HSBC *Purchasing Managers' Index™* 2012

compiled by markit

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HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector contracted slightly in June

Key findings:

- PMI at 49.2 signals a downturn in the manufacturing sector in June
- Output fell for the first time since January
- Output prices fell solidly, in line with a sharp decrease in input prices

The health of the Taiwanese manufacturing sector deteriorated in June, but at a modest rate. Output decreased for the first time since January 2012 as domestic and international demand weakened. On the price front, input costs decreased substantially and firms lowered their output prices.

The HSBC Taiwan *Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration. The PMI posted 49.2 in June, down from 50.5 in the previous month and pointing to the first deterioration in the health of the sector in five months.

Production contracted moderately in June in line with falling new orders. Panellists reported a lower level of orders from US, Chinese and European markets. Moreover, domestic demand was also reportedly weaker.

Manufacturing workforce numbers remained constant in June following a contraction in May. Companies restrained staffing levels as production decreased in line with instability in European markets. Although staffing levels had not changed, outstanding orders decreased at Taiwanese manufacturing companies. The rate of contraction, however, was only moderate.

Falling price pressures were signalled in the Taiwan manufacturing sector as both charges and input prices fell. Output prices were reportedly decreased to reflect lower input costs. Moreover, firms claimed that competition between manufacturers was also a contributor to falling charges.

Whereas charges fell solidly, input prices plummeted at the fastest rate since March 2009. As prices for raw materials and fuel continued to fall in June, manufacturers faced lower average costs. Excess supply also led to decreased input prices.

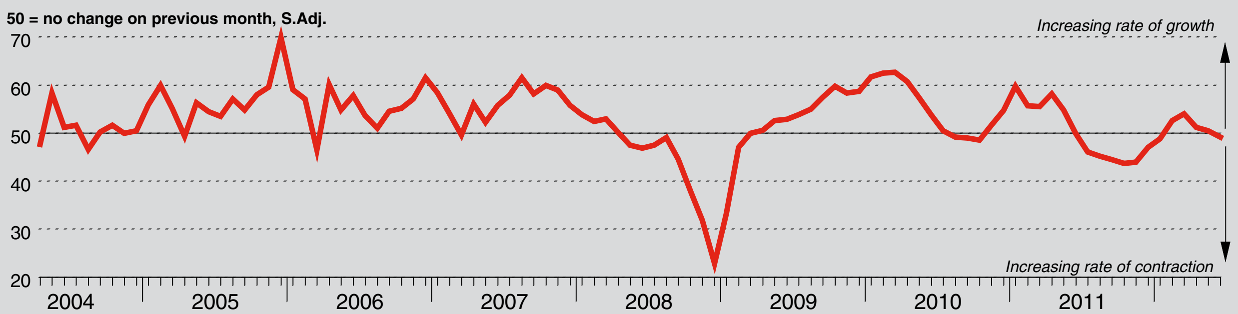
Taiwanese manufacturers unintentionally increased stocks of finished goods in June amid reports of shipment delays. The rate of accumulation remained unchanged from that in May.

Pre-production inventories expanded slightly in June. Panellists accumulated stocks of purchases in line with expected higher orders for July. The pace of accumulation was the lowest in the five-month sequence and the seasonally adjusted Stocks of Purchases Index was close to the no-change benchmark of 50.0.

Purchasing activity increased in June, extending the expansionary period to five months. However, the rate of growth was only slight and the lowest in the sequence. Approximately 20% of firms reported higher purchasing activity, against 19% of firms reporting a lower purchasing level.

Average lead times improved at Taiwanese manufacturing firms, extending the shortening period to three months. With weaker demand for inputs, suppliers reportedly were able to decrease delivery times. The rate of improvement, however, was the lowest in the sequence with the vast majority of companies (95%) reporting no change in lead times from May.

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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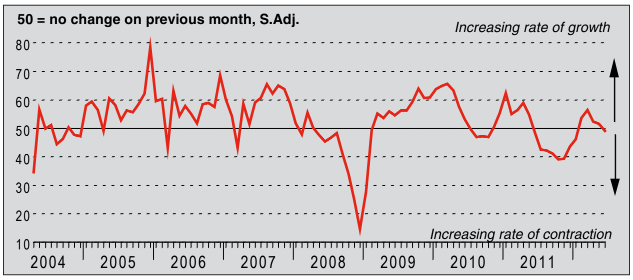
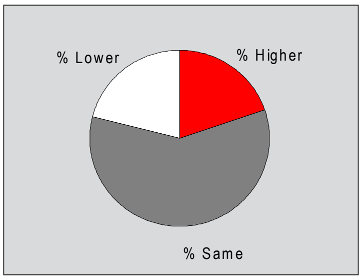
Output Index

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

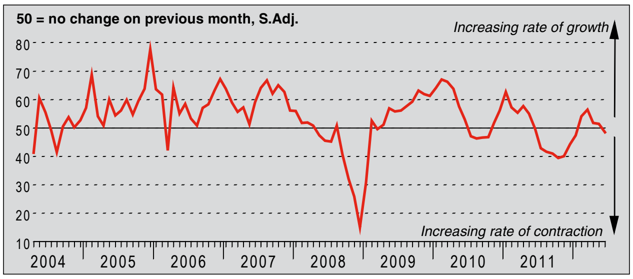


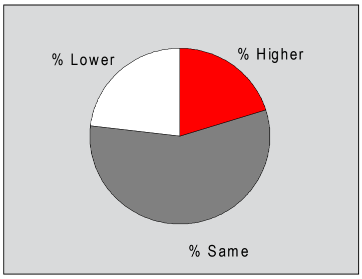


Output contracted in the Taiwanese manufacturing sector in June. However, the rate of contraction signalled by the seasonally adjusted Output Index was only slight. Panellists attributed the fall in output to weaker demand from the US, Chinese and European markets. Exactly 21% of firms reported lower production, compared with close to 20% of companies reporting higher output.

New Orders Index

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

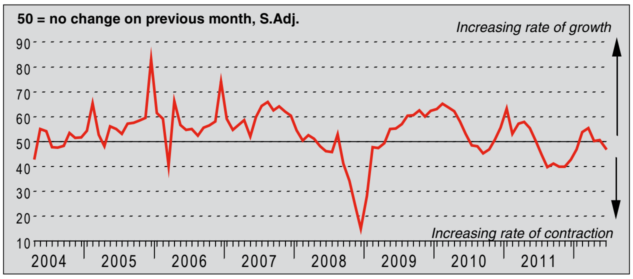


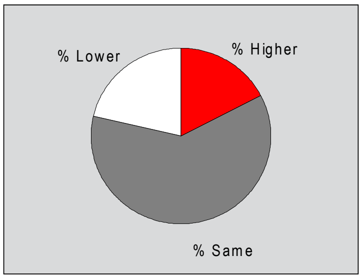


Order book volumes contracted for the first time since January 2012 in June. Anecdotal evidence suggested that demand weakened both domestically and in export markets as the economic climate deteriorated. The seasonally adjusted New Orders Index for the manufacturing sector was below the long-run trend, although the rate of contraction was only modest.

New Export Orders Index

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

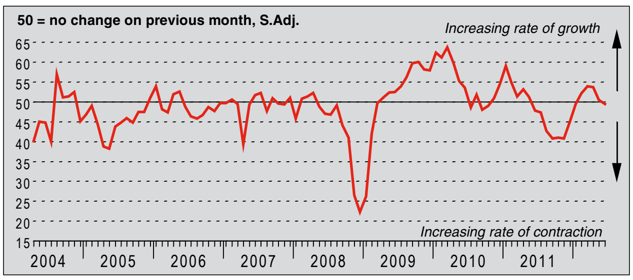


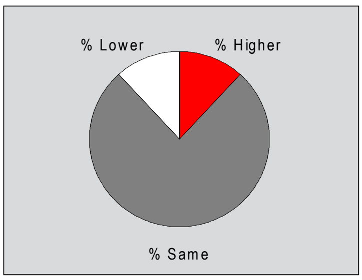


New export orders at Taiwan manufacturing firms decreased in June and at a solid pace. Respondents stated instability in European markets was among the factors causing weaker international demand for manufactured goods. Meanwhile, demand from the US and China also reportedly declined. Approximately 21% of manufacturers reported lower levels of export orders, while 17% signalled a rise.

Backlogs of Work Index

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

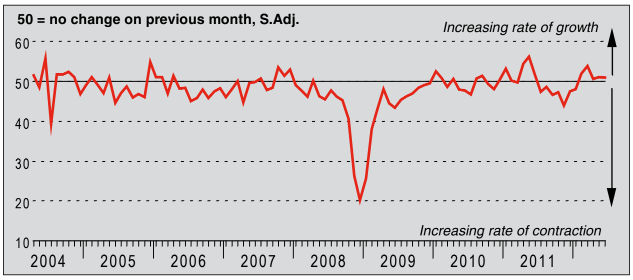


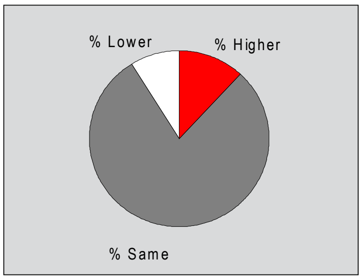


Outstanding orders decreased at Taiwanese manufacturing companies in June. Panellists reported that weaker demand contributed to the depletion of outstanding business. The rate of contraction, however, was only slight and the seasonally adjusted Backlogs of Work Index was above its long-run average.

Stocks of Finished Goods Index

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

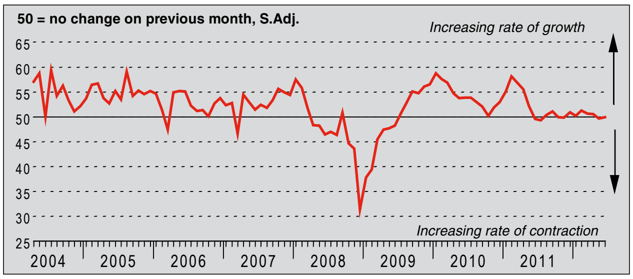


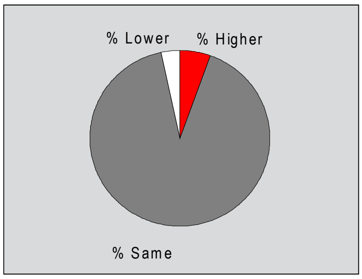


Inventories of finished goods in the Taiwanese manufacturing sector grew slightly in June, with the pace of increase unchanged from that seen in May. Close to 12% of respondents reported higher stock levels, compared with 9% that noted a fall. Manufacturers stated that delayed shipments was among the factors leading to a build up of stocks.

Employment Index

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

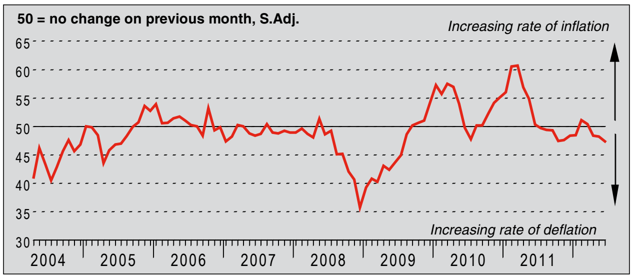


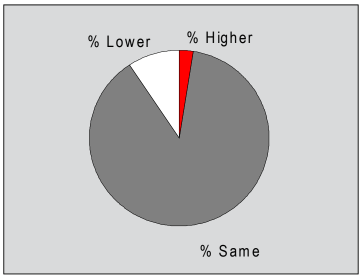


Workforces at manufacturers in Taiwan stayed constant in June following a decline in May. The seasonally adjusted Employment Index was below the long-run trend for the series. Approximately 3% of manufacturers reported lower employment, while the vast majority (91%) of firms stated that staffing levels had not changed.

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.

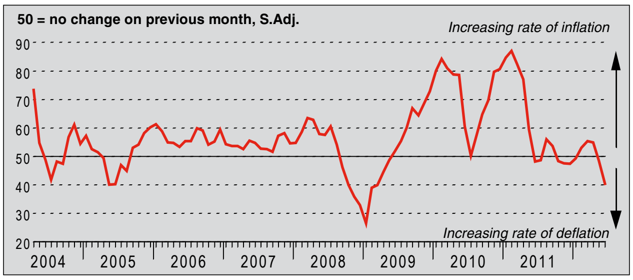


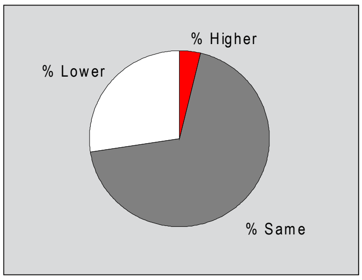


Manufacturers in Taiwan continued to decrease output prices as the cost of inputs fell sharply in June. Panellists also reported that prices declined during the month as competition between manufacturers increased. The rate of decline in output prices was solid and accelerated to the sharpest since July 2009.

Input Prices Index

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

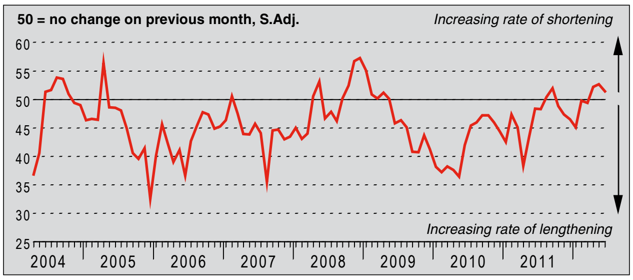


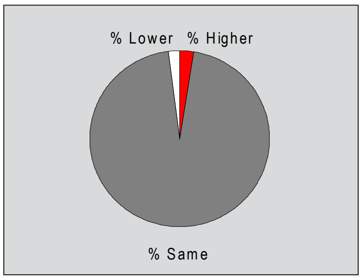


Input prices plummeted in the Taiwan manufacturing sector in June. Companies reported that lower prices for raw materials and fuel were among the main factors leading to the lower cost of inputs. Additionally, it was reported that supply exceeded demand in the sector. The Input Prices Index adjusted for seasonal factors signalled the sharpest fall in input costs since March 2009.

Suppliers' Delivery Times Index

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

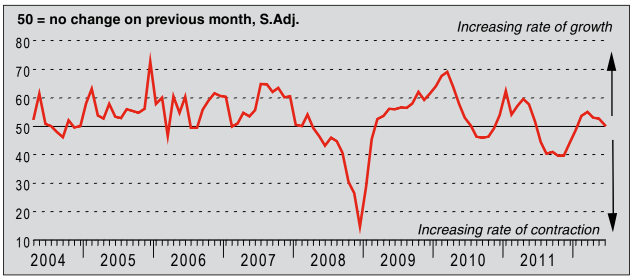


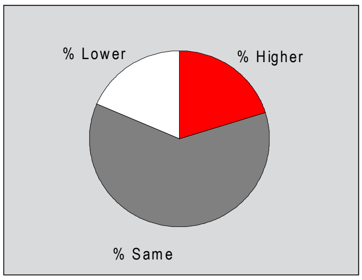


Lead times in the Taiwanese manufacturing sector continued to decrease in June, extending the shortening period to three months. However, the rate of improvement was only slight and the weakest in this sequence. Respondents stated that weaker demand for inputs contributed to faster deliveries. The majority of firms (95%) stated that there was no change in delivery times, while almost 3% reported quicker deliveries.

Quantity of Purchases Index

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

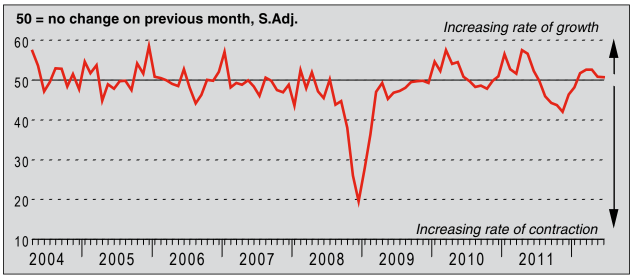


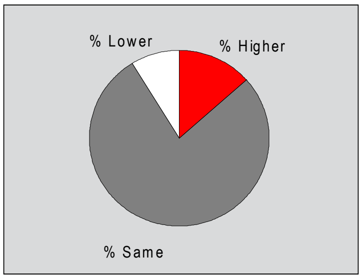


Purchasing activity in the Taiwanese manufacturing sector increased slightly in June, continuing a five-month period of expansion. The rate of growth, however, was only modest and the seasonally adjusted Quantity of Purchases Index in June was close to the no-change benchmark of 50.0. Approximately 20% of firms reported a higher quantity of purchases, against 19% that signalled a fall in their purchasing level.

Stocks of Purchases Index

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





Taiwanese stocks of purchases expanded slightly in June. Pre-production inventories have now risen in each of the past five moths. The seasonally adjusted Stocks of Purchases Index was above the long-run trend for the series. Respondents reportedly accumulated inventories in line with expected production for July.

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.

Warning