Embargoed until: 10:00 (TAIPEI), 3 June 2013

HSBC Taiwan Manufacturing PMI™

Deterioration in operating conditions for first time in six months

Key findings:

- Solid reductions in both output and new business
- Input prices fall at considerable pace
- Purchasing activity reduced in line with lower new orders and production requirements

Business conditions in the Taiwanese manufacturing sector worsened in May amid reports of a deterioration in global economic conditions. Output and new orders each decreased solidly during the month, and firms worked through backlogs of work and lowered their purchasing activity accordingly. Meanwhile, further reductions in prices were recorded, with both input costs and output prices falling at accelerated rates.

The HSBC Taiwan *Purchasing Managers' IndexTM (PMITM)* 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 47.1 in May, from 50.7 in the previous month. The reading signalled the first deterioration in operating conditions since November 2012, and the sharpest in eight months.

Manufacturing new orders in Taiwan decreased at a solid pace during May, ending a five-month sequence of growth in the sector. Respondents indicated that new business had decreased from both domestic and foreign sources.

New export orders also fell for the first time in six months. Respondents reported a general deterioration in global economic conditions, with lower new orders from China, Europe and the US mentioned specifically.

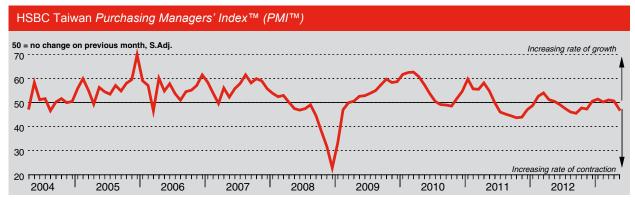
Manufacturers lowered production in response to falling new orders. The reduction in output was solid, despite firms working through backlogs of work at a faster pace during the month. The fall in outstanding business was the sharpest since December 2011

Input costs fell for the second month running in May. Furthermore, the rate of decline was substantial, and the fastest since July 2012. Panellists mainly attributed lower input prices to decreased raw material costs. In turn, firms were able to lower their output prices. Charges declined for the fourteenth successive month, and at the steepest pace since June 2009.

With new orders decreasing, manufacturers lowered their purchasing activity in May. The reduction was solid, and the first in six months. Weaker demand for inputs, alongside requests for quicker deliveries led to a shortening of suppliers' delivery times. Moreover, the rate at which vendor performance improved was the strongest since January 2009.

Staffing levels decreased marginally for the second time in the past three months during May. Employment has been broadly unchanged in the sector since the start of 2013.

Modest reductions in stocks of both purchases and finished goods were recorded in May. In each case, inventories decreased for the eleventh successive month. Panellists reported adjusting their pre-production inventories in line with evidence of weakening client demand.



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.

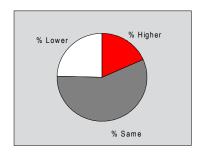




Output Index

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



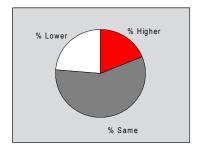


May data signalled a solid reduction of manufacturing output in Taiwan. The fall in production was the first in six months. Anecdotal evidence suggested that a decline in new business had been the key reason for the decrease in output. Around 25% of respondents cut production during the month, compared with 18% that posted an increase.

New Orders Index

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



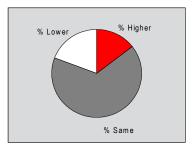


As was the case with production, new orders decreased for the first time in six months during May, and at a solid pace. Where new orders fell, this was linked to weaker demand in both domestic and export markets. A number of respondents blamed the reduction in demand to a general slowdown in global activity.

New Export Orders Index

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



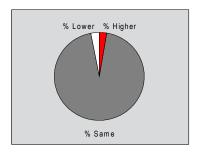


New business from abroad fell during May, ending a five-month period of growth. Moreover, the pace of reduction was solid. Panellists recorded declining demand in a range of foreign markets, most noticeably China, Europe and the US. Meanwhile, other respondents referred to a general global economic slowdown.

Backlogs of Work Index

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

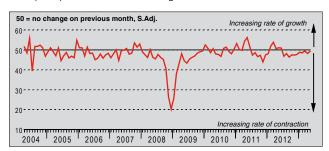


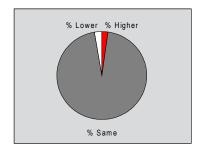


Falling new orders led manufacturers in Taiwan to transfer spare resources to work on existing projects in May. Consequently, backlogs of work decreased for the eleventh time in the past 12 months. Moreover, the rate of depletion seen during May was solid and the sharpest since December 2011.

Stocks of Finished Goods Index

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



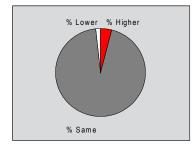


The seasonally adjusted Stocks of Finished Goods Index posted below the neutral 50.0 threshold in May. While the latest reading extended the sequence of falling post-production inventory levels to 11 months, the rate of contraction was slight. The majority of panellists reported unchanged stocks of finished goods from April.

Employment Index

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



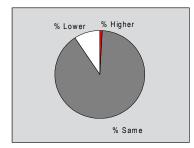


Following the most recent trend, payroll numbers at Taiwan's manufacturing companies were little-changed in May. While the seasonally adjusted Employment Index posted below the no-change mark of 50.0 for the second time in three months, the rate of job shedding was marginal. Companies that lowered staffing levels commonly linked this to resignations of employees.

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.



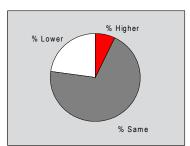


May data signalled a further fall in average prices charged by Taiwanese manufacturers. Output charges have now declined for 14 consecutive survey periods, and the pace of reduction accelerated to the sharpest since June 2009. Decreased raw material costs and price negotiations with clients were cited as the main reasons for the latest cut in output prices, according to panellists.

Input Prices Index

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

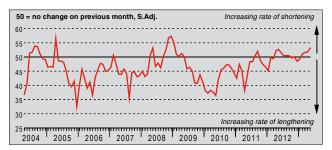


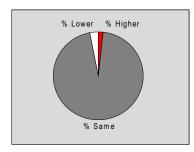


Taiwan's manufacturing firms recorded a sharp drop in input costs during the latest survey period. Input prices fell for the second month running, and at the fastest pace in ten months. Around 23% of respondents indicated a reduction in costs, while 7% reported an increase. A fall in raw material prices was the primary factor highlighted by companies that registered lower input costs.

Suppliers' Delivery Times Index

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



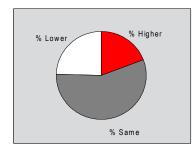


As has been the case in each of the past four months, suppliers' delivery times shortened in May. Furthermore, the latest shortening of lead times was the greatest since January 2009. According to respondents, a combination of falling demand for inputs and requests for quicker deliveries had contributed to the improvement in supplier performance.

Quantity of Purchases Index

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



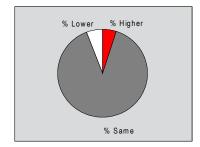


Purchasing activity at manufacturing firms in Taiwan decreased solidly during May, ending a five-month sequence of expansion. Respondents indicated that falling new orders was the main factor leading to the drop in input buying. Close to one-quarter of panellists lowered purchasing activity, against 19% that raised buying compared to April.

Stocks of Purchases Index

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





May data pointed to a modest reduction in stocks of purchases at Taiwanese manufacturing firms. Pre-production inventories have now declined in each of the past 11 months. Close to 6% of panellists recorded a drop in stocks of purchases over the month, which they largely attributed to adjustments in line with weaker client demand.

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' IndexTM (PMITM) 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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