged since December.

Input Prices Index

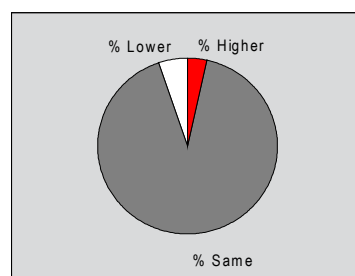
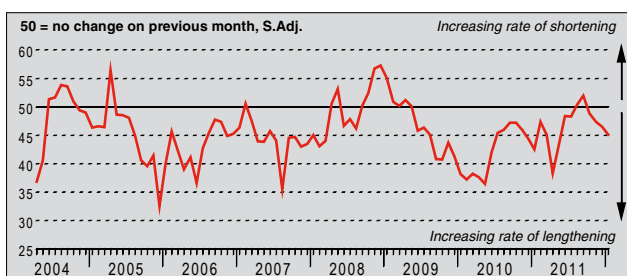
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



January data signalled a slight reduction in input costs faced by manufacturers in Taiwan. The latest fall in input prices was the fourth in successive months, although the rate of decline was the weakest in this period. Where a decrease in costs was reported, a reduction in raw material prices, caused by a fall in demand, was cited as the main contributor.

Suppliers' Delivery Times Index

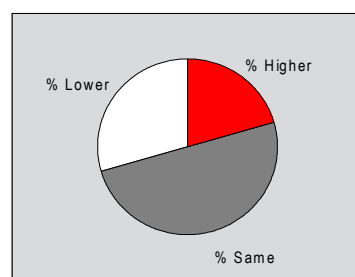
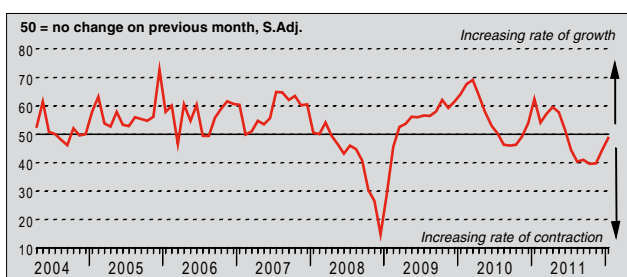
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Taiwanese manufacturers reported a further lengthening of suppliers' delivery times during January, despite another decline in purchase volumes. Anecdotal evidence suggested that shortages of materials, and reduced capacity, at suppliers had led to the increase in lead times. The latest deterioration in vendor performance was the fourth in as many months, with the rate at which delivery times lengthened the sharpest in this period.

Quantity of Purchases Index

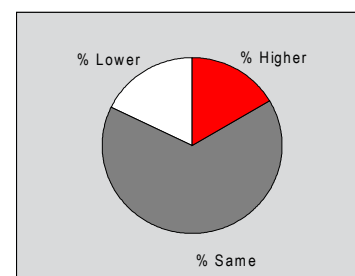
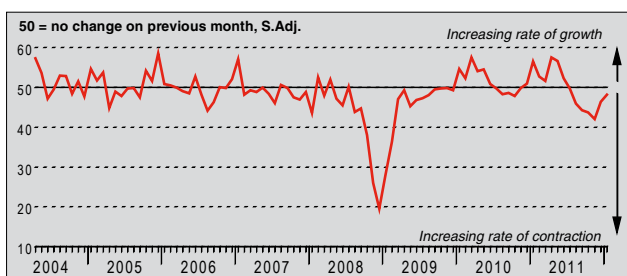
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



January data signalled a reduction in purchasing activity at manufacturers in Taiwan. Further contractions in both new orders and output were cited as the main factors behind the decrease in purchase volumes. However, the rate of decline in input buying eased to the slowest in the current seven-month sequence of falling purchasing activity.

Stocks of Purchases Index

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



Stocks of purchases at manufacturers in Taiwan decreased for a seventh consecutive month in January. Approximately 18% of respondents noted a lower level of pre-production inventories, attributing this to stock reduction initiatives. However, the rate at which pre-production inventories were depleted slowed to a modest pace, that was the weakest since July 2011.

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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