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HSBC Taiwan Manufacturing PMI™

Business conditions stabilise during August

Key findings:

- Marginal reductions of output and new orders
- Quickest rate of job creation since last December
- Deflation persists

Latest data signalled that operating conditions in Taiwan's manufacturing sector were unchanged in August, following three months of deterioration. Output declined marginally, while total new orders and new export orders also decreased at slower rates. Staffing levels increased for the third month in a row, and at the fastest rate of 2013 so far, while backlogs of work fell only slightly. Deflationary pressures persisted, however, with input prices falling at a marked pace, and firms cut their output charges solidly.

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 50.0 in August, up from 48.6 in July, signalling that operating conditions were unchanged in the latest survey period, following three consecutive months of deterioration.

Production levels in Taiwan's manufacturing sector fell for the fourth consecutive month in August. That said, the rate of contraction was marginal and the weakest in the current sequence.

Total new orders also declined, albeit fractionally. A modest decrease in new export orders suggested that weak demand from international clients largely drove the reduction of total new

order books. Anecdotal evidence indicated that soft underlying demand from China, Europe and the US led to the overall reduction of foreign sales.

Despite the slight contraction of output, staff numbers increased for the third month in a row. Furthermore, the rate of job creation was the quickest since last December. According to a number of panellists, additional staff were hired as part of plans to increase productive capacity. Meanwhile, the volume of outstanding business fell for the fifth successive month, albeit marginally.

Buying activity declined for the fourth consecutive month in August, albeit modestly. Concurrently, stocks of inputs fell for the fourteenth month in a row as firms purchased fewer raw materials and ran down their current inventories in an effort to reduce costs.

Average input prices declined for the fifth month in a row in August. Though marked, the rate of deflation was the weakest in the current sequence.

Lower production costs enabled firms to reduce their average tariffs for the seventeenth month in a row. Furthermore, the rate of discounting was solid, with approximately 11% of respondents lowering their factory gate prices. According to a number of panellists, output charges were cut as a result of competitive market pressures and price negotiations with clients.



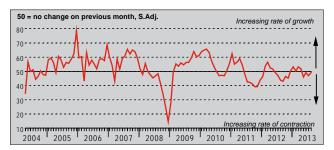
The HSBC Taiwan Purchasing Managers' IndexTM (PMITM) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

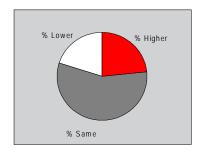




Output Index

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



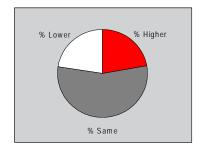


Output in Taiwan's manufacturing sector decreased for the fourth month in a row in August. After adjusting for seasonal factors, however, the rate of contraction was marginal, and the weakest in the current sequence. According to anecdotal evidence, lower production levels were the direct result of fewer 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.



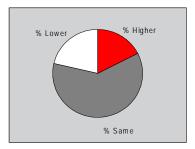


The volume of new work received by Taiwanese goods producers fell during August. That being said, the rate of reduction was fractional, and the weakest in the current four-month sequence of decline. A number of respondents suggested that weaker client demand, particularly from abroad, led to the overall reduction of total new orders.

New Export Orders Index

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



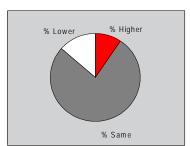


Taiwanese manufacturers reported a lower volume of new export orders for the fourth consecutive month in August. After adjusting for seasonality, the rate of decline eased since July and was modest, with more than 21% of panellists noting fewer new orders from abroad. Weaker demand from clients in China, Europe and the US were said to have been behind the latest decline 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.



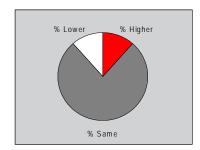


Backlogs of work in Taiwan's manufacturing sector fell for the fifth month in a row during August. However, the rate of depletion eased since July to a marginal pace that was the weakest in the current contractionary period. Less than 14% of respondents noted a lower level of work-in-hand (compared with nearly 10% that reported an increase).

Stocks of Finished Goods Index

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



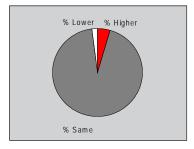


Stocks of post-production goods decreased for the fourteenth successive month in August. After adjusting for seasonal variation, the rate of reduction was broadly unchanged from July and only slight. A number of panellists mentioned that the increased use of current stocks and the readjustment of inventories had led to the overall decline.

Employment Index

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



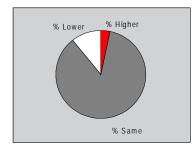


Staffing levels in Taiwan's manufacturing sector increased for the third consecutive month in August. After adjusting for seasonality, the rate of job creation quickened slightly from July and was modest. Moreover, it was the fastest rate of expansion since last December. Nearly 5% of panellists noted increased payroll numbers, with some firms linking higher staffing levels with plans to raise output.

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.



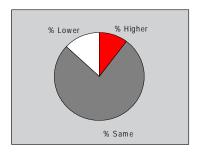


Output prices charged by Taiwanese manufacturers decreased for the seventeenth successive month in August. The rate of discounting was broadly similar to that recorded in July and remained solid, with more than one-in-ten panel members cutting their factory gate prices. A number of survey respondents lowered their average tariffs in response to competitive market pressures, as well as 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.

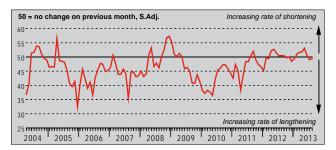


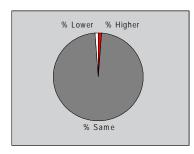


Average production costs in Taiwan's manufacturing sector fell for the fifth month in a row during August. The rate of reduction eased substantially since July, but was nonetheless marked. Approximately 13% of panellists noted lower operating costs compared with the previous month (while around 10% recorded an increase), with some firms linking the decline to reduced raw material prices.

Suppliers' Delivery Times Index

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



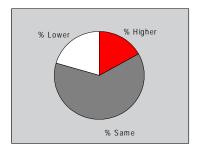


The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change threshold for the second month in a row in August, signalling a further deterioration of vendor performance. That said, the rate at which times lengthened eased slightly from July, and remained marginal.

Quantity of Purchases Index

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





Input buying in Taiwan's manufacturing sector fell for the fourth successive month in August. After adjusting for seasonal variation, the rate of reduction slowed since the previous month and was modest. Just over one-in-five panellists signalled a decline in purchasing activity, compared with nearly 17% that saw an increase. According to some panel members, fewer inputs were purchased in line with a reduced amount of new orders.

Stocks of Purchases Index

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





Stocks of purchases held at manufacturing plants in Taiwan declined for the fourteenth month in a row during August. The rate of stock depletion was broadly similar to that seen in July and modest. Nearly 14% of survey respondents reported lower inventory levels (compared with less than 12% that signalled an increase), with firms generally attributing the fall to a combination of reduced purchasing activity and increased usage of current stocks.

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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