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HSBC Taiwan Manufacturing PMI™

PMI improves to four-month high in October, as output falls at slower rate

Key findings:

- · New orders and new export orders continue to fall but at weaker rates
- Purchasing activity down further as demand remains subdued
- Input prices rise sharply while output charges continue to fall

October data signalled a fall in output at Taiwanese manufacturers for the fifth consecutive month. However, the rate of contraction eased from September, with both new orders and new export orders also falling at slower rates. Input prices rose sharply and for the first time in six months, while output charges continued to fall. Purchasing activity and inventories also fell in response to the weak demand environment. Employment levels were unchanged.

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 47.8 in October, up from 45.6 in September and a four-month high. Operating conditions in the Taiwanese manufacturing sector have now deteriorated in each of the past five months.

The fall in output for the fifth successive month was largely driven by subdued demand, particularly in international markets. The volume of new orders received by Taiwanese manufacturers decreased during October, as did the amount of new export orders. However, rates of reduction slowed for both total new orders and new export orders in the latest survey period. Anecdotal evidence suggested that reductions in demand and output were linked to difficult business conditions.

Backlogs of work fell for the fifth successive month, and at the weakest pace in the past four months. Just over 18% of panellists

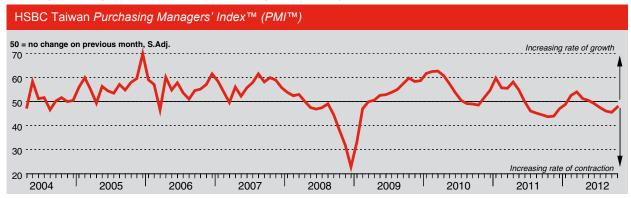
recorded a reduction in the volume of outstanding work, with a number of firms attributing this to fewer new orders. Employment levels were unchanged in October from September, with nearly 93% of manufacturers reporting no change.

On the price front, input prices rose sharply during October for the first time in six months. Input price inflation was largely driven by a rise in raw material costs, with more than 12% of panellists recording inflation. Meanwhile, output charges fell for the seventh consecutive month. However, the pace of deflation was marginal and weaker than rates seen in the previous six months.

Suppliers' delivery times worsened for the first time in seven months, albeit marginally. Anecdotal evidence suggested that longer lead times were due to a reduced amount of inventory held by vendors.

Purchasing activity continued to fall during October, although at a slower pace than in September. A number of respondents attributed this to lower production requirements and weaker demand for manufactured goods.

Pre-production inventory stock fell in October for the fourth month in a row. The rate of stock depletion was the weakest in this sequence, but remained marked. Just under 15% of panellists reported a reduction. Stocks of finished goods were also depleted during October, albeit at a slower pace than September. Anecdotal evidence suggested that the adjustment to lower inventory levels was in line with reduced market demand and production requirements.



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.

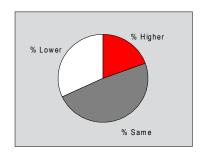




Output Index

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



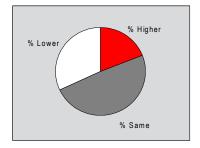


The seasonally adjusted Output Index posted below 50.0 for the fifth consecutive month in October, signalling a further contraction of output in the Taiwanese manufacturing sector. The rate at which output contracted eased from the previous month but still remained marked. Just under 32% of panellists recorded a lower volume of output in the latest survey, compared to just over 19% that noted a rise. A number of respondents that recorded a fall in output linked this to subdued demand and 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.



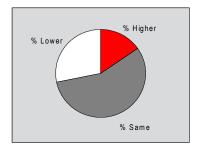


The total number of new orders received at manufacturing plants in Taiwan fell during October, extending the current trend to five months. The seasonally adjusted index indicated that the fall in new orders was not as sharp as the previous month, posting at a three-month high, but still remained marked. Nearly 32% of survey respondents noted a fall in the volume of new business in the latest survey as opposed to 19% that reported a rise. Panellists reporting a decline in new order volumes attributed this to weak demand, particularly 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.



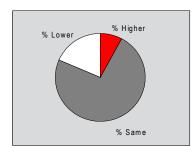


The volume of new export orders fell for the fifth successive month in October. However, the seasonally adjusted index posted at a four-month high, indicating a slower rate of decline compared to September's ten-month record. Over 28% of panellists recorded a fall in the volume of new export orders compared to the previous month, and just over 15% noted an increase. A number of respondents linked the deterioration to weak demand, particularly from the US, China and Europe.

Backlogs of Work Index

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



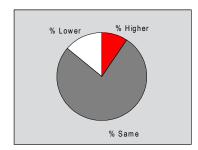


The level of outstanding business at Taiwanese manufacturers fell during October for the fifth month in a row. Adjusting for seasonality, the rate of backlog depletion was weaker than in the previous three months, easing to a modest pace. Over 18% of survey respondents signalled a fall in the amount of outstanding business, whereas less than 8% reported a rise. A number of panellists that indicated a reduction of backlogs linked this to fewer new orders.

Stocks of Finished Goods Index

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



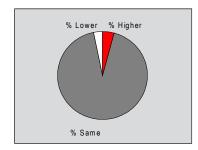


Stocks of finished goods held at manufacturers fell during October for the fourth consecutive month. The seasonally adjusted index indicated that the rate of stock depletion eased slightly from the previous month but was still solid. Exactly 14% of survey respondents noted a reduction in inventories, in contrast to just over 9% that reported an increase. A number of firms that reduced their inventory levels attributed this to a fall in market demand and adjusted stock accordingly.

Employment Index

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





The seasonally adjusted Employment Index signalled there was no change to staffing levels during October. Employment levels had declined, albeit marginally in the previous three months of the survey. However, a majority of firms (nearly 93%) reported no change to the size of their workforce during October.

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.



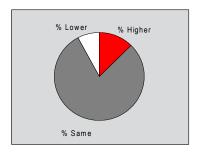


The seasonally adjusted Output Prices Index signalled a further reduction of output prices in the Taiwanese manufacturing sector during October. However, the index posted the weakest rate of deflation for the past seven months. Over 8% of panellists recorded a fall in average tariffs compared to less than 3% that recorded a rise. A number of respondents linked the reduction in output charges to poor market conditions and attempts to attract new business.

Input Prices Index

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

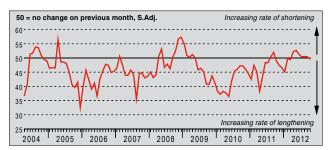


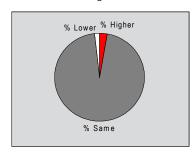


Average input prices at Taiwanese manufacturing plants rose sharply during October and for the first time in six months. The rate of input price inflation was the quickest in 14 months. Over 12% of survey respondents signalled an increase in input costs whereas less than 8% noted a fall. According to respondents, the rise in input costs was due to higher raw material costs. Increases in the price of copper and crude oil were explicitly mentioned.

Suppliers' Delivery Times Index

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



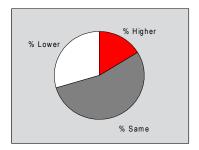


Average lead times lengthened during October, and for the first time in seven months. The seasonally adjusted index posted just below the 50.0 neutral threshold indicating only a marginal deterioration of suppliers' delivery times. Nearly 2% of panellists recorded slower delivery times, but a majority of respondents (over 95%) reported no change to average lead times. Anecdotal evidence suggested that slower delivery times reflected decreased inventories held by vendors.

Quantity of Purchases Index

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



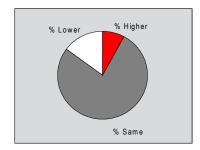


The seasonally adjusted Quantity of Purchases Index signalled a fall of purchasing activity in the manufacturing sector during October. The index signalled a slower rate of decline compared to the sharp pace recorded in September, but remained marked. Nearly 30% of survey respondents recorded a fall in purchasing activity in the latest survey compared to just over 16% that noted an increase. Survey respondents suggested that the reduced amount of input buying was linked to lower production requirements.

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 fourth consecutive month in October. The rate of reduction in the latest survey was the weakest in the current period of stock depletion. Just under 15% of panellists recorded a fall in the volume of pre-production stocks, and less than 8% of respondents recorded a rise. A number of firms that noted a reduction of stocks at their plants attributed this to efforts to bring inventories in line with weaker market demand and lower production requirements.

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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