HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Taiwan Manufacturing PMI™

Operating conditions deteriorate for the third successive month in July

Key findings:

- Output contracts at a marked pace
- Total new orders decline at a quicker rate as firms signal marked reduction in new business from abroad
- Cost pressures continue to ease, with input prices falling sharply over the month

Operating conditions deteriorated modestly in Taiwan's manufacturing sector in July. Production levels decreased over the month, with both new orders and new export orders falling at faster rates. Consequently, buying activity and stocks of purchases also declined in July, in line with softer client demand. Meanwhile, input costs fell sharply, while output charges were cut again following price negotiations with clients.

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 48.6 in July, down from 49.5 in June, signalling a modest deterioration of business conditions. Operating conditions faced by Taiwanese manufacturers have now worsened for three consecutive months.

Output at manufacturing plants in Taiwan contracted for the third month in a row in July. Moreover, the rate of reduction accelerated to a marked pace, with more than one-quarter of respondents noting lower production levels. Similarly, total new orders fell modestly, while new export orders were also down (in both instances for the third month running). Anecdotal evidence suggested weak demand from key export markets such as Europe and the US drove the overall decline in new business.

Fewer new orders created spare capacity at some plants, and enabled firms to reduce their level of work-in-hand. Backlogs of work have now fallen for four months in a row, though the latest reduction was the weakest in the current sequence. In contrast, employment levels increased for the second successive month in July, though only slightly.

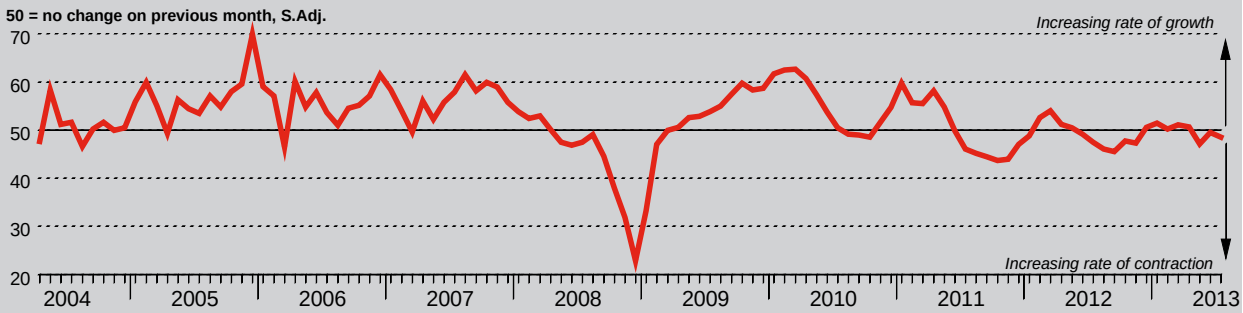
Purchasing activity decreased for the third consecutive month, and at a marked pace. Stocks of purchases also fell over the month, though the rate of depletion was modest overall. A number of respondents linked reduced input buying and the depletion of stocks to lower production requirements, which in turn stemmed from softer demand and lower sales.

Despite weaker demand for inputs, suppliers' delivery times worsened for the first time since January, albeit marginally.

Input prices in Taiwan's manufacturing sector declined sharply over the month, and was generally linked to lower raw material costs. Reduced operating costs allowed firms to cut their output charges for the sixteenth month in a row, with firms signalling a solid rate of discounting in the latest survey period. Anecdotal evidence mentioned that firms lowered their tariffs in response to requests made by clients for lower prices.

Finally, stocks of finished goods declined in July, as firms continued to readjust inventories in response to reduced order book volumes.

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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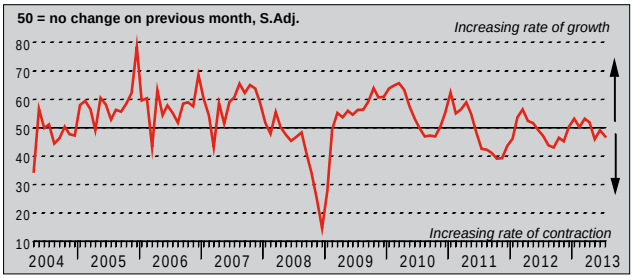
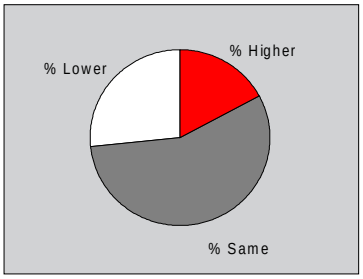
Output Index

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

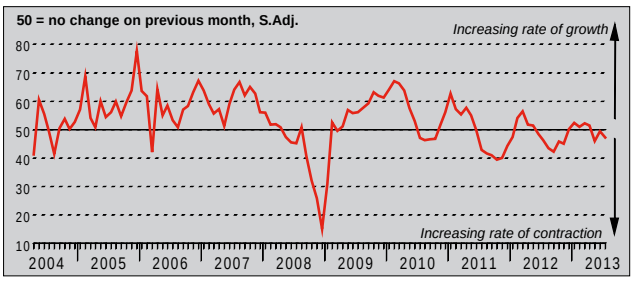


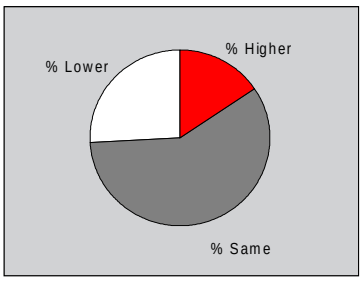


The seasonally adjusted Output Index signalled a further reduction of output in Taiwan's manufacturing sector in July. Production levels have now fallen for three consecutive months, with the rate of contraction accelerating to a marked pace in the latest survey period. Approximately 27% of survey respondents recorded lower output, while just over 17% noted an expansion. Anecdotal evidence suggested that fewer new orders led to reduced production at some plants.

New Orders Index

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

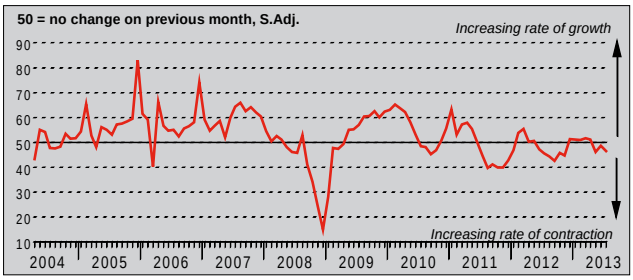


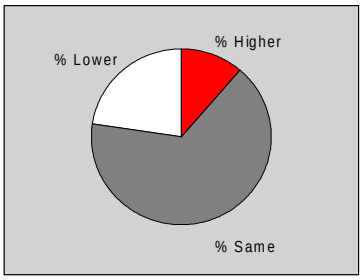


New orders placed at manufacturing plants in Taiwan decreased for the third month in a row in July. As was the case with output, the rate of reduction quickened since June to a moderate pace, with nearly 26% of panellists reporting a reduced intake of new work. A number of survey respondents claimed order book volumes had declined due to weak demand from international clients.

New Export Orders Index

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

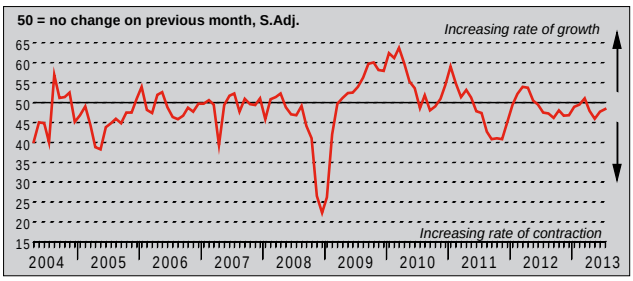


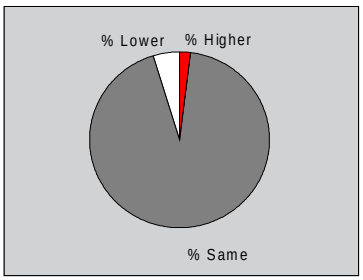


New export orders fell for the third successive month in July. After adjusting for seasonal factors, the rate of contraction was marked, having accelerated since June, with nearly 23% of panellists reporting a lower intake of new business from abroad. Reduced client demand from key export markets, such as Europe and the US, was linked to the fall in new export orders.

Backlogs of Work Index

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





Taiwanese manufacturers cut their levels of outstanding business for the fourth consecutive month in July. That said, the seasonally adjusted Backlogs of Work Index signalled a modest rate of depletion that was the weakest in the current sequence. Nearly 5% of respondents reported a lower level of work-in-hand, while exactly 2% saw an increased amount of backlogged work. According to anecdotal evidence, some firms were able to reduce their level of outstanding business due to spare capacity at their plants.

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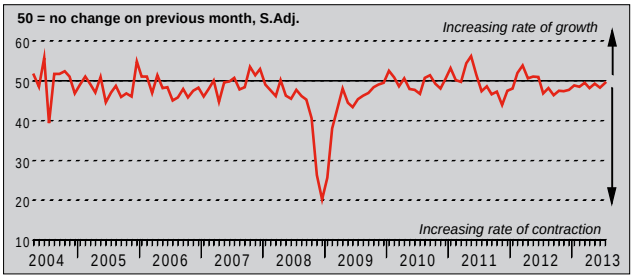
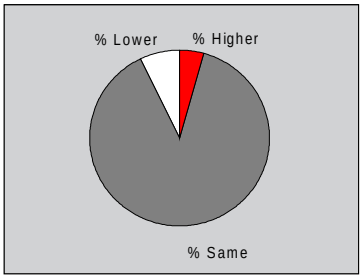
Stocks of Finished Goods Index

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

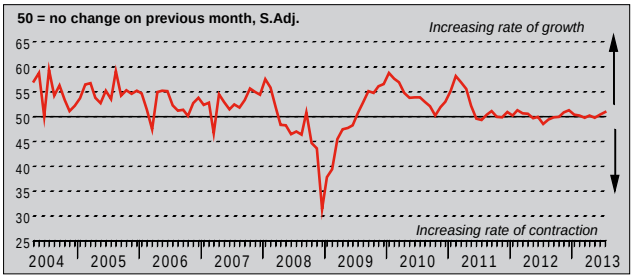


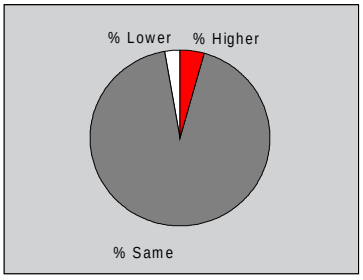


July data signalled a further depletion of stocks of finished goods held at Taiwanese manufacturers. After adjusting for seasonality, the rate of reduction was only marginal and the weakest since the current sequence of destocking began in July 2012. Furthermore, the vast majority of panellists (over 88%) saw no change to their levels of post-production goods in the latest survey period.

Employment Index

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

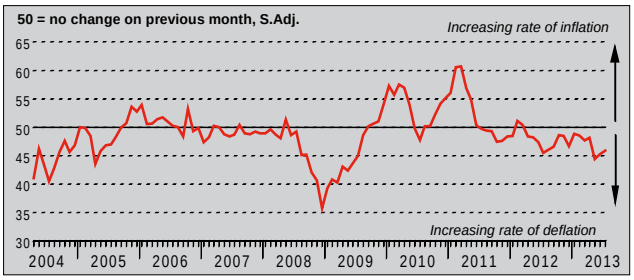


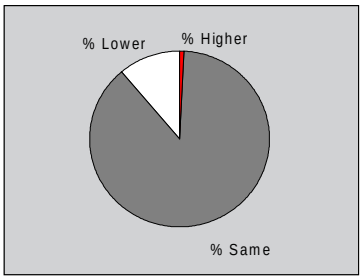


The seasonally adjusted Employment Index posted above the 50.0 no-change mark in July, signalling a second successive month of job creation in Taiwan's manufacturing sector. Although the rate of increase was only marginal, it was the quickest expansion of payroll numbers in 2013 so far. According to survey respondents, higher staffing levels were linked to the filling of vacancies following previous staff departures.

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.

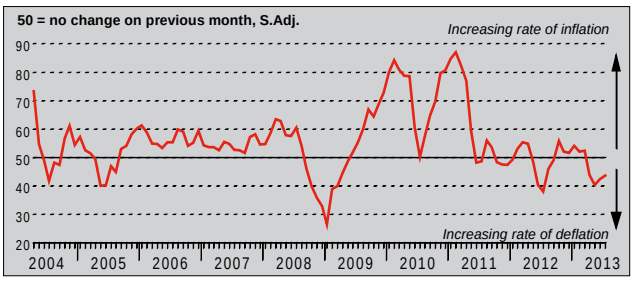


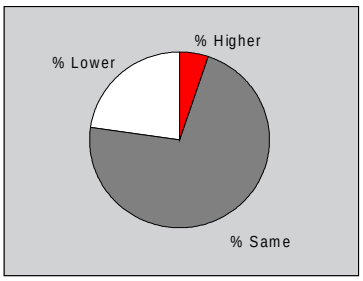


Manufacturers in Taiwan cut their factory gate prices for the sixteenth successive month in July. After adjusting for seasonality, the rate of discounting eased since June, but remained solid overall. Furthermore, over 11% of survey respondents reduced their output charges over the month, compared to less than 1% that indicated a rise. A number of panellists mentioned reducing their tariffs as a result of price negotiations with clients.

Input Prices Index

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

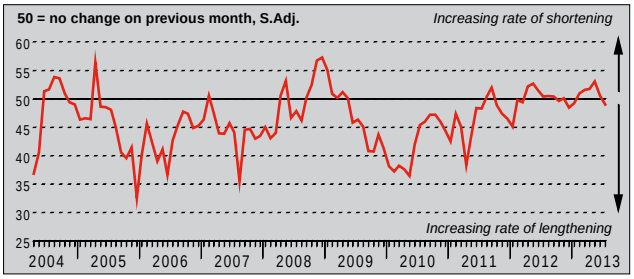


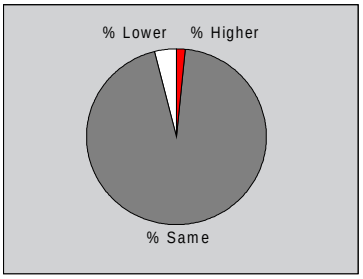


Input prices faced by Taiwanese manufacturers decreased for the fourth month in a row during July. Though the rate of reduction was sharp, it was the weakest in three months. Nonetheless, nearly 23% of respondents recorded lower input costs, compared with just over 5% that noted a rise. Lower input prices were largely attributed to reduced raw material costs, with copper mentioned in particular.

Suppliers' Delivery Times Index

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

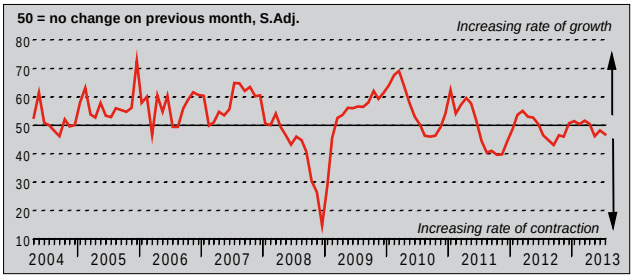


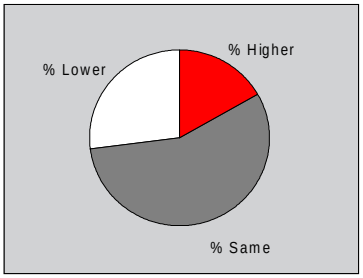


Vendor performance deteriorated for the first time in six months in July. After adjusting for seasonal variation, however, the degree to which times lengthened was marginal. Moreover, the vast majority of survey respondents (over 94%) reported no change to delivery times compared to the previous survey period.

Quantity of Purchases Index

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

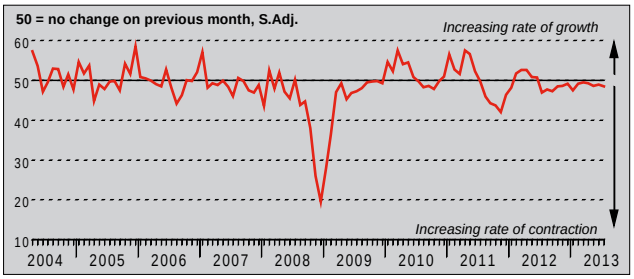


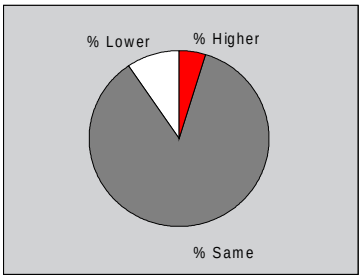


Manufacturers signalled a reduced amount of purchasing activity for the third consecutive month in July. Furthermore, the rate of decrease accelerated since June to a marked pace. Approximately 27% of panellists purchased fewer inputs in the latest survey period, while around 17% increased purchasing activity. Anecdotal evidence suggested that input buying fell in response to fewer new orders.

Stocks of Purchases Index

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





Stocks of purchases declined for the thirteenth month running in July. Though modest, the rate of depletion was the fastest in six months, with nearly one-in-ten panellists reporting lower stocks of pre-production goods. A number of respondents mentioned that inventories were readjusted to reflect softer 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' 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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