

HSBC Taiwan Manufacturing PMI™

Output contracts at steepest pace in the year-to-date

Key findings:

- New orders and new export orders fall for third month running
- Workforces contract slightly
- Input and output prices fall in line with weaker demand

Output fell sharply at manufacturing firms in Taiwan during August, as both total new orders and new export orders decreased for the third successive month. Softening demand conditions also fed through to falling input and output prices, as firms attempted to maintain competitiveness. Meanwhile, stocks of purchases and finished goods were intentionally depleted in line both with falling output.

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 46.1 in August, down from the reading of 47.5 in July and pointing to a further deterioration in the health of the Taiwanese manufacturing sector.

Weaker national and international demand led to a third successive fall in output at manufacturing firms in Taiwan. The pace of the latest contraction was steep and the fastest since December 2011. New orders and new export business both declined, extending the current sequence of contraction to three months. According to panellists, the slowdown in the wider economy resulted in weaker demand for manufactured goods.

In line with falling production, backlogs of work decreased for the third month running. Furthermore, the pace of contraction was the sharpest in 2012 so far. In contrast to the 15% of respondents reporting lower volumes of work-in-hand (but not yet completed),

almost 8% stated that backlogs were accumulated in August.

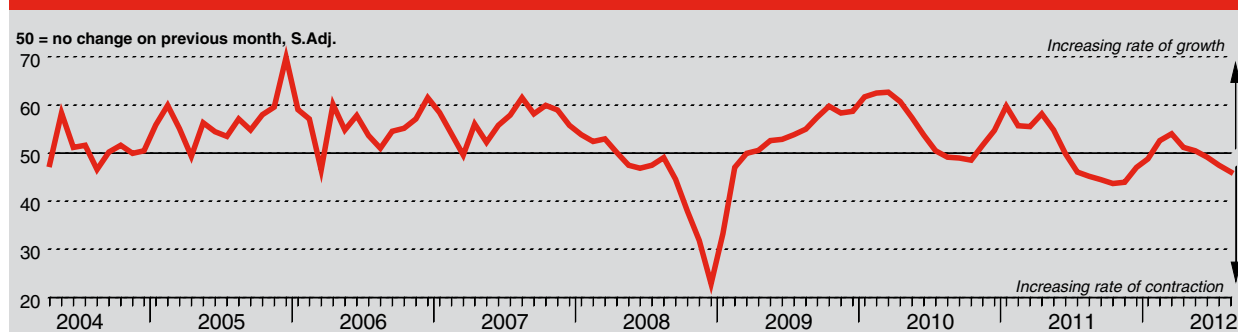
Input prices at Taiwanese manufacturing firms fell for the fourth consecutive month in August. Although marked, the pace of decrease was slower than that recorded in July. Panellists reported that input costs fell in line with decreasing metal and raw material prices. Moreover, it was mentioned that weaker demand also contributed to the latest decline. In line with input costs, charges fell at a solid rate as manufacturers attempted to maintain competitiveness and attract new business, it was reported.

Staffing levels at firms in Taiwan were reduced in August amid reports of falling output. With exactly 96% of respondents signalling no change, the pace of contraction was slight and slower than that seen in July.

Purchasing activity at manufacturers in Taiwan fell during August. The rate of contraction was sharp and the fastest since December 2011. Anecdotal evidence suggested that input buying was reduced in line with weaker demand from domestic and international clients. Meanwhile, vendor performance improved for the fifth successive month. With the vast majority of respondents reporting no change, the rate of shortening was only slight and broadly in line with that seen in July.

Stocks of purchases in the Taiwanese manufacturing sector fell in August. That said, the rate of depletion was modest and slower than in July. Post-production inventories were also depleted as firms lowered stocks in line with weaker demand.

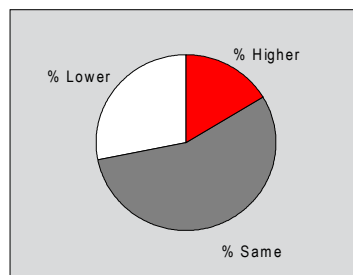
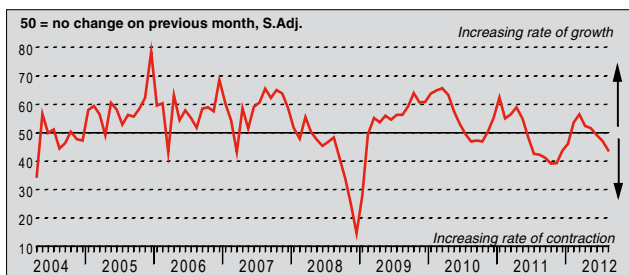
HSBC Taiwan *Purchasing Managers' Index™ (PMI™)*



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

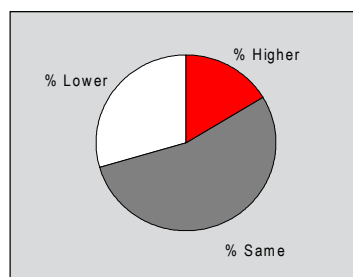
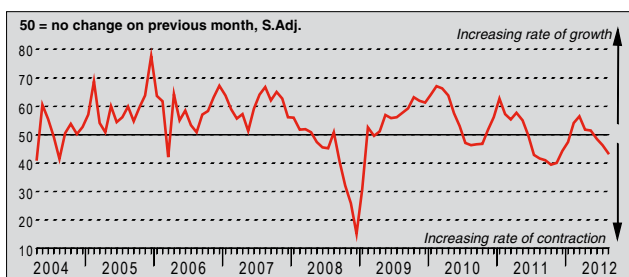
Q. Please compare your production/output this month with the situation one month ago.



Production at Taiwanese manufacturing companies fell for the third successive month during August. The rate of contraction was steep and accelerated to the fastest since December 2011. Anecdotal evidence suggested that a decreasing number of both domestic and international orders led to the latest fall in output.

New Orders Index

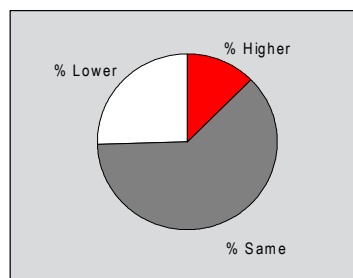
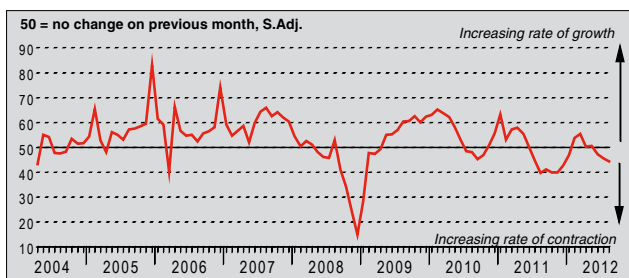
Q. Please compare the level of new orders received (Taiwan and export) this month with the situation one month ago.



Order book volumes at manufacturing firms in Taiwan fell for the third consecutive month during August. The rate of contraction was sharp and the fastest in nine months. Panellists linked the latest decline to falling orders from national and international markets. Moreover, it was reported that new orders dropped as the global economy continued to deteriorate.

New Export Orders Index

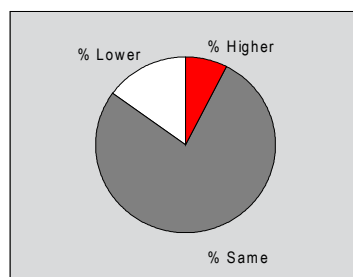
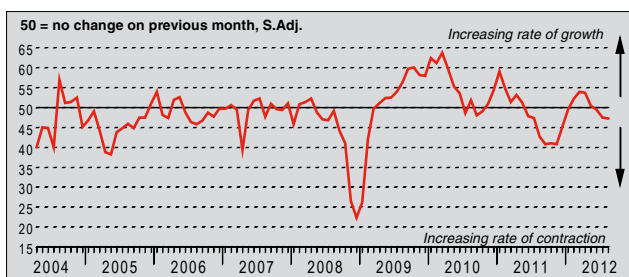
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturing companies in Taiwan recorded the third successive reduction in new export orders during August. The pace of contraction was substantial and accelerated to the fastest since December 2011. According to respondents, export sales decreased as demand from a number of key markets weakened. In addition, it was cited that the deterioration in the health of the global economy also led to falling new export business.

Backlogs of Work Index

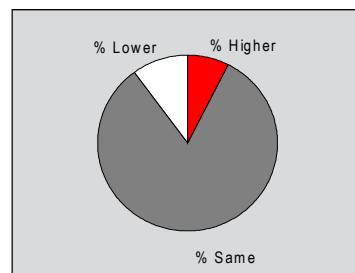
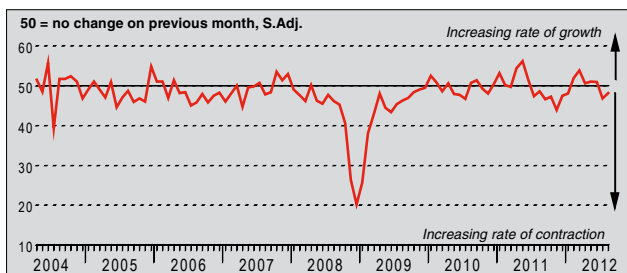
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at Taiwanese manufacturing firms fell in August amid reports that decreasing new orders had eased pressure on capacity. The pace of contraction was the fastest in eight months. Whereas exactly 15% of panellists reported that the volume of work-in-hand (but not yet completed) was lower, almost 8% said it was higher. Outstanding orders have fallen in each of the past three months.

Stocks of Finished Goods Index

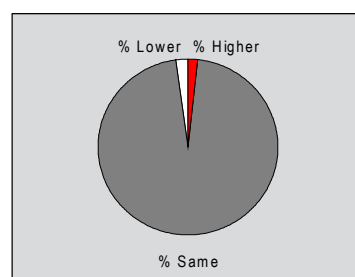
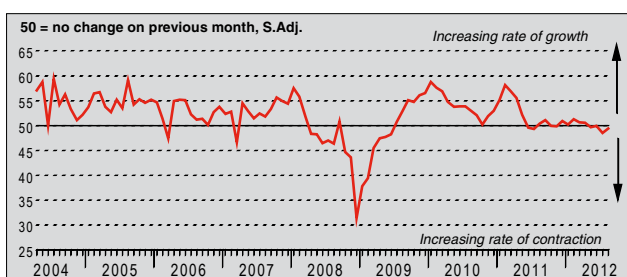
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories decreased in the Taiwanese manufacturing sector in August. However, the rate of contraction was modest and slowed from that recorded in July. Moreover, the seasonally adjusted Stocks of Finished Goods Index posted above its long-run trend. Whereas approximately 10% of panellists stated that stocks of finished goods fell, the majority reported no change.

Employment Index

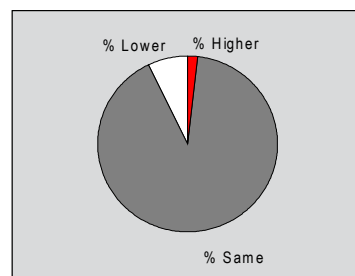
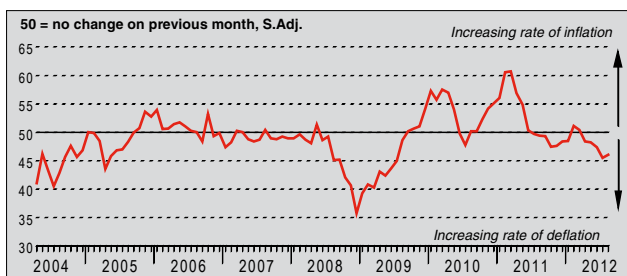
Q. Please compare the level of employment at your unit with the situation one month ago.



Workforces at Taiwanese manufacturing firms fell for the second successive month in August. The pace of contraction was slight and slower than that seen in July. Anecdotal evidence suggested that payroll numbers had been reduced in line with falling output. Approximately 2% of companies reported lower staffing levels, but the vast majority (96%) signalled no change.

Output Prices Index

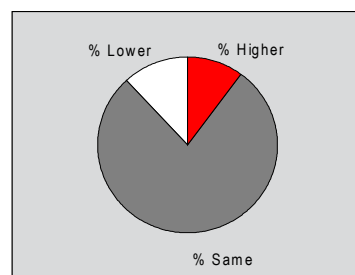
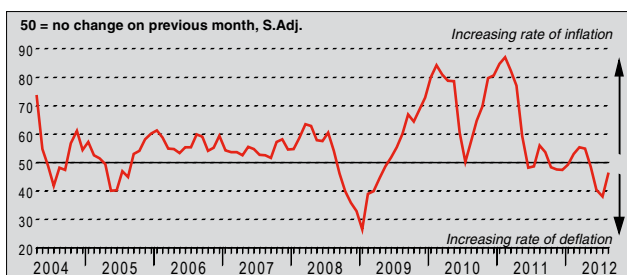
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Charges at manufacturers in Taiwan fell for the fifth month running during August. The rate of decline was substantial, and the Output Prices Index adjusted for seasonal factors posted below its long-run trend. According to respondents, output prices were reduced in order to attract more business and maintain competitiveness. Moreover, weaker demand was also cited as a factor leading to the latest reduction in factory gate prices.

Input Prices Index

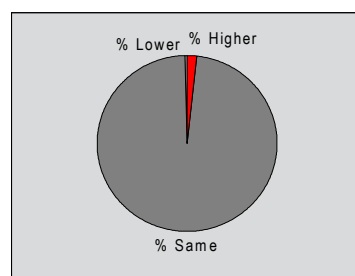
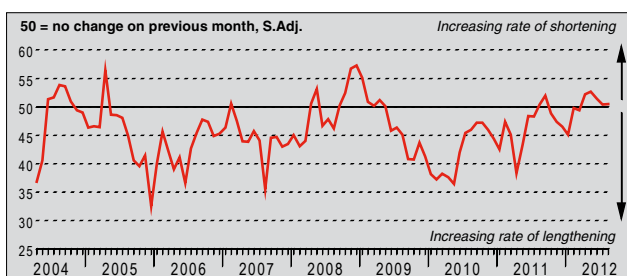
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices at manufacturing companies in Taiwan fell during August amid reports of weaker demand. Furthermore, it was reported that falling metal and raw material prices also led to the latest drop in purchasing costs. The pace of decrease was marked, but slower than that recorded in July. Input prices have fallen in each of the past four months.

Suppliers' Delivery Times Index

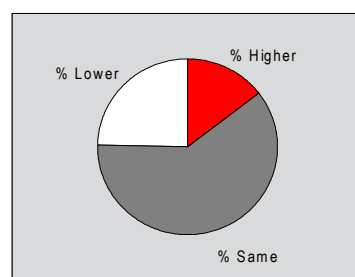
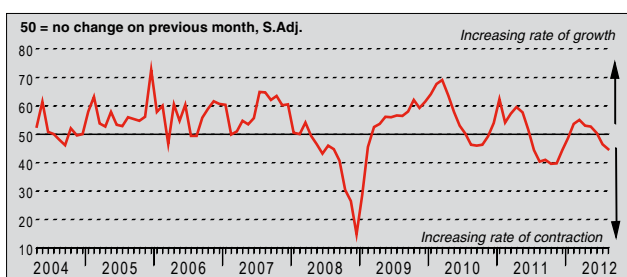
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times in the Taiwanese manufacturing sector shortened in August, extending the current sequence of improvement in vendor performance to five months. However, the pace of shortening was only slight and broadly in line with that recorded in July. Almost 2% of respondents cited faster lead times but 98% reported no change.

Quantity of Purchases Index

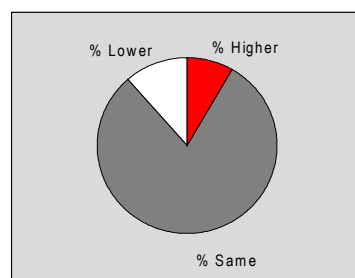
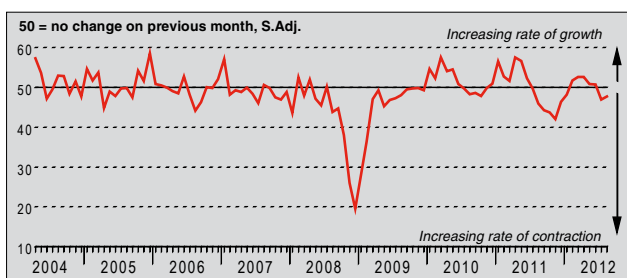
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at Taiwanese manufacturing companies fell during August amid reports of decreasing new orders. The pace of contraction was sharp and the fastest in eight months. Almost 25% of manufacturers stated that their quantity of purchases was lower, in contrast to 15% of respondents reporting higher input buying.

Stocks of Purchases Index

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



Pre-production inventories at manufacturing companies in Taiwan fell during August. The rate of contraction was modest and slower than that recorded in July. According to panellists, stocks of purchases were intentionally depleted as demand continued to weaken. The seasonally adjusted Stocks of Purchases Index posted below its long-run average.

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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