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HSBC Taiwan Manufacturing PMI™

Operating conditions deteriorate at slightly quicker pace in November

Key findings:

- Production levels continue to fall
- New orders and new export orders both decline at solid rates
- Input prices increase, but output charges cut again

November data indicated that output at Taiwanese manufacturers fell for the sixth successive month. The rate of contraction quickened from October and was solid. New orders and new export orders also fell at marked rates in November amid reports of weak domestic and international demand. Lower workloads were linked to a fall in backlogs of work, which declined for the sixth month in a row, although employment levels rose marginally for the first time since April. Meanwhile, input price inflation eased to a more modest pace while output charges continued to fall.

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 47.4 in November, down from 47.8 in October and a two-month low. Operating conditions in the Taiwanese manufacturing sector have now deteriorated in each of the past six months.

Output continued to fall markedly at manufacturing plants in November, with the pace of contraction quickening from the previous month. Behind the fall in output, new orders and new export orders also fell during November at marked rates. Over 34% of respondents reported a lower level of new orders and anecdotal evidence suggested that total new orders had declined as demand both at home and abroad remained weak.

The level of outstanding business at manufacturing plants decreased during November, and for the sixth month in a row.

Nearly 24% of respondents indicated backlog depletion in November, with some panellists attributing excess capacity to fewer new orders. Stocks of finished goods also fell in November. The rate of stock depletion was slightly faster than in October and remained solid. A number of panellists suggested that stocks had been adjusted to reflect lower market demand.

Employment levels at manufacturing firms rose in November for the first time since April, albeit marginally. However, a majority of panellists (nearly 90%) reported no change.

On the price front, input costs rose for the second successive month. However, the pace of input price inflation eased from the previous month to a more modest rate. Meanwhile, average tariffs fell in November for the eighth consecutive month. Nearly 9% of respondents reduced output charges, a number of which linked the reduction to attempts to attract new business.

Average lead times shortened in November, following a slight deterioration in October. However, the rate of improvement was only marginal, with just over 4% of panellists reporting shorter average lead times.

Quantity of purchases declined for the fifth month in a row. The pace of reduction quickened from October and remained marked. Stocks of purchases also fell at manufacturing plants in November. The rate of stock depletion eased slightly from October, remaining modest overall. A number of respondents linked the falls in input buying and stocks to weak market demand and fewer new orders.



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.

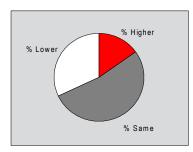




Output Index

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



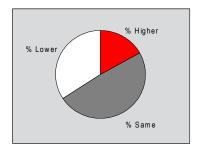


The seasonally adjusted Output Index signalled a contraction of output at Taiwanese manufacturing firms in November for the sixth successive month. The rate at which output contracted quickened from October to a marked pace. Approximately 32% of survey respondents reported a lower level of production in November, and just over 15% indicated an increase. Anecdotal evidence suggested the reduction of output was linked to 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.



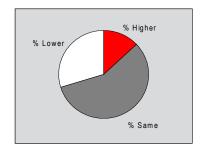


Total new orders in the Taiwanese manufacturing sector fell in November for the sixth month in a row. Adjusting for seasonality, the New Orders Index indicated that the rate of reduction accelerated from October and remained marked. Over 34% of panellists recorded fewer new orders in the latest survey period, compared to just under 17% that noted a rise. A number of respondents suggested that reduced demand, in both domestic and global markets, led to fewer 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.



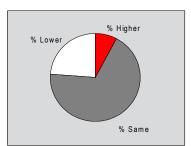


After adjusting for seasonal factors, the New Exports Orders Index signalled fewer new export orders received at manufacturing firms in November. New export orders have now fallen for the past six months, with the rate of reduction in the latest survey accelerating from October. Nearly 30% of survey respondents indicated a lower level of new export orders, with a number of firms attributing this to weak demand, particularly in Europe and the US.

Backlogs of Work Index

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



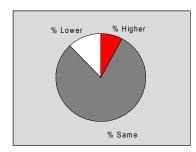


Backlogs of work decreased during November, extending the current trend to six months. The rate of backlog depletion in November was faster than the previous month. Moreover, it was the second-quickest rate of reduction in 11 months. Nearly 24% of panellists reported a lower level of outstanding business in November, compared to less than 8% that recorded an increase. Anecdotal evidence suggested that backlog depletion in the sector was due to fewer new orders, which had created excess capacity.

Stocks of Finished Goods Index

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



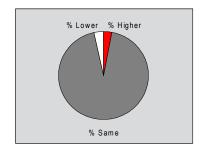


Stocks of finished goods held at manufacturing plants fell during November for the fifth successive month. The rate at which inventories were reduced was slightly quicker than in October and remained solid. Just over 12% of respondents reported a lower level of stocks in the latest survey, while less than 8% recorded a rise. A number of panellists indicated that inventories had declined as stock levels were adjusted in response to reduced market demand.

Employment Index

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



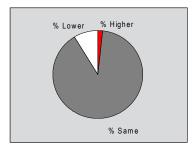


Employment levels at manufacturing firms in Taiwan increased during November for the first time since April. The rate of job creation was only marginal, but the fastest since February. Of those panellists that reported increased staffing levels in the latest survey period, anecdotal evidence suggested that some were planning an expansion of output in the coming months.

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.



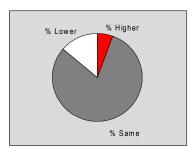


Average tariffs set by firms decreased in November for the eighth consecutive month. The rate of deflation was slightly quicker than in October but remained modest. Nearly 9% of respondents recorded lower output charges, while fewer than 2% indicated an increase. A number of panellists suggested that output charges had been lowered in response to poor market conditions in an effort to attract more business.

Input Prices Index

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

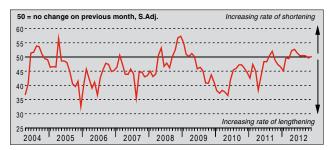


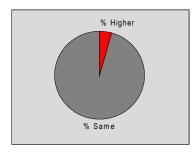


Input prices faced by manufacturers increased during November for the second successive month. Input price inflation eased from October's sharp rate to a more modest pace in November. Nearly 6% of panellists signalled inflation in the latest survey period, while a majority (over 80%) indicated no change to input costs. A number of respondents linked rising input costs to higher global market prices.

Suppliers' Delivery Times Index

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



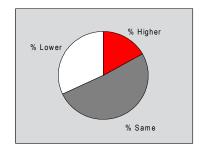


Average suppliers' delivery times improved during November, following a slight lengthening in October. However, the rate of improvement was only marginal, with just over 4% of survey respondents recording faster delivery times as a majority (over 95%) noted no change. Where an improvement in supplier performance was reported, panellists attributed this to fewer new orders placed to vendors.

Quantity of Purchases Index

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



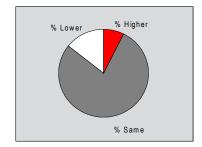


Purchasing activity in the Taiwanese manufacturing sector fell during November. Activity has now fallen for five months in a row. Approximately 32% of survey respondents noted a reduced amount of input buying, compared to less than 17% that reported an increase. Anecdotal evidence suggested the fall in purchasing activity reflected fewer orders stemming from weak demand.

Stocks of Purchases Index

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





Stocks of purchases at manufacturing plants fell during November, extending the current trend to five months. The rate of reduction eased slightly from October, but remained modest. Over 14% of panellists indicated fewer stocks of purchases at their plants, while just over 7% noted a rise. A number of respondents linked the fall in stocks to a lower level of incoming business.

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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