HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC Taiwan Manufacturing PMI™

Improvement of Taiwanese manufacturing sector operating conditions gains pace in March

Key findings:

- PMI signals growth of manufacturing output for second successive month
- Further increase in purchasing to meet higher production requirements
- Cost inflationary pressures rise

March data pointed to further improvement of Taiwanese manufacturing sector conditions. Growth of new business gained traction, leading to an accelerated rise in output. Subsequently, job creation was supported, although the rate at which staffing levels increased was marginal. Despite the sharper expansion in output, backlogs of work rose at a solid pace, suggesting that pressure on capacity persisted. Meanwhile, a faster increase in input costs led to a further rise in charges, albeit only slight.

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. March's PMI posted 54.1, up from 52.7 in February, and signalled the second consecutive month of improving business conditions. Furthermore, the rate of growth strengthened, and was above the long-run trend.

A marked rise in new business was reported by manufacturers in Taiwan during March. The expansion, which was the second in as many months, was the fastest since April 2011. Panellists commented that increased demand, both at home and overseas, had led to the rise in new orders. Growth of new work intakes from export markets was also stronger than in the previous survey period.

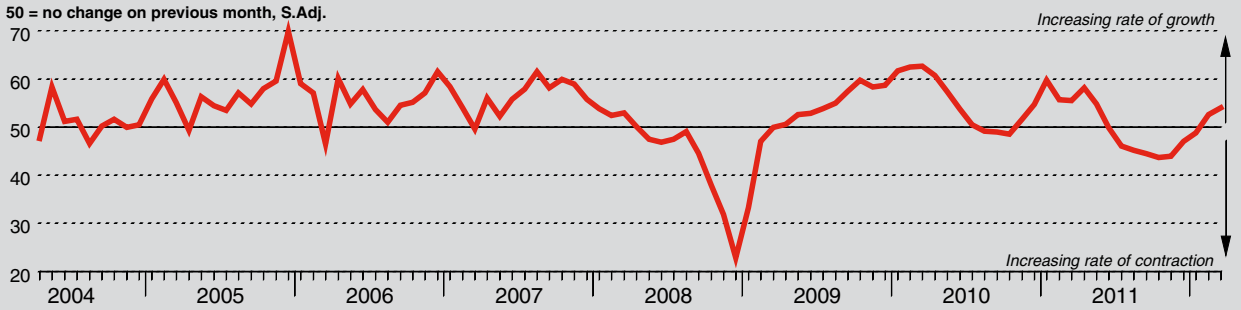
Despite a marked rise in output, backlogs of work were reported to have increased during March. Moreover, the rate of accumulation was one of the strongest in the series history. Anecdotal evidence suggested that the latest expansion in new orders had increased pressure on production capacity. Stocks of finished goods also rose at a solid rate. Higher output, attempts to boost stocks and, in some cases, delayed shipments, were cited as the main contributors to the accumulation.

March data signalled a rise in employment in the Taiwanese manufacturing sector. However, the rate of job creation was only marginal. Where an increase in staffing levels was reported, this largely reflected the need to boost production capacity.

In line with the rise in new orders and higher output, purchasing activity increased markedly during March. Subsequently, suppliers' delivery times lengthened for a sixth month running, with panellists commenting that this reflected staff and stock shortages at vendors. Manufacturers' inventories of purchases increased to meet the rise in production.

Input prices faced by manufacturers in Taiwan increased markedly during March. Higher raw material and petrol costs were cited as the main drivers of inflation. The latest rise in input prices was the fastest in seven months, but remained below the historical average. A slight increase in output prices was reported, as manufacturers aimed to pass on higher costs to clients. However, strong competition for new business prevented a sharper increase.

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.

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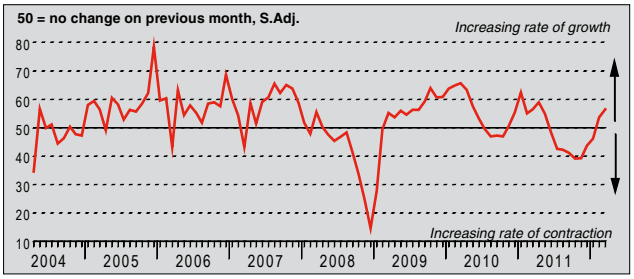
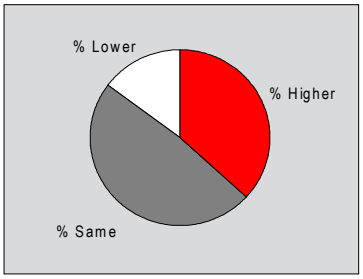
Output Index

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

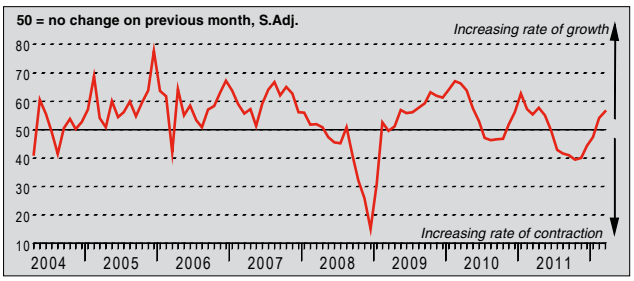


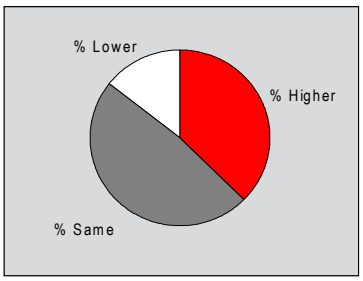


March data signalled a rise in output in the Taiwanese manufacturing sector. Moreover, the rate of growth was marked, having strengthened since the previous survey period to an 11-month high, and was above the historical series average. Panellists commented that an increase in new business received had been the main contributor to the expansion in output. Production has now risen in each of the last two survey periods.

New Orders Index

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

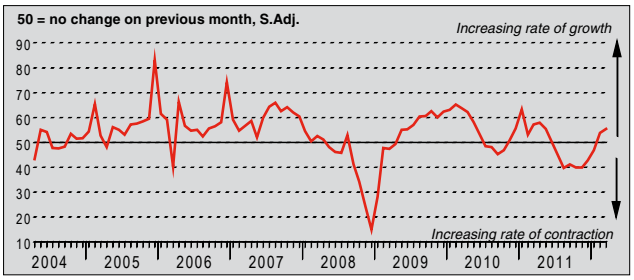


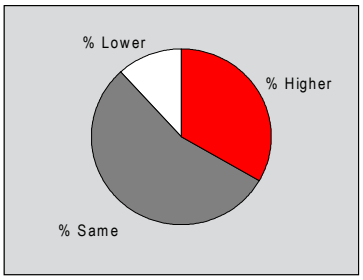


Manufacturers in Taiwan reported a rise in new business received during March, with growth now recorded for two successive months. With approximately 37% of respondents noting an increase in new orders, the rate of expansion was marked and the fastest since April 2011. Anecdotal evidence suggested that manufacturers experienced higher demand from both domestic and overseas companies.

New Export Orders Index

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

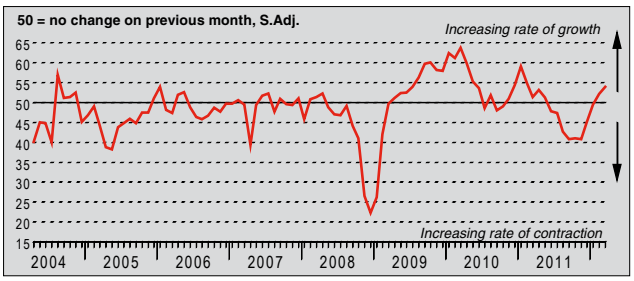


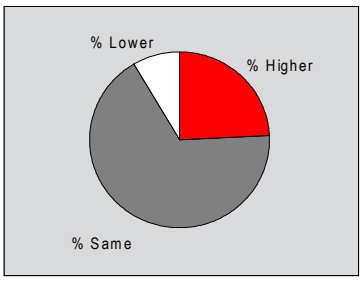


The seasonally adjusted New Export Orders Index posted above the 50.0 no-change threshold in March, signalling an increase in new business received from abroad. Exactly one-third of panellists recorded a higher level of new export orders, with new work intakes from China, Europe and the US particularly reported as having increased. The latest rise in new work intakes was the second in consecutive months and the strongest in ten survey periods.

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 manufacturers in Taiwan increased for the second month running in March. Moreover, the rate of accumulation accelerated to a solid pace. Anecdotal evidence suggested that the latest rise in outstanding business reflected strong growth of new work intakes, which placed pressure on production capacity.

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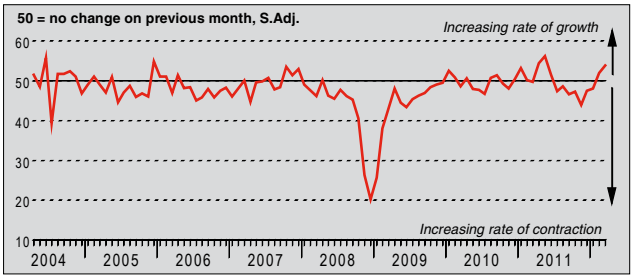
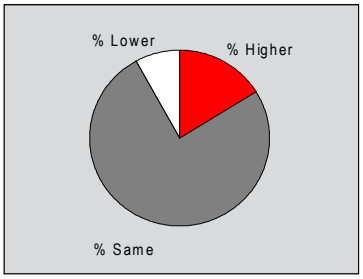
Stocks of Finished Goods Index

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

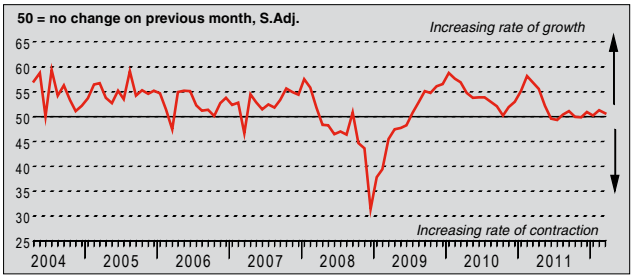


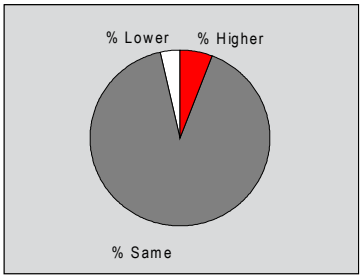


Stocks of finished goods at manufacturers in Taiwan were reported to have increased during March. The rate of accumulation was solid, having accelerated slightly since February, and one of the strongest since data collection began. Approximately 16% of respondents registered a higher level of post-production inventories compared to the previous month, noting higher output levels and some attempts to boost stocks. There were also some reports of delayed shipments.

Employment Index

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

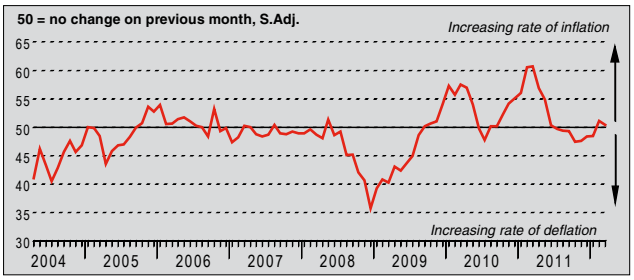


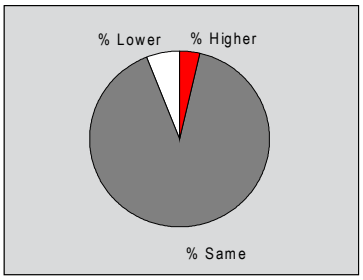


March data signalled a rise in employment in the Taiwanese manufacturing sector. Job creation has been recorded in each of the last four months, although increases have been marginal. Highlighting this, in the latest survey period, the majority of respondents (approximately 91%) indicated no change in their staffing levels since February. Where an increase in employment was noted, this was attributed to higher output requirements and efforts to fill previously vacated positions.

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.

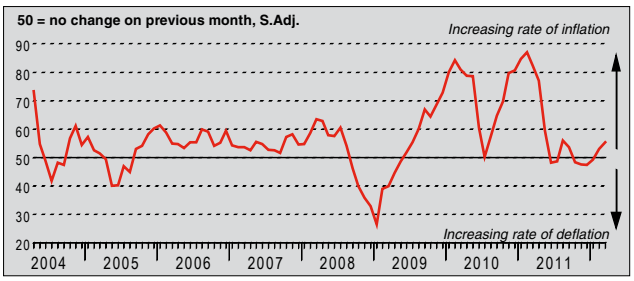


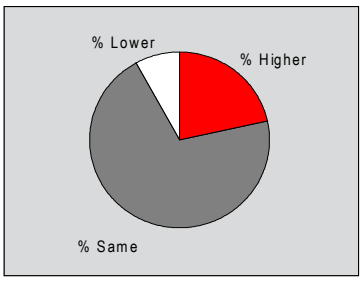


The seasonally adjusted Output Prices Index posted above the 50.0 no-change threshold in March, signalling an increase in prices charged by manufacturers in Taiwan. A rise in costs was reported to be the main contributor to the increase in output prices. However, the rate of charge inflation was only slight, with the majority of panellists (approximately 90%) noting no change in output prices since February. Anecdotal evidence suggested that strong competition had prevented a sharper rise in charges.

Input Prices Index

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

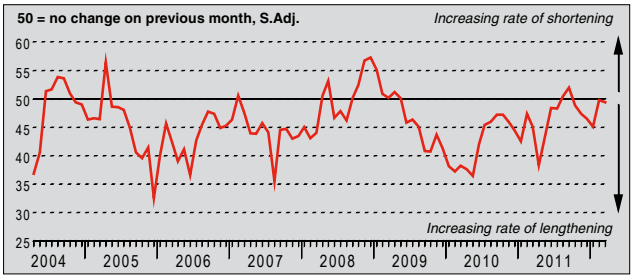


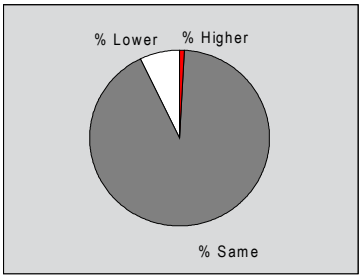


Input prices faced by manufacturers in Taiwan rose in March, with the rate of cost inflation accelerating to a seven-month high. Approximately 22% of respondents reported a rise in input prices since February, with higher raw material and petrol costs cited as the main drivers of inflation. The latest increase in input prices was marked, but was below the long-run series trend.

Suppliers' Delivery Times Index

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

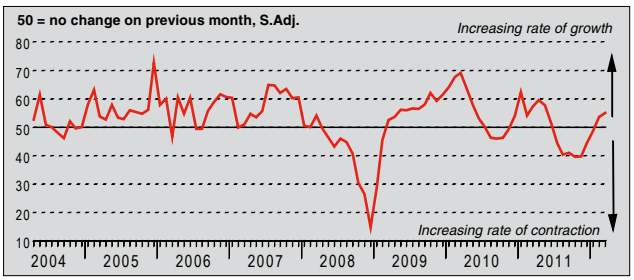


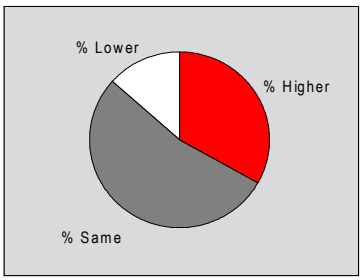


Taiwanese manufacturers reported a slight lengthening of suppliers' delivery times during March. Vendor performance has now deteriorated in each of the last six months, with the latest increase in lead times attributed to staff and stock shortages at suppliers. However, the majority of respondents (approximately 92%) indicated that delivery times were unchanged since the previous survey period.

Quantity of Purchases Index

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

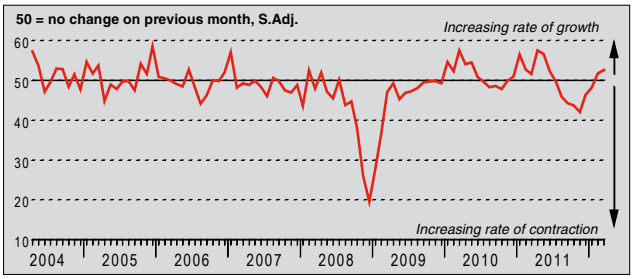


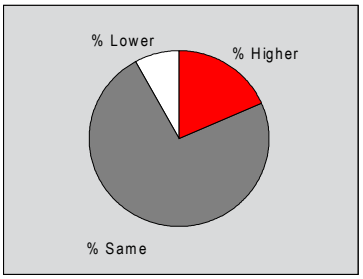


March data signalled a rise in purchasing activity at manufacturers in Taiwan. Panellists commented that this was in line with growth of both new orders and output requirements, alongside higher expected production levels in the coming months. With approximately one-third of respondents noting a higher volume of input buying, the latest rise was the strongest since May 2011 and above the long-run series trend.

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 rose for a second successive month in March. The rate of accumulation was solid, having accelerated since February. Approximately 18% of panellists reported an increase in pre-production inventories at their units compared with the previous survey period, commenting that this largely reflected higher stock requirements to meet growth of output.

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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