HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Taiwan Manufacturing PMI™

Operating conditions improve for the first time since May

Key findings:

- Output expands for the first time in seven months
- New orders and new export orders both increase
- Purchasing activity picks up after a five-month period of reduction

December data signalled a renewed expansion of output at Taiwanese manufacturing plants, following a six-month period of contraction. However, the rate of expansion was only slight. New orders and new export orders also increased during December, at marginal and modest rates, respectively. Higher sales were attributed to increased client demand. Employment levels rose for the second month in a row, albeit marginally, while backlogs of work were reduced for the seventh successive month. Input costs rose again in December at a modest pace, as output charges were reduced at a marked rate.

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 50.6 in December, up from 47.4 in November and an eight-month high. This was the first time operating conditions in the Taiwanese manufacturing sector have improved since May.

Data for December signalled an expansion of output for the first time in seven months, albeit at a slight pace. New orders and new export orders also rose during December at relatively marginal rates. Nearly 20% of panellists recorded a higher volume of total new orders in the latest survey, a number of which attributed the rise to increased client demand, particularly in China and the US.

Backlogs of work were reduced for the seventh successive month in December and at a marked pace. Staffing levels were increased, albeit only slightly, for the second month in a row. However, a majority of respondents (nearly 98%) recorded no change to employment levels.

Suppliers' delivery times lengthened in December, following a fractional improvement in November. Although times lengthened at a modest pace, it was the fastest rate of deterioration in vendor performance since January.

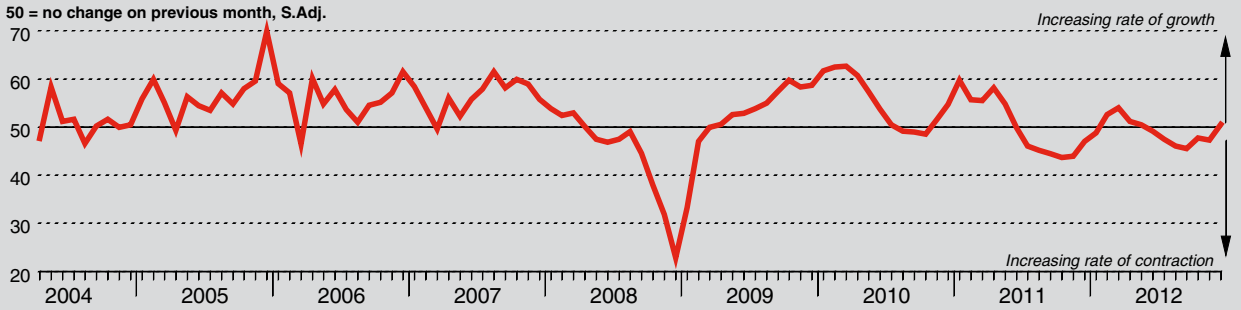
On the price front, input prices increased for the third month in a row. The rate of input price inflation eased slightly from November, but remained modest overall, with 7% of respondents reporting higher input costs. Meanwhile, output charges fell for the ninth consecutive month in December, with the rate of reduction quickening from November. Over 9% of panellists noted lower average tariffs, a number of which attributed this to increased pressure from clients to discount sales.

Stocks of finished goods fell at manufacturing plants for the sixth successive month. The rate of reduction was moderate, remaining broadly similar to those recorded in October and November.

Stocks of purchases also fell in December, although only at a marginal pace, with nearly 15% of survey respondents signalling lower inventory levels. The reductions in both post- and pre-inventory stocks were attributed to fewer sales.

Meanwhile, purchasing activity increased for the first time since June, albeit marginally. The rise in input buying was linked to growth of new orders.

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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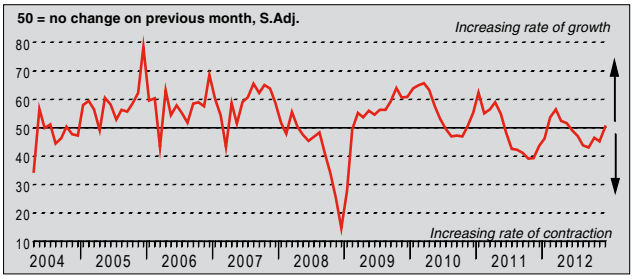
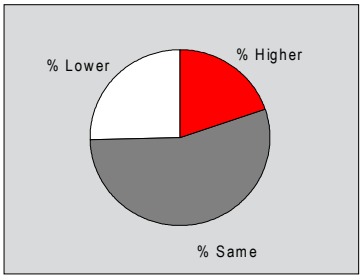
Output Index

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

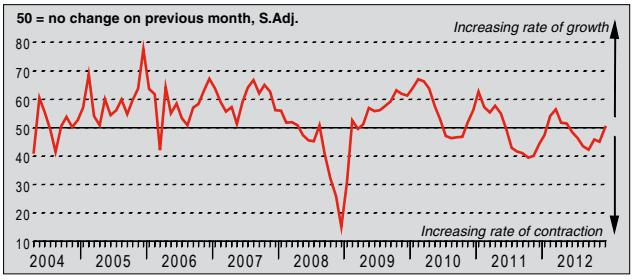


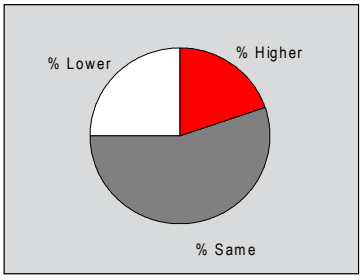


The seasonally adjusted Output Index signalled an expansion of output in December, following a six-month period of contraction. However, the rate of expansion was only marginal. Nearly 20% of survey respondents reported increased production at their units. The renewed growth of output in December was generally associated with higher order volumes.

New Orders Index

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

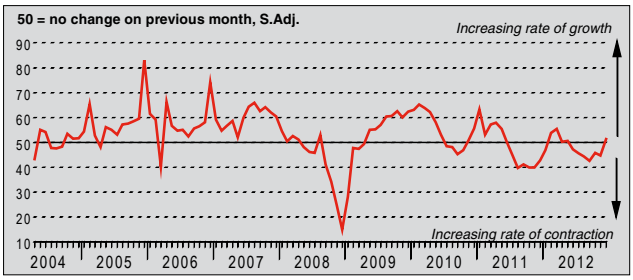


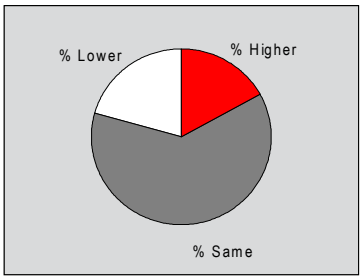


The seasonally adjusted New Orders Index indicated that total new orders received at Taiwanese manufacturers increased during December. Latest data marked the first time new orders had risen, albeit only slightly, in seven months. Nearly 20% of panellists noted higher order volumes during December, with a number of firms attributing the rise to increased client demand.

New Export Orders Index

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

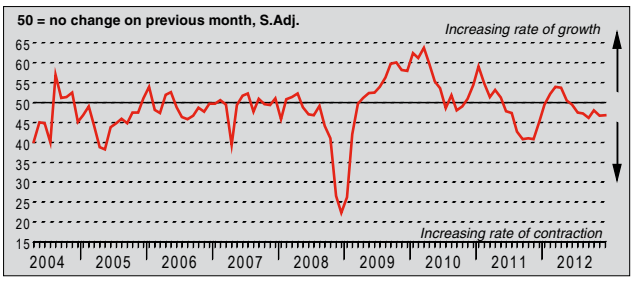


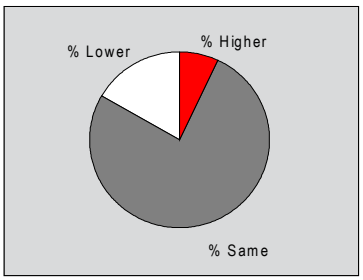


The seasonally adjusted New Export Orders Index signalled a higher level of new export orders placed at manufacturing firms during December. This was the first time new export orders had increased since May. However, the pace of expansion was only modest, with approximately 17% of respondents signalling an increased amount of new export orders. Anecdotal evidence suggested the rise was due to increased client demand, particularly in the US and China.

Backlogs of Work Index

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





The level of outstanding work at Taiwanese manufacturers fell during December, extending the current trend to seven months. After adjusting for seasonality, the rate of backlog depletion was broadly unchanged from November, remaining marked. Nearly 17% of survey respondents reported a lower level of work-in-hand, compared with exactly 7% that noted a rise. A number of firms attributed backlog reduction to fewer-than-expected sales.

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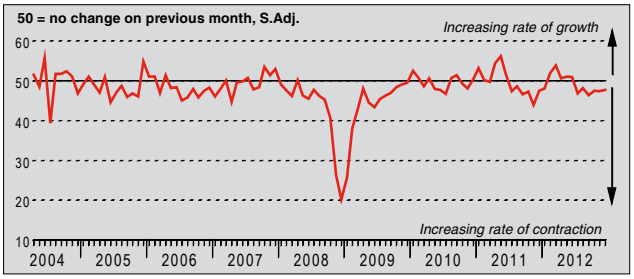
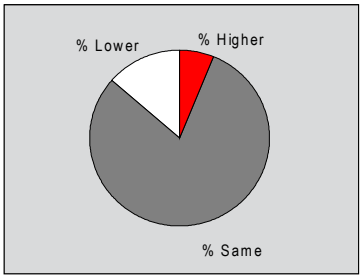
Stocks of Finished Goods Index

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

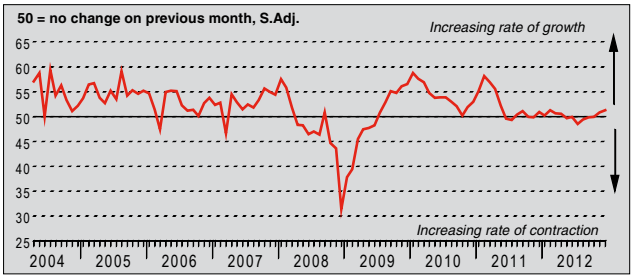


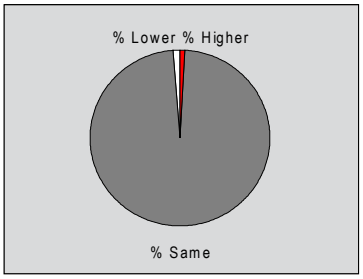


Stocks of finished goods held at manufacturing plants fell for the sixth successive month in December. After adjusting for seasonal factors, the pace of reduction eased slightly from November to the weakest since August, but remained moderate overall. Nearly 14% of panellists signalled lower stocks of finished goods, compared with approximately 6% that noted an increase. The overall reduction was largely linked to fewer sales.

Employment Index

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

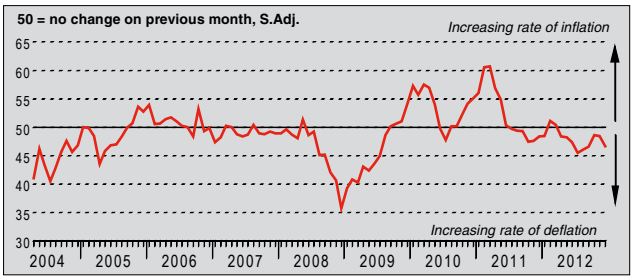


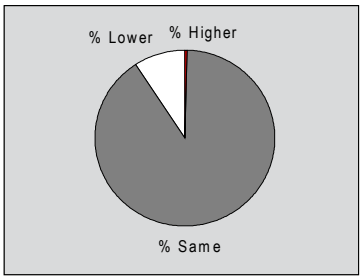


Employment levels in the manufacturing sector increased during December. Staffing levels have now risen for two consecutive months, with the pace of job creation increasing slightly from November, but remaining marginal overall. Just under 1% of survey respondents recorded increased workforce numbers in December, but a majority (nearly 98%) indicated no change. Anecdotal evidence attributed increased staff numbers to higher order volumes.

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.

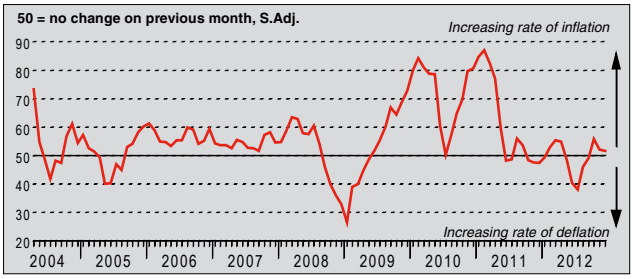


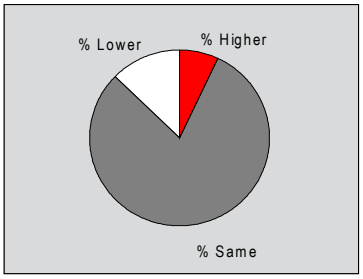


Average tariffs charged by manufacturers fell in December, and for the ninth month in a row. The rate at which output charges were reduced quickened from November to a solid pace, the fastest in three months. Over 9% of panellists recorded deflation in the latest survey period, although a majority of respondents (over 90%) signalled no change to average charges. A number of firms mentioned increased pressure from clients to discount charges, which were undertaken to secure sales.

Input Prices Index

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

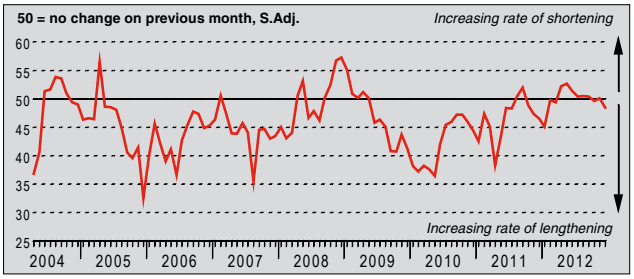


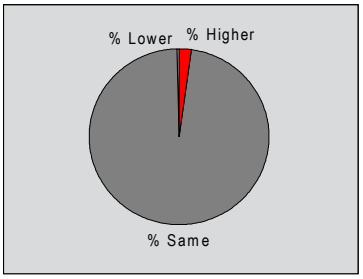


Taiwanese manufacturers reported higher average input costs for the third successive month during December. The seasonally adjusted Input Price Index indicated the rate of inflation eased slightly from November, and remained modest. Exactly 7% of survey respondents noted higher input costs, with anecdotal evidence suggesting that inflation was linked to increased raw material costs.

Suppliers' Delivery Times Index

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

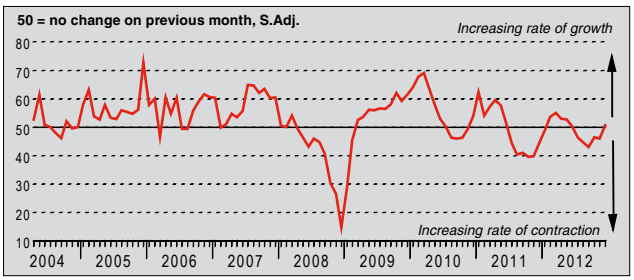


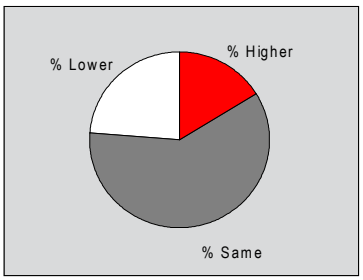


Average lead times lengthened during December, following a fractional improvement in November. The seasonally adjusted index recorded the lowest reading since January, although the rate of deterioration was only modest. Less than 1% of respondents reported longer supplier delivery times, with a majority (over 97%) signalling no change. Longer lead times were generally attributed to insufficient stock levels at vendors.

Quantity of Purchases Index

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

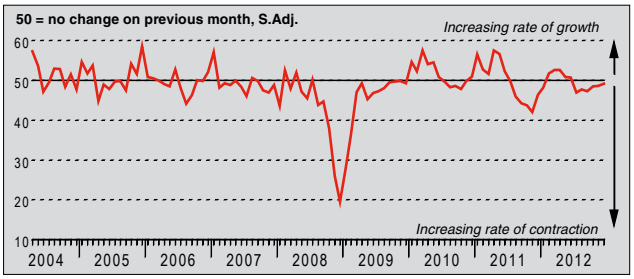


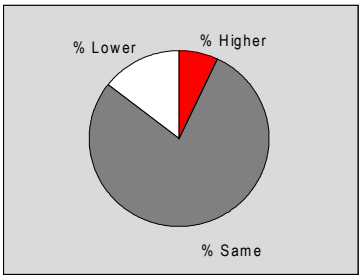


Purchasing activity increased during December in the Taiwanese manufacturing sector. This was the first time that purchasing has risen since June, although the rate of expansion was only slight. Just over 16% of survey respondents recorded an increased amount of purchasing in the latest survey period, with a number of firms linking the rise to increased order numbers.

Stocks of Purchases Index

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





Stocks of purchases held at manufacturers fell for the sixth successive month in December. However, the rate of depletion slowed from November and was marginal. Moreover, it was the slowest rate of stock reduction in the current sequence. In December, nearly 15% of respondents noted a reduction in inventories, compared with exactly 7% that indicated a rise. Some panellists suggested that stock depletion was the result of low sales volumes.

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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