

HSBC Taiwan Manufacturing PMI™

Taiwan Manufacturing PMI stays in expansion territory during May

Key findings:

- PMI at 50.5 in May, closer to stagnation but still signalling expansion
- Growth of output and new orders maintained, but slowdown from March peaks continued
- Output prices and input costs both fell in May

The Taiwanese manufacturing sector recorded further growth of production and new orders in May, as companies saw improved demand from both domestic and export clients. However, rates of expansion were weaker than in the previous month, amid signs of slowdown in both the global and regional economies.

The headline HSBC Taiwan Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector – posted 50.5 in May. This signalled an improvement in overall operating conditions for the fourth straight month. However, the index moved closer to the neutral mark of 50.0, consistent with the sector slipping nearer to stagnation.

Manufacturing production and new orders both increased for the fourth straight month in May, but with rates of expansion easing to the weakest during this period. Export orders rose only slightly as well. Demand from North America and South East Asia continued to hold up, but there were reports that weaker conditions in Europe suppressed inflows of new export business.

Staffing levels dipped slightly during May, as manufacturers held off from raising capacity in response to the slowdown in growth. The reduction to employment was only marginal, but nonetheless ended a five-month period of modest gains in payroll numbers. There were also signs that capacity was broadly in line with current output and demand requirements. Although backlogs of work rose for the fourth month in a row, the rate of increase was

mild and the weakest during that sequence.

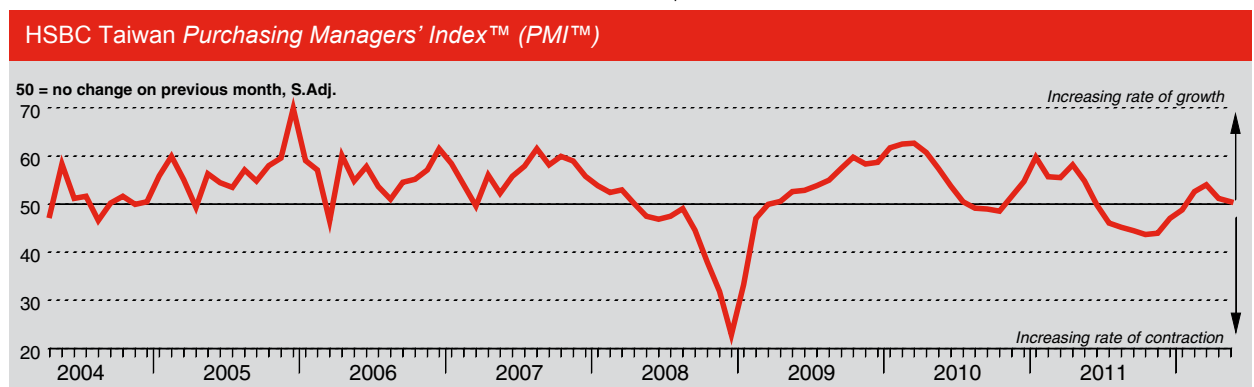
Price pressures abated further in May, with the latest survey data pointing to declines in both average input costs and selling prices. The reduction in raw material costs was the first since January, and reflected lower fuel and metals prices alongside successful negotiations with suppliers.

Average factory gate prices fell for the second month running, and at the fastest pace since last November. Where a decrease was reported, this was linked to strong competition and tougher market conditions.

May data indicated that companies continued to increase their levels of purchasing activity. Ongoing growth of production and new business remained the principal factors encouraging firms to expand input buying volumes. Part of the increase in purchasing also led to a slight gain in inventory levels.

Holdings of raw materials rose for the fourth consecutive month. Firms indicated that part of the build-up was intentional as they prepared to meet demand requirements over the coming months. Conversely, there were also some reports that stock holdings had risen due to slower than anticipated output growth.

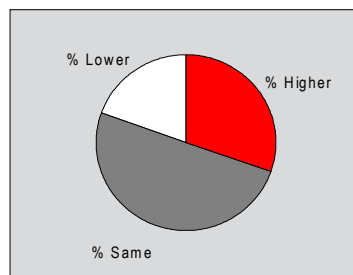
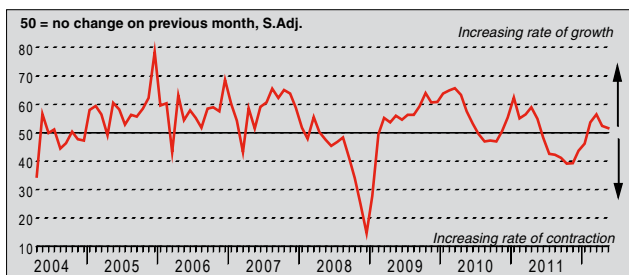
Finally, average vendor performance improved for the second straight month in May. Lead times shortened to the greatest extent since January 2009. Manufacturers reported that supplier capacity seemed to be sufficient to cope with current demand requirements.



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

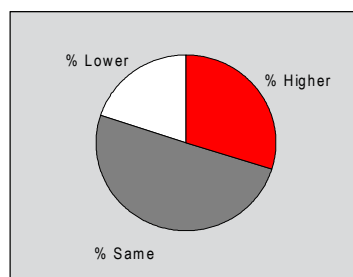
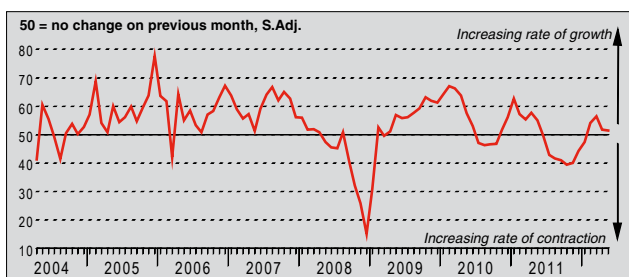
Q. Please compare your production/output this month with the situation one month ago.



Taiwanese manufacturing production increased for the fourth successive month in May. However, the rate of expansion was only modest and the weakest during that period. Companies linked higher output to rising levels of new work, but noted that slower growth of new orders had restricted increases to production. Part of the expansion in output contributed to a rise in finished goods stocks.

New Orders Index

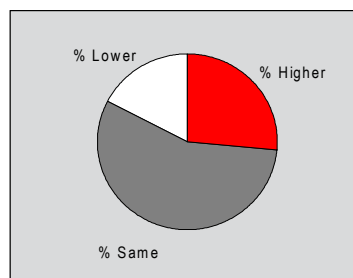
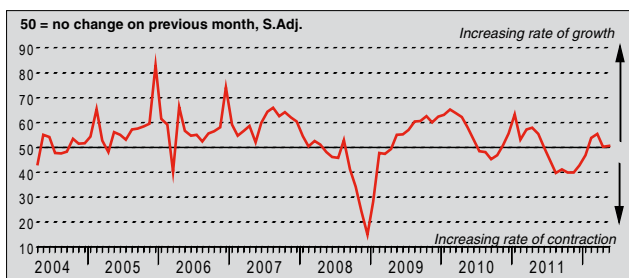
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



The level of incoming new business rose for the fourth straight month in May. In line with the trend in production, growth of new orders was only moderate and the slowest during the current period of expansion. Manufacturers reported improved demand from both domestic and export clients. Conversely, where a decline in new business was reported, this was linked to signs of economic slowdown both globally and locally.

New Export Orders Index

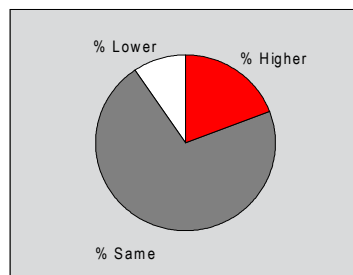
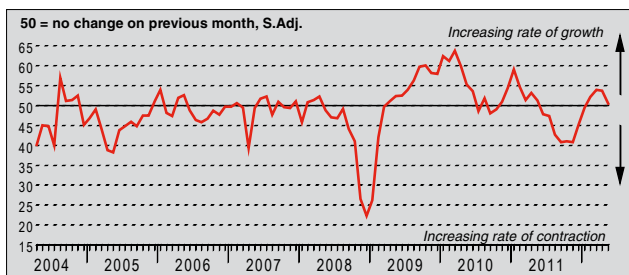
Q. Please compare the level of new export orders received this month with the situation of one month ago.



May data signalled a further slight increase in new export orders. Panellists reported growth of new business from clients operating in China, Japan, North America and South Korea. Although some firms also saw an increase in demand from Europe, anecdotal evidence suggested that a slowdown in this market was a key factor suppressing export order inflows.

Backlogs of Work Index

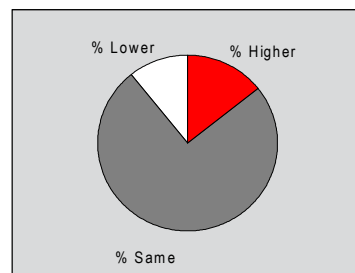
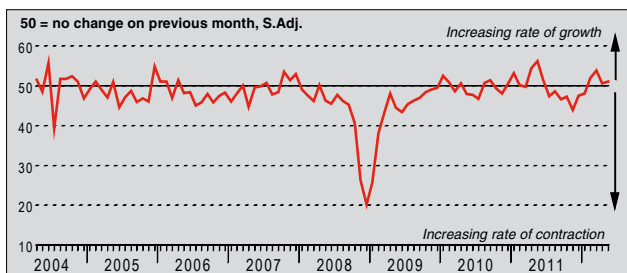
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The recent improvement in new order inflows led to a further increase in the level of work-in-hand (but not yet completed) at Taiwanese manufacturers. Backlogs of work have risen in each month since February, although the latest increase was the least marked during that period. Where a reduction in outstanding business was reported, this was attributed to increased output.

Stocks of Finished Goods Index

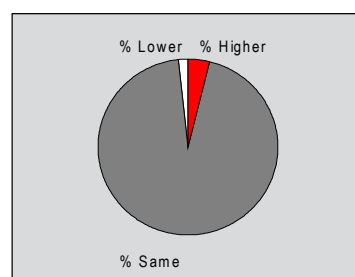
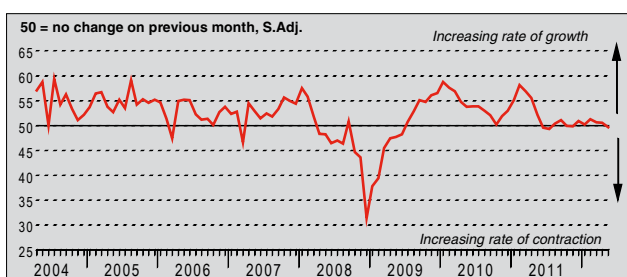
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of finished goods increased again in May, continuing a trend seen in each of the past four months. The latest rise in stock holdings reflected higher levels of production. There were also reports of inventories rising in line with higher levels of incoming new business. Although the rate of increase in stocks was slightly faster than in April, it remained only moderate.

Employment Index

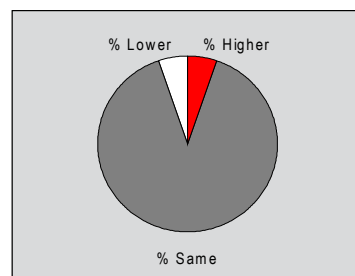
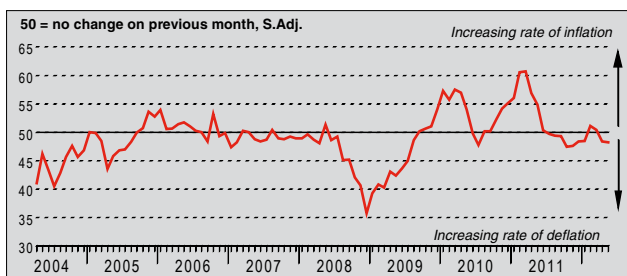
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment dipped slightly in May, halting a five-month period of marginal increases to staffing levels. However, the vast majority of companies, almost 95%, reported no change in payroll numbers compared to the previous survey period. Where a reduction was signalled, this reflected slower increases in output and new orders. Conversely, some companies raised employment to meet current demand.

Output Prices Index

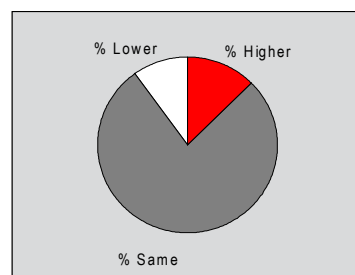
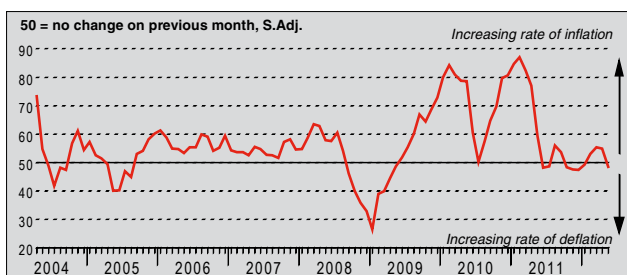
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Taiwan manufacturers reported a reduction in average output prices for the second month running. Although the rate of charge deflation remained only modest, it was still the quickest since last November. The principal factors underlying the latest decline in factory gate prices were strong competition and slower market conditions.

Input Prices Index

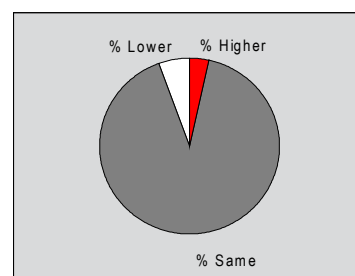
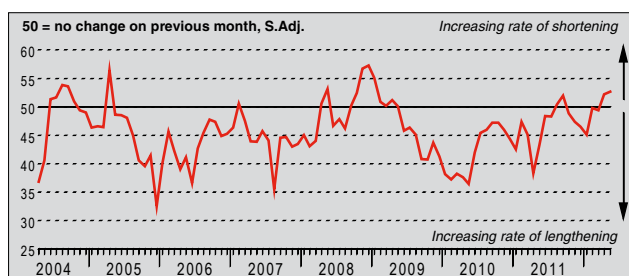
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average purchase prices decreased for the first time in four months during May. Although the rate of decline was only mild, it was nonetheless the fastest signalled so far during the year-to-date. There were reports of lower fuel and metals costs. Some panel members also reported successfully negotiating lower prices with their suppliers.

Suppliers' Delivery Times Index

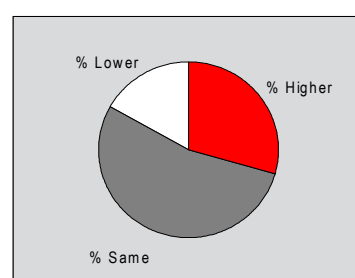
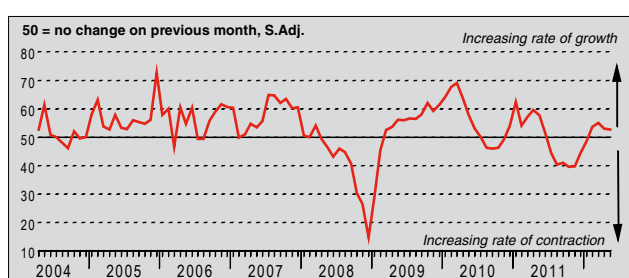
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average vendor lead times shortened for the second successive month in May. Moreover, average supplier performance improved to the greatest extent since January 2009. A number of manufacturers indicated that they had requested faster delivery times from their suppliers. There were also reports that vendor capacity, and stock holdings, were sufficient to meet current requirements.

Quantity of Purchases Index

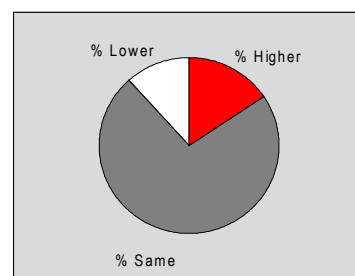
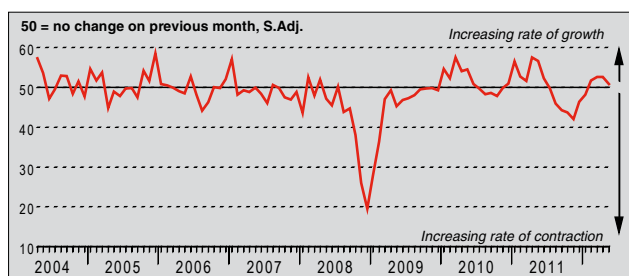
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



May saw levels of raw material purchasing increase for the fourth straight month. Companies reported a solid increase in input buying volumes, with the rate of growth broadly in line with the survey average. Almost 30% of panellists reported an increase in purchasing, which they linked to higher intakes of new business, rising production requirements and (to a lesser extent) replenishment of inventories.

Stocks of Purchases Index

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



Higher levels of input purchasing led to a slight increase in stocks of raw materials during May. Inventories have now risen in each of the past four months. There were reports of manufacturers building stocks in preparation for future production and in response to the recent uptick in new orders. However, a number of firms indicated that the increase in stock holdings reflected weaker than expected output growth.

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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