HSBC *Purchasing Managers' Index™* 2013

compiled by markit

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HSBC Taiwan Manufacturing PMI™

Operating conditions continue to improve in January

Key findings:

- Strongest expansion of output since March 2012
- Both new work and new export orders increase
- Solid rise in input costs, while output charges are reduced

Latest data signalled an expansion of output in the Taiwanese manufacturing sector for the second successive month in January. The rate of expansion accelerated to a marked pace, with both new orders and new export orders also increasing. Staff numbers increased for the third month in a row, albeit fractionally. The level of outstanding business declined for the eighth consecutive month. On the price front, input costs rose sharply, while output charges were reduced again.

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 51.5 in January, up from 50.6 in December and a ten-month high. Operating conditions in the Taiwanese manufacturing sector have now improved for the past two months.

Output in the manufacturing sector increased at a marked pace in January. Moreover, it was the fastest rate of expansion since March 2012. Total new orders increased for the second month in a row in January. The rate of growth was modest, with over 25% of survey respondents recording increased new orders. New export orders also rose, albeit slightly, for the second successive month in January. A number of panellists mentioned increased demand from clients in China, Europe and the US.

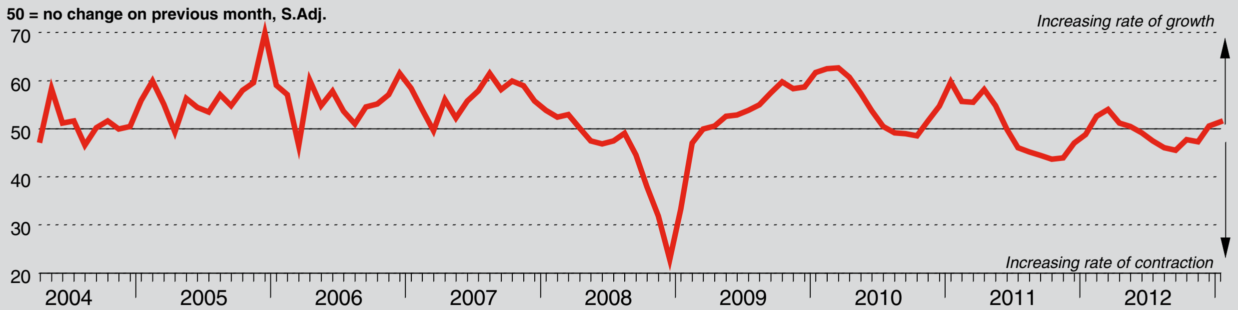
The level of outstanding business at manufacturing plants fell in January for the eighth month in a row. However, the rate of backlog depletion eased from December to only a marginal pace. Stocks of finished goods declined for the seventh successive month in January. A number of panellists suggested the readjustment of stock reflected efforts to reduce operating costs. Employment levels increased in January, though the rate of job creation was only fractional.

Suppliers' delivery times lengthened for the second successive month in January. That said, the rate at which vendor performance deteriorated was only slight, with the majority of panellists reporting unchanged average lead times.

On the price front, input costs rose sharply in January, with over 14% of survey respondents reporting higher average input costs. Anecdotal evidence attributed inflation to rising prices for raw materials. Meanwhile, average tariffs fell for the tenth month in a row in January. However, the rate at which prices were discounted eased from December and was only marginal. A number of panellists linked the reduction of output charges to competitive market pressures.

Purchasing activity increased during January and at the fastest rate since May. Moreover, approximately 23% of survey respondents noted increased input buying. The rise in purchasing activity was generally associated with increased new orders. Stocks of purchases decreased for the seventh month in a row, with more than 14% of survey respondents recording a reduction. A number of panellists linked the overall decline to the increased use of existing inventories.

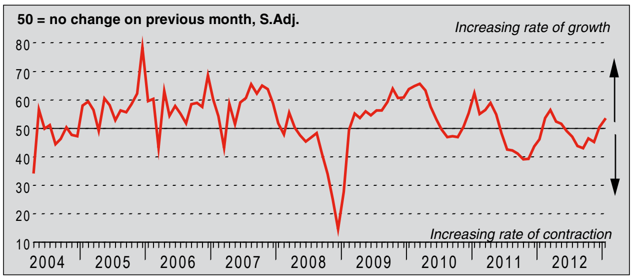
HSBC Taiwan *Purchasing Managers' Index™ (PMI™)*

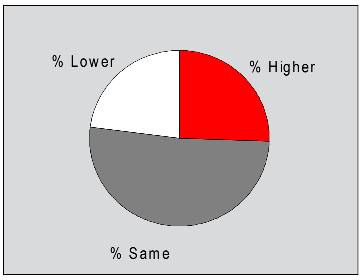


The HSBC Taiwan Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new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

Output Index

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

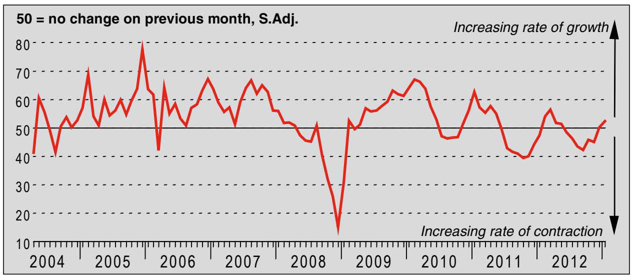


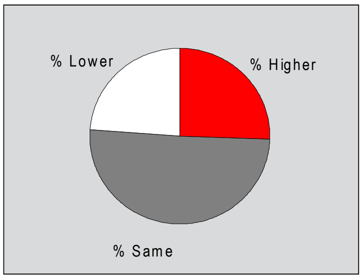


The seasonally adjusted Output Index signalled an expansion of output at Taiwanese manufacturing firms for the second month in a row in January. The rate of expansion accelerated from December to a marked pace, the fastest since March 2012. More than a quarter of survey respondents reported a higher level of production in January, compared with nearly 23% that noted a reduction. A number of panellists attributed the rise to growth of new orders.

New Orders Index

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

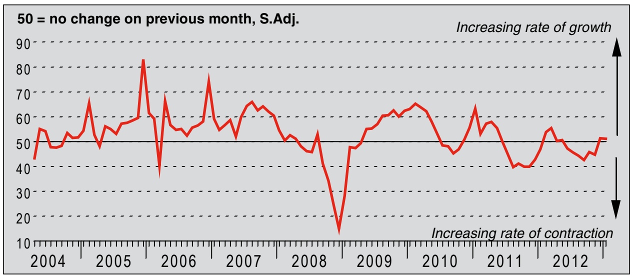


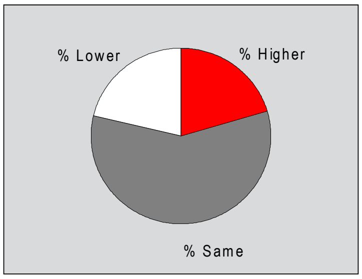


After adjusting for seasonal factors, the New Orders Index indicated an increased amount of new business at Taiwanese manufacturing plants for the second successive month in January. Growth of new orders quickened from December and more than a quarter of panellists recorded a higher volume of new orders. Anecdotal evidence attributed the overall rise in new orders to increased demand from both domestic and export clients.

New Export Orders Index

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

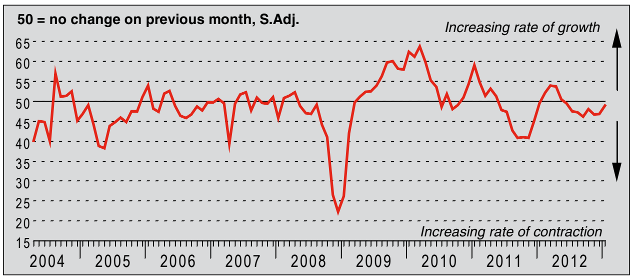


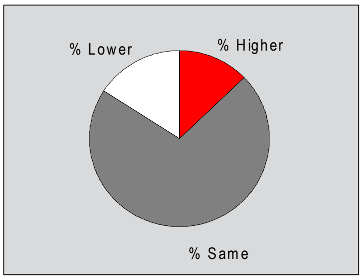


Total new export orders increased for the second consecutive month in January. After adjusting for seasonality, the New Exports Orders Index indicated a similarly marginal rate of growth to that seen in the previous month. Just over 20% of survey respondents recorded a higher level of new export orders, with panellists suggesting the increase was a result of strengthened client demand, particularly in China, Europe, and the US.

Backlogs of Work Index

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

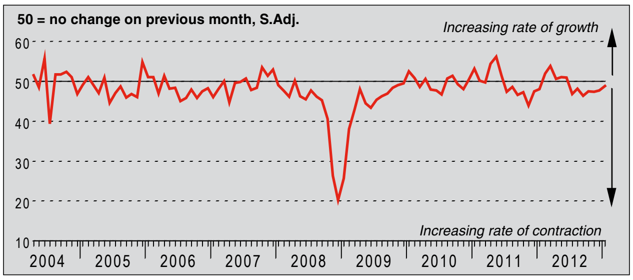


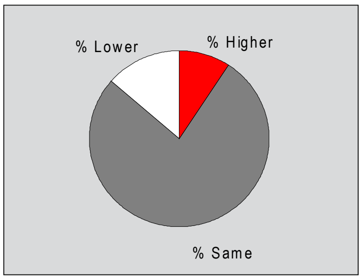


The level of outstanding business at Taiwanese manufacturing plants fell during January. After adjusting for seasonal factors, the Backlogs of Work Index signalled that outstanding business has now fallen for eight successive months. However, the rate of depletion eased from December to only a marginal pace in January. Nearly 16% of survey respondents noted a lower level of work-in-hand, while just under 13% reported a rise.

Stocks of Finished Goods Index

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

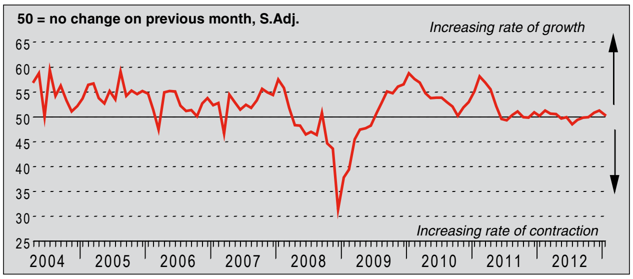


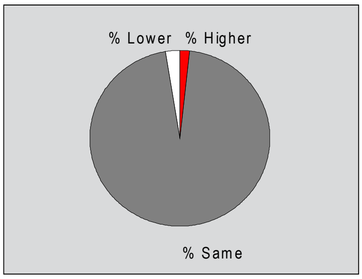


Stocks of finished goods at manufacturing firms fell for the seventh month in a row in January. However, the rate of stock depletion slowed from December and was the weakest in the current period of reduction. Nearly 14% of panellists noted fewer stocks of finished goods, compared with just over 9% that reported an increase. A number of survey respondents that reported lower inventories mentioned that stock levels had been adjusted in order to reduce operating costs.

Employment Index

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

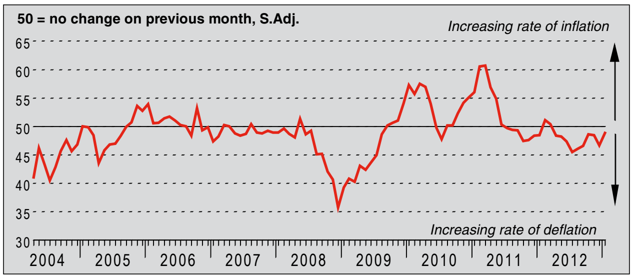


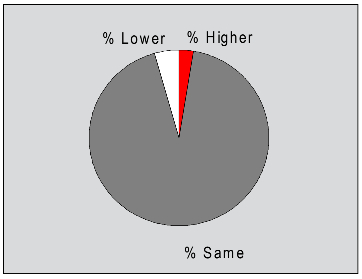


Employment levels at Taiwanese goods producers increased for the third successive month in January. After adjusting for seasonal factors, the rate of job creation was only fractional, with just under 2% of survey respondents signalling increased payroll numbers in the latest survey period. However, a majority of panellists (over 95%) recorded no change. The rise in workforce numbers was generally associated with increased production requirements.

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.

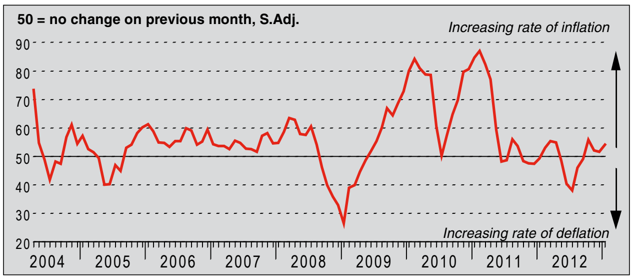


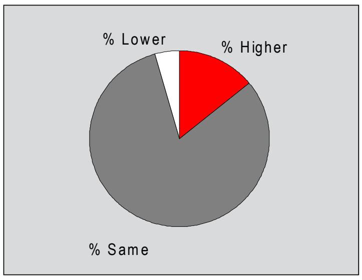


Average tariffs set by Taiwanese manufacturers decreased for the tenth consecutive month in January. The rate at which prices were discounted eased from the pervious month and was only marginal overall. Furthermore, it was the weakest rate of reduction since the current period of discounting began in April. Over 4% of panellists lowered average tariffs in January. Anecdotal evidence indicated that average output prices were reduced due to competitive market pressures in further efforts to boost client demand.

Input Prices Index

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

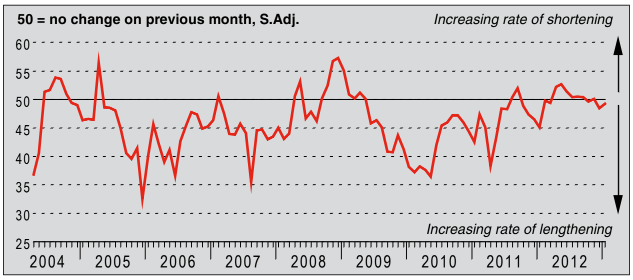


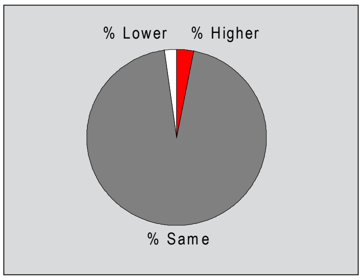


Average input costs faced by manufacturing firms increased for the fourth month in a row during January. The rate of input price inflation accelerated from the previous month to a solid pace, the quickest since October. Around 14% of survey respondents reported higher average input costs in January, compared with just over 4% that noted a reduction. Of those firms that signalled increased costs, a number suggested that this was due to rising raw material prices in global markets.

Suppliers' Delivery Times Index

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

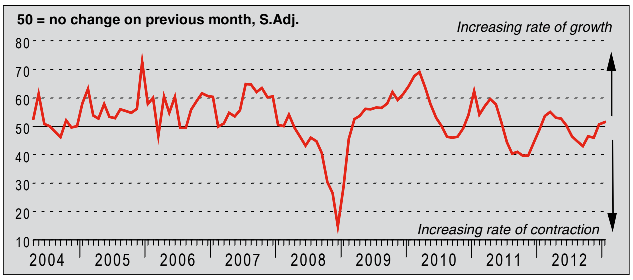


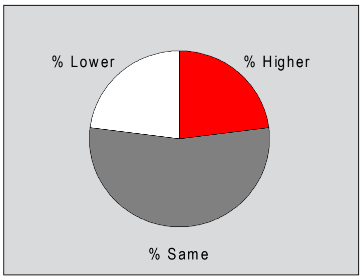


Average lead times lengthened at manufacturing firms for the second month in a row in January. That said, the rate at which delivery times worsened was only marginal. A little over 2% of survey respondents noted a deterioration in vendor performance in the latest survey period, while a majority (nearly 95%) signalled no change. A number of panellists suggested that the longer lead times were a result of insufficient inventories held at vendors.

Quantity of Purchases Index

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

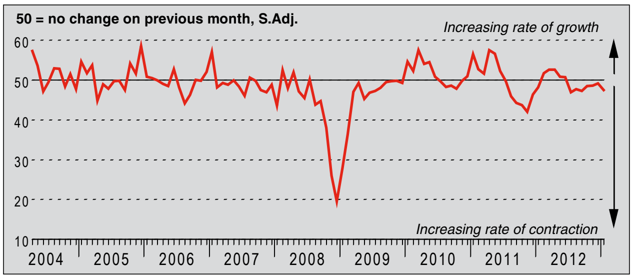


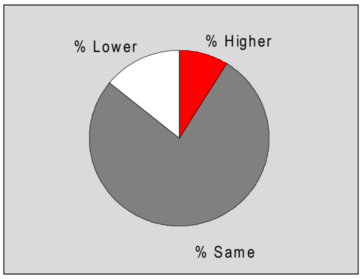


Purchasing activity in the Taiwanese manufacturing sector increased for the second month in a row in January. Latest data signalled a modest rate of growth in input buying, with approximately 23% of panellists recording a higher quantity of purchases. Moreover, it was the fastest rate of growth since last May. Anecdotal evidence linked the rise in purchasing activity to increased new orders.

Stocks of Purchases Index

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





Stocks of purchases decreased for the seventh successive month in January. The rate of depletion quickened from December to a marked pace, and the quickest since September. More than 14% of survey respondents recorded a lower level of stocks of purchases, compared with just under 9% that noted an increase. A number of panellists mentioned that the increased use of existing stock had led to the overall reduction.

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