HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC Taiwan Manufacturing PMI™

Output falls at fastest rate in ten months

Key findings:

- New orders and new export orders both fall at steepest rates since last November
- Purchasing activity and inventories pared back
- Output charges decrease at faster rate than input prices

Data for September signalled further falls in production and new orders at Taiwanese manufacturers, with both contracting at the fastest rates in ten months. Purchasing activity and inventories also fell in response to weak local and global demand. However, employment levels remained broadly similar to August. Meanwhile, input costs continued to decrease.

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 45.6 in September, down from 46.1 in August and a ten-month low. Operating conditions in the Taiwanese manufacturing sector have now worsened in each of the past four months.

Falling demand in domestic and international markets led to a fourth successive fall in manufacturing output. New orders and new export business both fell at the fastest rates in ten months. The latest reduction in new orders extended the current trend of contraction to four months. Survey panellists mentioned that deteriorating business conditions worldwide led to reduced demand for manufactured products.

Despite the falls in output and new orders, employment levels at manufacturing firms remained relatively unchanged in September, and a majority of panellists (over 94%) reported no change in staffing levels.

Backlogs of work decreased for the fourth consecutive month in September. The rate of decline accelerated to the sharpest since the end of 2011. Some survey respondents attributed lower backlogs to subdued demand which resulted in excess capacity at their plants.

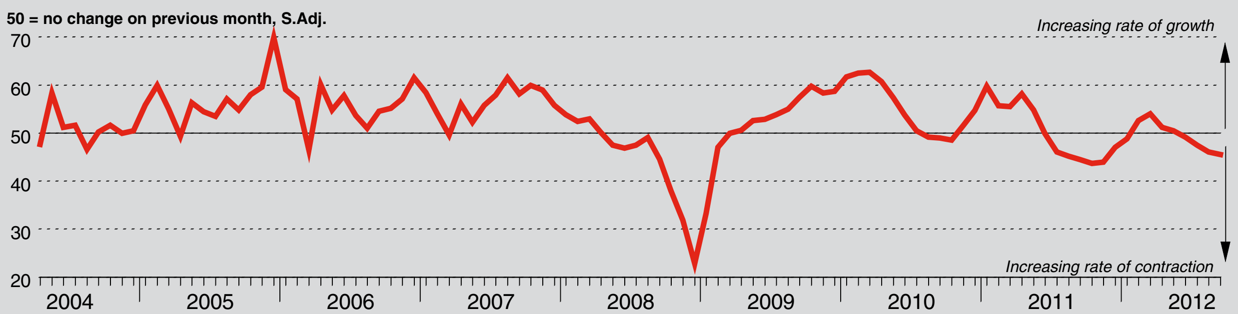
Input costs at Taiwanese manufacturing firms fell for the fifth successive month in September. However, the rate of reduction slowed in September and was only marginal. Anecdotal evidence suggested that input costs declined in accordance with falling raw material costs.

Output charges fell in September for the sixth successive month, although the pace of reduction slowed. Panellists indicated the fall in output charges reflected lower input prices, but was also in response to ongoing competitive pressures.

Purchasing activity decreased for the third consecutive month in September. The fall was the sharpest in ten months. Survey respondents indicated that reduced input buying was due to weak demand for manufactured goods. Average lead times continued to improve, albeit marginally, and respondents linked this to a reduction in demand for inputs.

The volume of pre-production inventories in the Taiwanese manufacturing sector fell in September for the third consecutive month. Moreover, the rate of depletion for pre-production inventories accelerated. Meanwhile, stocks of finished goods fell at the sharpest rate in ten months. Anecdotal evidence suggested the depletion of stocks reflected a fall in the volume of new orders and production requirements.

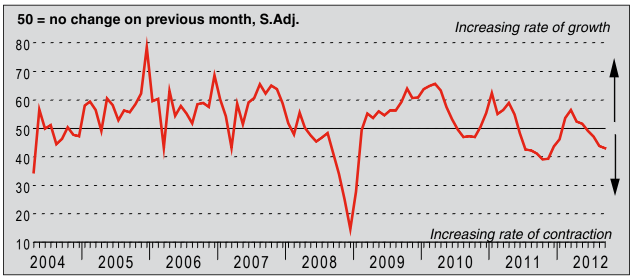
HSBC Taiwan *Purchasing Managers' Index*™ *(PMI*™*)*

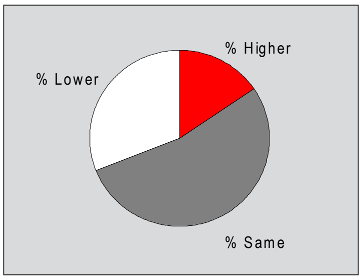


The HSBC Taiwan Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new 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.

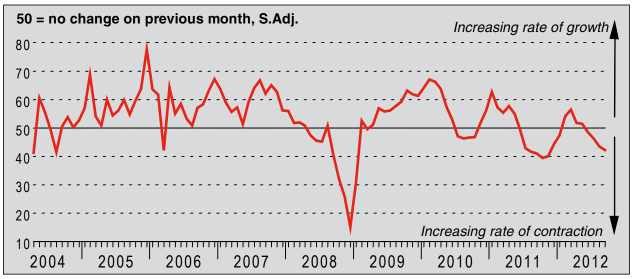


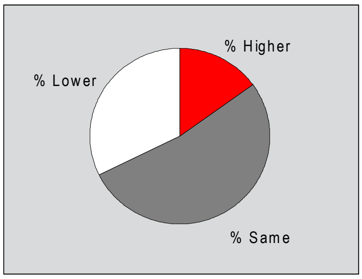


The seasonally adjusted Output Index signalled a fall in Taiwanese manufacturing output in September for the fourth successive month. The rate of contraction was the fastest in ten months, with 31% of panellists indicating a reduction in output levels compared to less than 16% that reported an increase. Survey respondents linked this reduction to fewer orders from domestic and international clients due to deteriorating global economic conditions.

New Orders Index

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

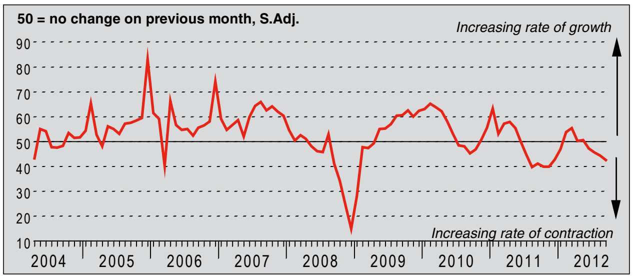


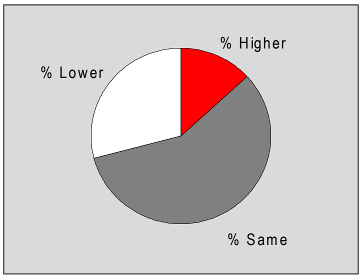


The volume of new orders received by manufacturing firms in Taiwan fell for the fourth consecutive month during September. The seasonally adjusted data indicated the rate of contraction in September was sharp and the fastest in ten months. Over 32% of respondents recorded a fall in the volume of new orders, with a number mentioning falling sales numbers from both domestic and international markets.

New Export Orders Index

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

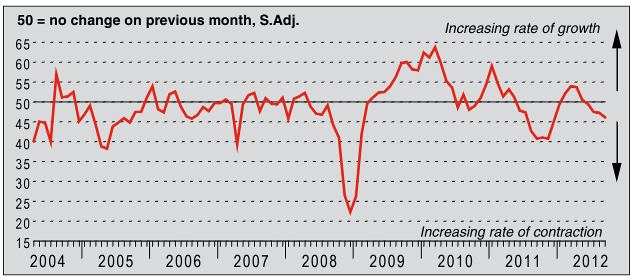


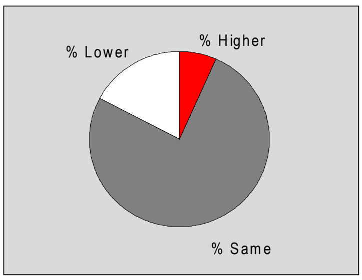


The seasonally adjusted New Export Orders Index signalled a reduction in new export orders during September for the fourth consecutive month. The pace of contraction accelerated to the sharpest since November 2011. Nearly 30% of panellists reported a fall in the level of new export orders received, and some attributed this to deteriorating conditions in the global economy which has stemmed demand.

Backlogs of Work Index

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

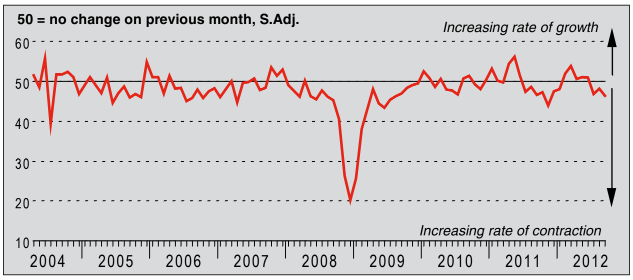


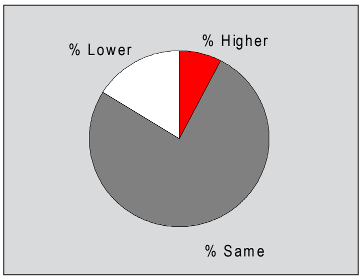


September signalled a reduction in the level of outstanding business held by Taiwanese manufacturing firms for the fourth successive month. The rate of contraction was the fastest in nine months. Over 17% of firms reported a reduction in the volume of work-in-hand (but not yet completed), compared to less than 7% that indicated an increase. Survey respondents linked the reduction to the lower number of new orders, which has increased spare capacity.

Stocks of Finished Goods Index

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

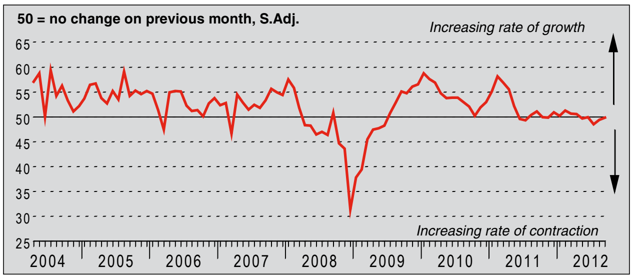


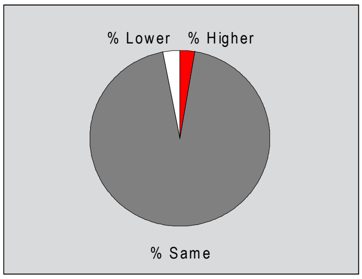


Adjusting for seasonality, post-production inventories decreased in the Taiwanese manufacturing sector in September for the third consecutive month. The rate of contraction in stocks of finished goods was stronger than in August, and the fastest in ten months. Over 16% of panellists reported a reduction in inventories, compared to less than 8% that indicated an increase. Some firms that reported a reduction linked this to a lower volume of new orders.

Employment Index

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

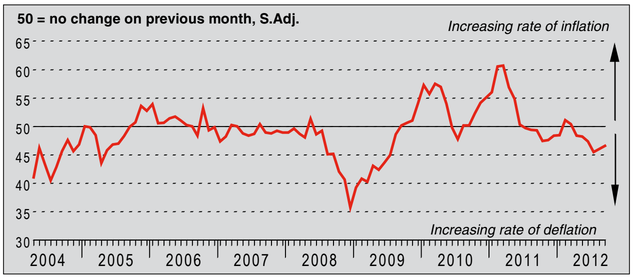


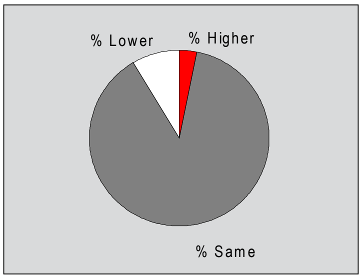


Manufacturers in Taiwan left their staffing levels broadly unchanged in September, following a marginal decrease in the previous month. A majority of manufacturing firms (over 94%) reported no change in workforce numbers, whereas just over 3% signalled a reduction. Some panellists who reported a fall in employment attributed this to weak demand and associated falls in output and new orders.

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.

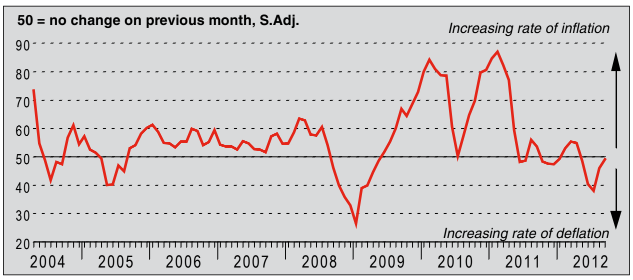


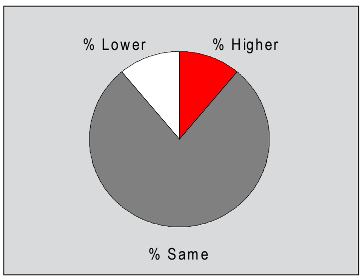


Average tariffs at Taiwanese manufacturers fell for the sixth successive month during September. The rate of decline slowed since August, but the index still posted its third-lowest reading since July 2009, and was below its long-run trend. According to respondents, output prices were reduced to reflect falling input costs and to also attract more business in a market characterised by competitive pressures and weakening demand.

Input Prices Index

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

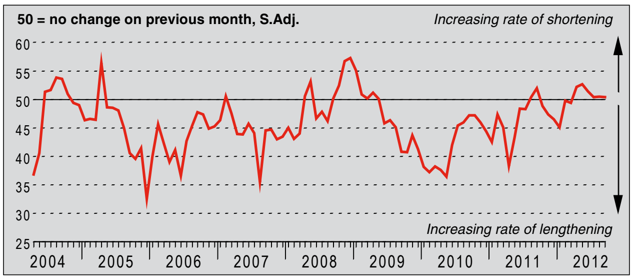


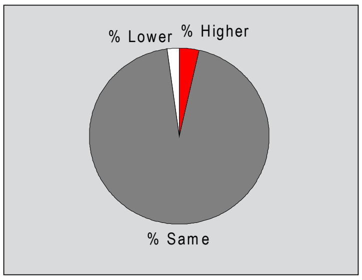


The seasonally adjusted Input Prices Index signalled a further decline in average input prices faced by manufacturing companies in Taiwan during September. That said, the rate of decline was marginal in September, and the slowest in the past five months, with a majority (nearly 78%) of respondents indicating no change to input prices. Anecdotal evidence suggested that firms experienced varying degrees of inflationary and deflationary pressures which were tied in with their various raw material costs. A fall in the price of petroleum was explicitly mentioned.

Suppliers' Delivery Times Index

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

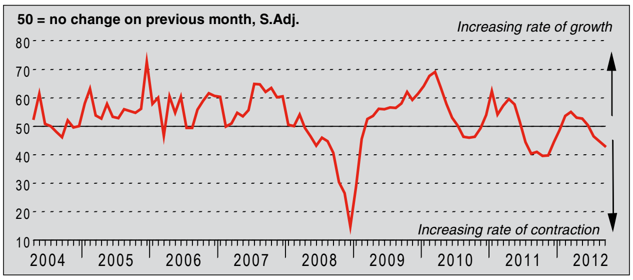


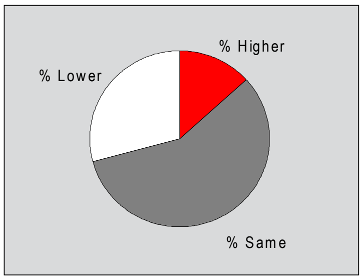


Average lead times in the manufacturing sector shortened in September for the sixth consecutive month. The improvement in suppliers' delivery times was only marginal, and broadly in line with the previous two months. However, a majority of respondents (over 94%) reported no change in their suppliers' delivery times. Those respondents that indicated a reduction in lead times attributed this to a fall in the number of new orders placed with vendors.

Quantity of Purchases Index

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

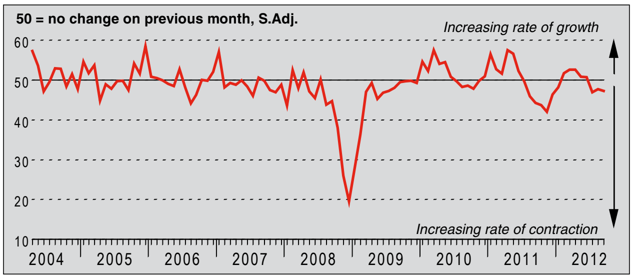


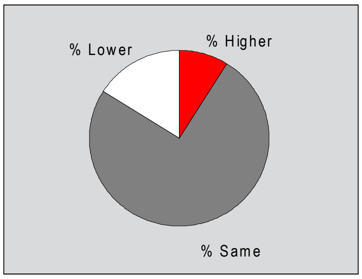


The seasonally adjusted Quantity of Purchases Index signalled a fall in purchasing activity at Taiwanese manufacturing companies during September. The rate of contraction was strong and the fastest in ten months. Almost 30% of manufacturers indicated a fall in their quantity of purchases, in contrast to just over 13% of respondents that reported an increase. Anecdotal evidence suggested that the decline in purchasing activity reflected a fall in the volume of new orders and production requirements.

Stocks of Purchases Index

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





Stocks of purchases at Taiwanese manufacturing firms fell during September for the third successive month. The pace of contraction was faster than that recorded in August, and the second sharpest in nine months. Exactly 16% of respondents reported a reduction in the volume of pre-production stocks, in contrast to just under 9% that signalled an increase. Those panellists that indicated a fall in stocks of purchases attributed this to weaker market demand and an increased use of inventories to satisfy orders.

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