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HSBC Taiwan Manufacturing PMI™

Output contracts at the fastest pace since January

Key findings:

- Order book volumes decreased substantially during July
- Workforces contracted at the fastest pace since June 2009
- · Input prices fell steeply in the Taiwanese manufacturing sector

The health of the Taiwanese manufacturing sector deteriorated for the second successive month in July as both new orders and output decreased.

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 47.5 in July, down from 49.2 in the previous month and pointing to the second successive deterioration in the health of the manufacturing sector.

Firms signalled that demand from US, European and Chinese markets weakened. Moreover, domestic demand was also reported to be lower than that seen during June. The pace of contraction in both total new orders and new export orders was the fastest since December 2011.

Outstanding orders fell for the second successive month in July at manufacturers in Taiwan. Panellists signalled that the volume of work-in-hand (but not yet completed) fell in line with weaker inflow of new business. Moreover, average lead times shortened as demand for inputs decreased. However, the rate of shortening was only slight and the slowest in the current four-month sequence of improvement in vendor performance.

July data signalled a reduction in workforces at manufacturing firms in Taiwan. Although marginal, the pace of contraction was the fastest in the past 37 months.

Factory gate prices fell substantially in the Taiwanese manufacturing sector during the latest month. According to respondents, output prices decreased in line with a sharp drop in input prices. Additionally, it was suggested that the current economic slowdown led firms to reduce prices as competition increased. Charges fell for the fourth successive month and at the fastest rate since July 2009.

Input prices fell in July, and at the fastest pace since January 2009. Anecdotal evidence suggested that copper and petroleum prices dropped. Moreover, firms cited that supply was greater than demand. Approximately 25% of companies stated that purchase costs were lower and the majority (69%) indicated no change.

Stocks of finished goods declined at Taiwanese manufacturing firms amid reports of falling production. Although solid, the rate of depletion was the quickest since November 2011.

Meanwhile, pre-production inventories decreased for the first time in six months. Anecdotal evidence suggested that stocks of purchases were intentionally depleted as the number of orders decreased.

Purchasing activity declined at Taiwanese manufacturing companies. Panellists attributed the decrease in input buying to a combination of weaker demand and decreasing inventories. Exactly 23% of firms indicated that the quantity of purchases was lower during July, in contrast to approximately 13% signalling an increase.



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.

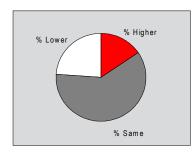




Output Index

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



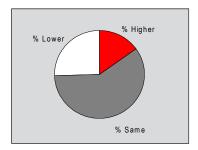


Manufacturing firms in Taiwan signalled a further reduction in output during July. The pace of contraction was solid and the Output Index adjusted for seasonal factors was the lowest since January. Panellists indicated that lower production fell as a result of decreased inflows of new orders during the latest survey period.

New Orders Index

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



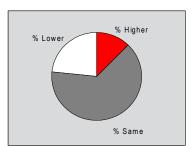


Order book volumes decreased substantially at manufacturing firms in Taiwan during July. The seasonally adjusted New Orders Index was the lowest since December 2011 and below its long-run trend. Firms signalled that new orders fell in line with weaker demand from a number of key export markets. Additionally, it was signalled that Taiwanese demand for manufacturing goods also dropped.

New Export Orders Index

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



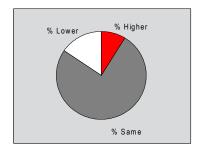


Manufacturers in Taiwan reported lower export orders in July. The pace of contraction was steep and the fastest since December 2011. Panellists signalled that new export orders fell as demand from European, US and Chinese markets weakened. Approximately 23% of respondents stated that export orders fell during July whereas 12% indicated that it increased.

Backlogs of Work Index

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



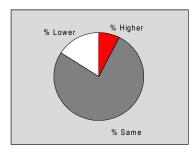


Outstanding orders at manufacturing firms in Taiwan fell for the second successive month in July. Although the rate of depletion was modest, the Backlogs of Work Index adjusted for seasonal factors signalled the fastest drop since December 2011. Manufacturing companies attributed lower backlogs of work to weaker demand.

Stocks of Finished Goods Index

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



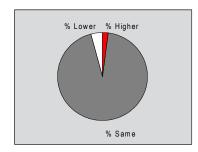


Post-production inventories in the Taiwanese manufacturing sector fell in July. The contraction was at a solid rate and the first recorded since January. Panellists intentionally reduced inventories of finished goods in line with weaker demand, it was reported. Almost 16% of manufacturers indicated lower stocks of finished goods, against almost 8% that reported an increase.

Employment Index

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



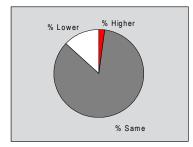


Workforces contracted at manufacturing firms in Taiwan during July. Although moderate, the pace of decrease was the fastest since June 2009 and the seasonally adjusted Output Index was almost four points below its long-run trend. Anecdotal evidence suggested that employment levels were reduced in line with falling output. Moreover, it was reported that positions were not filled following resignations.

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.



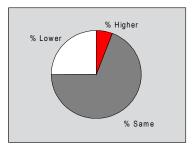


Charges continued to fall at Taiwanese manufacturing firms during July amid reports of decreasing input prices. Moreover, respondents indicated that an unstable economic climate contributed to the reduction in prices as firms came under competitive pressure. The rate of decline in output prices was considerable and the fastest since July 2009. Charges have fallen in each of the past four months.

Input Prices Index

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



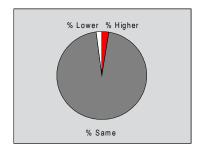


Purchase costs fell steeply during July at manufacturing firms in Taiwan. The Input Prices Index adjusted for seasonal factors signalled the fastest reduction since January 2009. According to panellists, copper and petroleum prices decreased. Moreover, it was reported that the supply of inputs exceeded demand.

Suppliers' Delivery Times Index

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



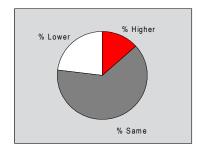


Average lead times decreased slightly at firms in Taiwan during July, extending the current sequence of shortening to four successive months. Anecdotal evidence suggested that falling output contributed to the improvement in vendor performance. That said, the shortening of lead times was only slight with the vast majority (95%) of panellists reporting no change.

Quantity of Purchases Index

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



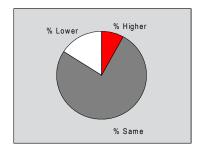


Input buying fell during July in line with decreasing output at manufacturers in Taiwan. The rate of contraction was solid and the fastest since December 2011. Exactly 23% of firms signalled that purchasing activity decreased, in contrast to approximately 13% indicating a higher quantity of purchases during July.

Stocks of Purchases Index

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





Pre-production inventories decreased in July at manufacturing firms in Taiwan, ending the previous five-month sequence of growth. The pace of reduction was solid and the fastest since December 2011. Respondents intentionally reduced stocks of purchases as the number of new orders decreased.

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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