

HSBC Taiwan Manufacturing PMI™

Slower improvement in business conditions across Taiwanese manufacturing sector

Key findings:

- PMI indicates weakest improvement in operating conditions in current three-month sequence
- Growth of both output and new orders eases
- Output prices fall despite solid cost inflation

Taiwan's manufacturing sector continued to grow in April, albeit at a weaker pace. The latest expansion reflected moderate increases in both production and new work intakes. Slower growth had the knock-on impact of weaker rates of purchasing activity, and contributed to an improvement in vendor performance. Manufacturers also reduced output prices in line with softening demand conditions, despite registering continued cost inflation.

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 deterioration. The PMI posted 51.2 in April, down from 54.1 in March, indicating a moderate and slower improvement in operating conditions within Taiwan's manufacturing sector. The latest reading was the lowest since January, following a ten-month high in March.

Production at manufacturing companies in Taiwan increased for the third successive month in April. The latest growth of output was considerably weaker than in March, reflecting a slower rise in new business volumes. Noticeably, new business growth was predominantly domestic driven, as new orders from international clients increased at only a marginal pace.

Despite output growth being faster than that of new orders, firms continued to accumulate backlogs of work in April. Anecdotal

evidence suggested that the sustained increase in new business and, in some cases, raw material shortages left orders unfulfilled during the latest survey period.

Meanwhile, stocks of finished goods increased at a marginal pace in April, the weakest for three months. This was in contrast to the solid accumulation registered in the previous month.

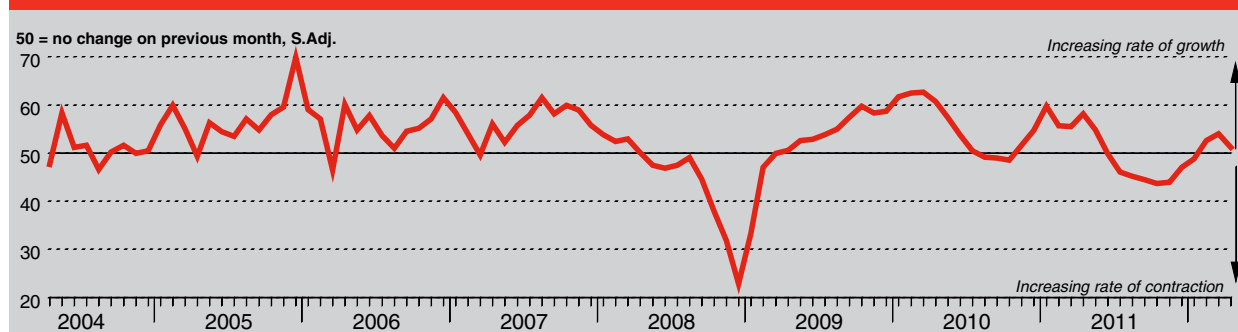
Reflective of the moderate rise in production levels, the number of people employed in Taiwan's manufacturing sector increased marginally in April. Job creation has now been recorded for five consecutive months, but the latest increase in headcounts was the weakest since January.

Slower output growth also fed through to manufacturers' purchasing decisions. The expansion in input buying at goods-producing companies eased on the month, following March's ten-month high. The rate of accumulation remained unchanged from March's moderate pace.

Input prices faced by manufacturers continued to rise solidly in April. Panellists cited higher raw material and petroleum costs as the main drivers of inflation. However, manufacturers reduced output prices in response to client requests for lower charges and strong competition for new business.

Elsewhere, suppliers' delivery times improved for the first month since last September. Although only modest, the rate at which lead times shortened was the quickest for 39 months.

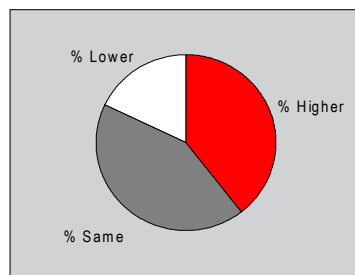
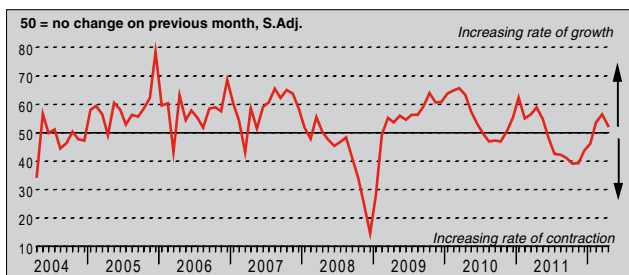
HSBC Taiwan Purchasing Managers' Index™ (PMI™)



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

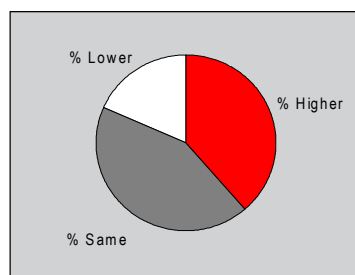
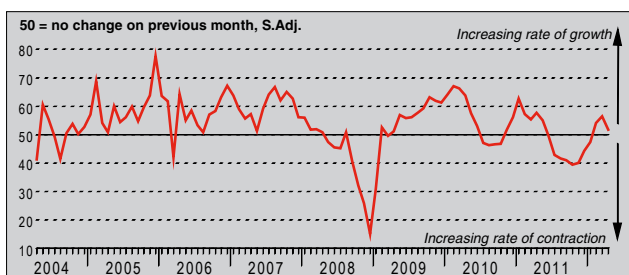
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index posted above the 50.0 no-change threshold in April, indicating a rise in Taiwanese manufacturing production. Panellists reporting an increase in output attributed this to a further rise in new business received. However, reflecting slower overall new order growth, the pace of output expansion eased to a solid rate from March's 11-month high. Nonetheless, increases in production have now been recorded for three successive months.

New Orders Index

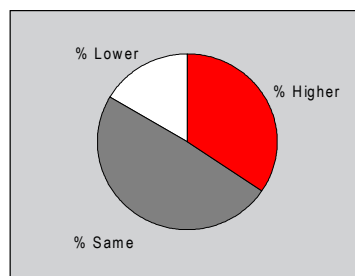
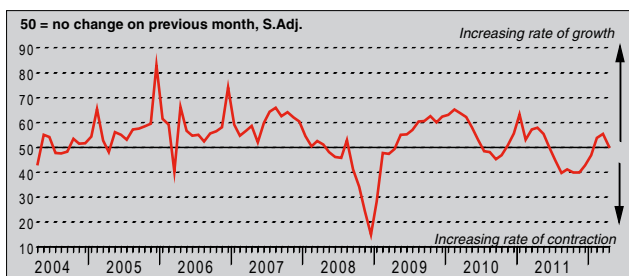
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



April data signalled a rise in new orders received by manufacturers in Taiwan, extending the current sequence of growth to three consecutive months. However, after accounting for seasonal factors, the rate of expansion was only modest and the weakest in the current period of growth. Anecdotal evidence suggested that improvements in both domestic and overseas demand moderated since March, leading to the slower increase in new export business.

New Export Orders Index

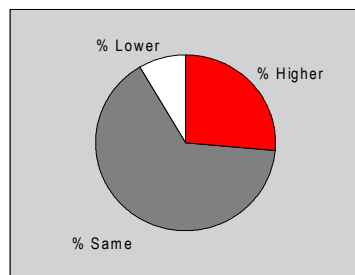
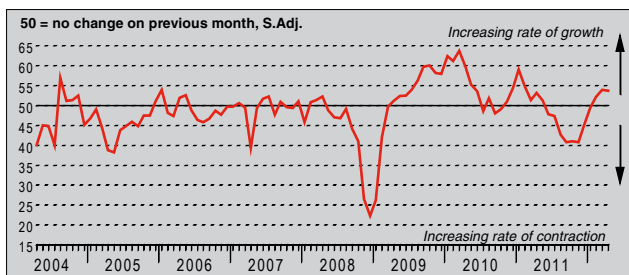
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturers in Taiwan reported a slight increase in new business received from overseas during April, as indicated by the seasonally adjusted New Export Orders Index posting only marginally above the 50.0 no-change threshold. The rate of growth was the slowest in the current three-month period of expansion, with panellists commenting that lower new order intakes from some key regions, particularly Europe, had weighed on the rate of increase.

Backlogs of Work Index

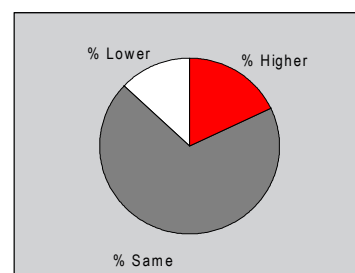
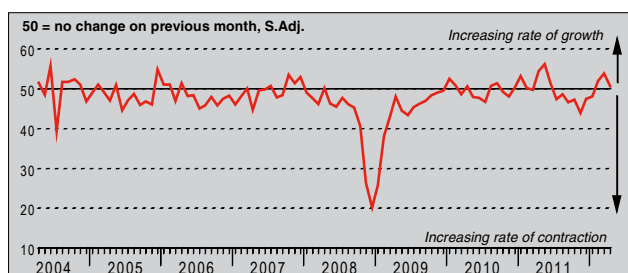
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in Taiwan increased during April, pointing to persistent constraints on operating capacity in the sector. Moreover, the rate of accumulation was solid, and largely unchanged from the previous survey period. Respondents noting a rise in levels of outstanding business at their units attributed this to a further increase in new business volumes.

Stocks of Finished Goods Index

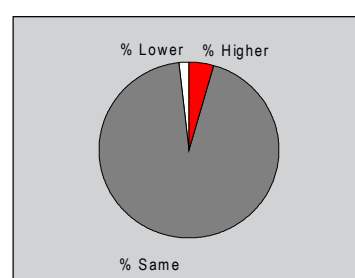
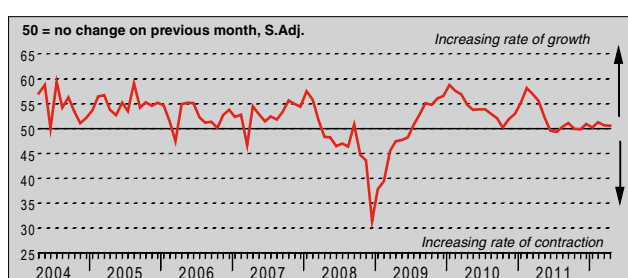
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at manufacturers in Taiwan increased during April, with accumulations now registered in each of the last three survey periods. Approximately 18% of respondents noted a rise in their holdings of post-production inventories, attributing this to efforts to increase stocks due to sustained new order growth. However, the latest increase was only marginal, and the weakest in the current period of accumulation.

Employment Index

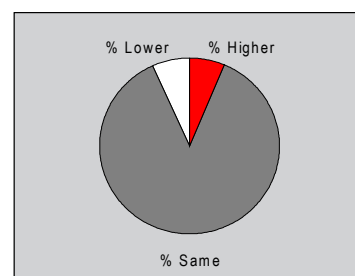
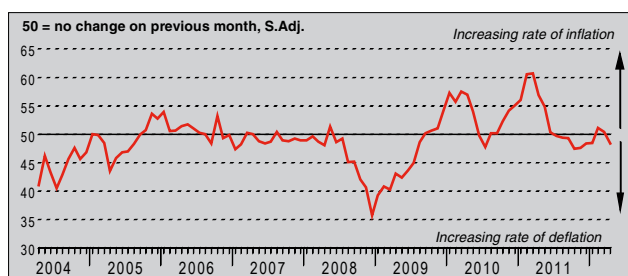
Q. Please compare the level of employment at your unit with the situation one month ago.



April data signalled a rise in employment in the Taiwanese manufacturing sector. Panellists commented that job creation reflected sustained growth of both new orders and output. Nonetheless, the rate at which staffing levels increased was only marginal, following the trend of the previous four months. Highlighting this, the vast majority of respondents (approximately 94%) indicated that employment at their units was unchanged since March.

Output Prices Index

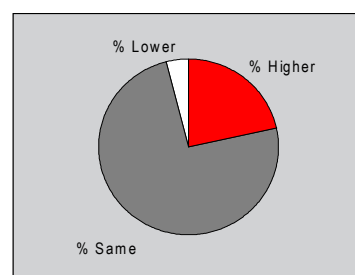
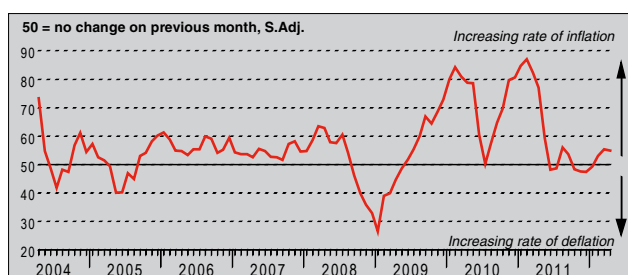
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Following two months of rises, prices charged by manufacturers in Taiwan were reported to have fallen during April. Panellists commented that strong competition for new business and client requests for lower prices had led to the decrease in charges. This was despite further increases in input costs. The extent at which output prices were reduced was modest, but stronger than the long-run series average.

Input Prices Index

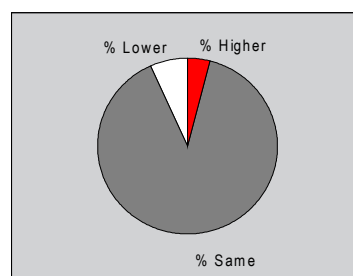
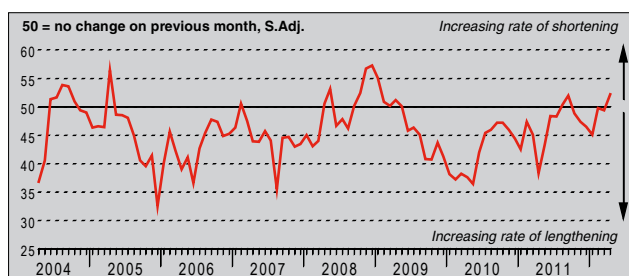
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in Taiwan were reported to have increased during April, extending the sequence of sustained cost inflation to three months. Approximately 22% of respondents registered a rise in input prices, citing higher raw material and petroleum costs as the main drivers of inflation. However, the rate at which input prices increased eased slightly since March, and was below the long run trend. Anecdotal evidence suggested that manufacturers were better able to negotiate with suppliers, leading to the weaker rise in costs.

Suppliers' Delivery Times Index

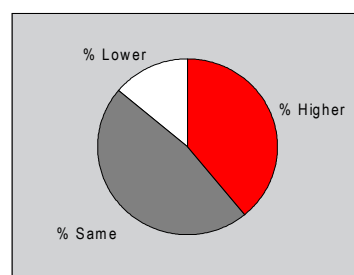
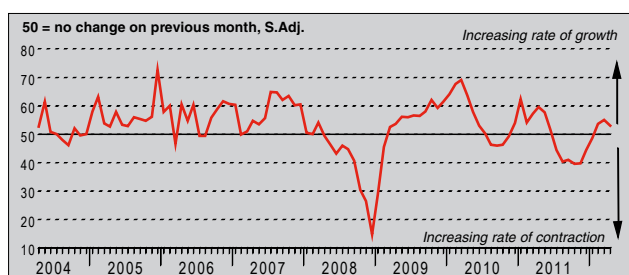
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted above the 50.0 no-change threshold in April, signalling a shortening of lead times. This was in contrast to the previous six months, where vendor performance was reported to have worsened. Panellists commented that shorter delivery times reflected a fall in production requirements.

Quantity of Purchases Index

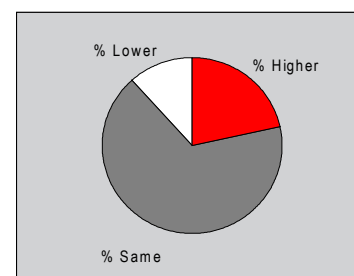
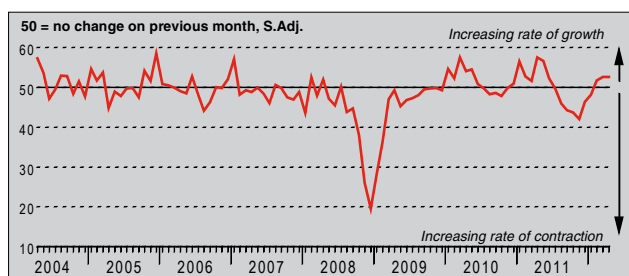
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Manufacturers in Taiwan reported a rise in purchasing activity during April, generally attributing this to further growth of both new orders and output. However, the extent of the latest increase eased from March's ten-month high, as expansions of production and new work intakes slowed. Nonetheless, input buying has now risen in each of the last three months, with April's rate of growth broadly in line with the historical series average.

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 increased during April, with accumulation now recorded for three successive months. Moreover, the extent of the latest rise in pre-production inventories was unchanged from the previous survey period. Approximately 22% of panellists registered a higher level of stocks of purchases, with anecdotal evidence suggesting that increased input buying and efforts to boost inventories were the main contributors to the 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' 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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