Embargoed until: 10:00 (TAIPEI), 1 March 2012

HSBC Taiwan Manufacturing PMI™

Taiwanese manufacturing sector operating conditions improve for first time since May 2011

Key findings:

- Improving demand boosts new business and output
- Employment increases as previous spare capacity abates
- · Both input costs and output prices rise

February data pointed to an expansion of the Taiwanese manufacturing sector, with both new orders and production rising for the first time in nine months. The improvement in overall operating conditions was modest, and broadly in line with the long-run series trend. Increased output requirements supported a marginal rise in employment. Nonetheless, backlogs of work increased, suggested that spare capacity indicated in previous months had been eradicated. Meanwhile, input costs rose solidly, prompting a slight increase in output prices.

The headline figure derived from the survey is the HSBC Taiwan $Purchasing\ Managers'\ Index^{\rm TM}\ (PMI^{\rm TM})$ – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions while readings below 50.0 indicate a deterioration. February's PMI posted 52.7, up from 48.9 in January, and signalled modest growth of the sector. Furthermore, the expansion ended an eight-month period of deteriorating operating conditions.

Manufacturers in Taiwan reported a rise in new business during February, the first such increase since May 2011. Increasing almost seven points, the seasonally adjusted New Orders Index pointed to solid growth of new work intakes. Similarly, an expansion of new export business was also registered. Panellists commented that increased demand, both at home and overseas, had contributed to the rise in overall new orders. Export markets particularly noted to have shown an improvement were China,

Europe and the US.

Reflective of higher new orders, output rose solidly during February. However, backlogs of work increased, suggesting that previously apparent spare capacity had largely been utilised. Manufacturers in Taiwan reported an accumulation of stocks of finished goods. This was attributed to both the rise in production, and also, in some cases, to fewer shipments to clients.

February data signalled an increase in employment in the Taiwanese manufacturing sector. Anecdotal evidence suggested that this was in line with higher output requirements. However, the rate of job creation was only modest, with the vast majority of respondents noting no change in staffing levels since January.

Purchasing activity rose in February, reflecting growth of both production and new business. Despite this, suppliers' delivery times were broadly unchanged since February. This followed deteriorations in vendor performance in the previous four survey periods. A modest increase in stocks of purchases was indicated.

Taiwanese manufacturers reported a rise in input costs during February, citing higher raw material prices as the main driver of inflation. While the increase in costs was solid, it was below the long-run series trend. Output prices also rose, as manufacturers aimed to pass on higher costs to clients. However, the rate of charge inflation was only marginal, with customers retaining a degree of negotiating power.



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.

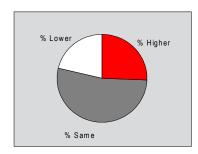




Output Index

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



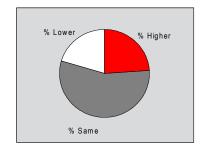


Output in the Taiwanese manufacturing sector increased during February for the first time since May 2011. The rate of growth was solid, and slightly faster than the long-run series trend. Approximately 26% of respondents noted a higher level of output compared with the previous survey period, commenting that this reflected a rise in new business received.

New Orders Index

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



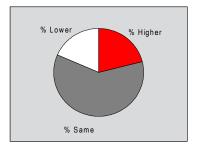


February data signalled a solid increase in new orders received by manufacturers in Taiwan. This ended an eight-month sequence where new work intakes had decreased. Anecdotal evidence suggested that improved demand, both at home and overseas, had led to the rise in new business. The rate of expansion was broadly in line with the historical average for the series.

New Export Orders Index

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



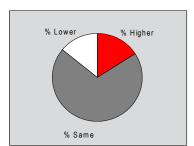


Manufacturers in Taiwan reported a rise in new business received from export markets during February. Exactly 21% of panellists noted a higher level of new export orders in the latest survey period, attributing this to improving demand in overseas markets, particularly China, Europe and the US. The growth of new export business was the first such expansion since June 2011.

Backlogs of Work Index

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



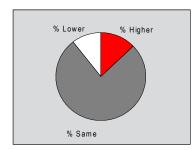


Outstanding business at manufacturers in Taiwan increased during February, as indicated by the seasonally adjusted Backlogs of Work Index posting above the 50.0 no-change threshold. The rate of accumulation was modest, but nonetheless ended an eight-month sequence of depletion, and signalled that previous excess capacity in the sector had abated. Solid growth of new work intakes were cited as the main factor causing the increase in backlogs.

Stocks of Finished Goods Index

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



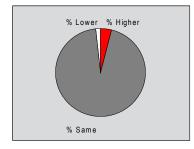


Stocks of finished goods at manufacturers in Taiwan were reported to have increased during February. Anecdotal evidence suggested that the accumulation of post-production inventories reflected a rise in production to meet higher orders, but also, in some cases, to fewer shipments of goods to clients. Although modest, the rise in stocks of finished goods was the first since June 2011.

Employment Index

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



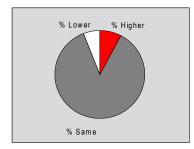


February data pointed to a rise in employment in the Taiwanese manufacturing sector. Panellists commented that growth of both new orders and output had led to the increase in staffing levels. However, the rate of job creation was only modest. Highlighting this, the vast majority of respondents (approximately 94%) indicated that employment at their units was unchanged on the month.

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.



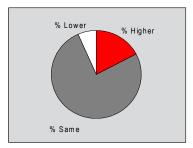


Manufacturers in Taiwan reported a rise in their prices charged in February. However, the increase in output prices, which was the first in eight months, was only marginal. Where a rise in charges was indicated (by approximately 8% of panellists), this was attributed to the need to pass on higher input costs. However, anecdotal evidence suggested that client negotiations had prevented a sharper increase in output prices.

Input Prices Index

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

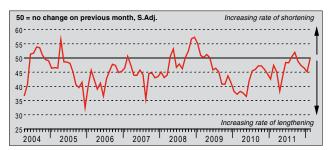


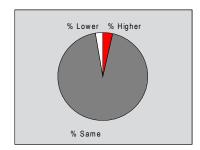


Following four months of reductions, input costs faced by manufacturers in Taiwan increased during February. Approximately 17% of respondents registered a rise in input prices compared with the previous survey period. Higher raw material prices were generally cited as the main driver of cost inflation. While the extent of the increase input prices was solid, it was below the long-run series average.

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 fractionally below the 50.0 no-change threshold in February, signalling a negligible worsening of vendor performance. Highlighting this, the vast majority of respondents (approximately 94%) indicated that lead times were consistent with those seen in January. Where longer delivery times were indicated, these were generally attributed to stock shortages at suppliers.

Quantity of Purchases Index

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

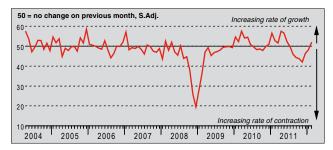


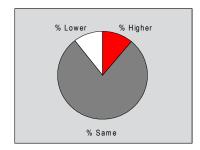


Manufacturers in Taiwan reported an increase in input buying during February, with around 20% of respondents noting a higher level of purchasing activity. Anecdotal evidence suggested that the rise in input buying was in line with growth of both new orders and production requirements. The expansion in purchase volumes was solid, and followed seven months of decline.

Stocks of Purchases Index

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





February data signalled a rise in stocks of purchases held at manufacturers in Taiwan. Panellists commented that this reflected a rise in purchasing activity. The accumulation of pre-production inventories was modest, with only around 11% of respondents registering an increase. Anecdotal evidence suggested that a number of companies were still pursuing stock reduction initiatives. Nonetheless, the overall rise was the first in eight months.

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.

Warning

The intellectual property rights to the HSBCTaiwan Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*TM and *PMI*TM 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.