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HSBC Taiwan Manufacturing PMI™

Operating conditions improve marginally in February

Key findings:

- Output expands at fractional pace
- · Total new orders and new export orders rise
- Input costs increase, but output charges are lowered

February data signalled an expansion of output in the Taiwanese manufacturing sector for the third consecutive month. That said, the rate of expansion slowed from January and was fractional. New orders and new export orders also increased at marginal rates. Employment levels were broadly stable, rising fractionally, while backlogs of work fell for the ninth month in a row. Input costs increased at a modest pace while output charges were discounted for the eleventh successive month.

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 50.2 in February, down from 51.5 in January, signalling a fractional improvement. Operating conditions in the Taiwanese manufacturing sector have now improved for three successive months

Total output increased for the third month in a row in February. That said, the rate of expansion was slight. Total new orders also increased for the third successive month. The rate of growth eased from January and was marginal, with around 21% of panellists reporting new order growth. New export orders increased slightly, with a number of panellists attributing growth to strengthened client demand in China, Europe and the US.

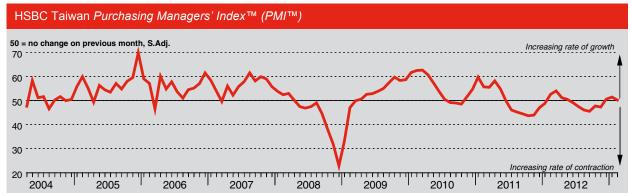
The level of work-in-hand at Taiwanese manufacturing plants fell for the ninth consecutive month in February. However, the rate of backlog depletion was slight, and the weakest in eight months. Meanwhile, employment levels were relatively unchanged, increasing at a fractional rate. Nearly 95% of panellists recorded no change to staff numbers in the latest survey period.

Input prices increased for the fifth month in a row, with the rate of inflation easing from January to a modest pace. Meanwhile, firms continued to absorb rising production costs, lowering average tariffs for the eleventh consecutive month. The rate of discounting quickened slightly from January and was modest, and anecdotal evidence suggested that average tariffs were reduced in an effort to attract more business.

Input buying at manufacturing firms increased for the third month in a row in February, but at a slight rate. Higher input buying was generally associated with new order growth.

Average lead times improved for the first time in three months in February. Although the strongest since last June, the rate of improvement was marginal overall, with approximately 5% of survey respondents noting shorter delivery times.

Finally, stocks of purchases fell for the eighth successive month in February. Inventories of finished goods also decreased at a modest pace.



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.

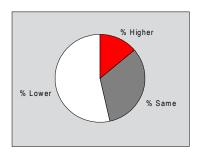




Output Index

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



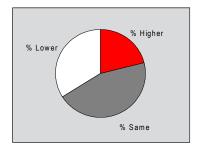


The seasonally adjusted Output Index signalled a higher level of production at Taiwanese manufacturing firms during February. Output has now increased for three consecutive months. That said, the rate of expansion eased from January and was only fractional, with just fewer than 14% of panellists recording an increased amount of output in the latest survey period. A number of survey respondents attributed growth to higher new order volumes.

New Orders Index

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



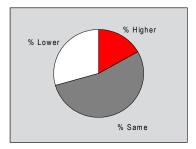


Manufacturers recorded an increased level of new orders placed at their plants in February for the third month in a row. The seasonally adjusted New Orders Index indicated that the rate of growth eased from January to a marginal pace, with just over 21% of panellists noting a rise in new orders received. Anecdotal evidence suggested that the increase was due to strengthened demand from both domestic and 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.



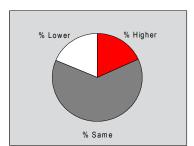


Total new export orders increased for the third successive month in February. After adjusting for seasonality, modest growth was similar to that seen in January. Nearly 17% of survey respondents reported an increased level of new export orders in the latest survey period. A number of survey respondents mentioned increased demand from clients in China, Europe and the US in particular.

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 manufacturing companies decreased for the ninth consecutive month in February. After adjusting for seasonal factors, the rate of backlog depletion eased slightly from January and was slight. Furthermore, it was the weakest rate of reduction in the past eight months. The lower level of work-in-hand was generally associated with less-than-expected new orders, which freed up capacity at plants.

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 decreased at Taiwanese manufacturing companies during February. Inventories have now fallen for the past eight months. The seasonally adjusted Stocks of Finished Goods Index signalled a modest rate of depletion, with just over 11% of survey respondents reporting reduced inventory levels. Anecdotal evidence indicated deliberate readjustment of inventories at a number of firms.

Employment Index

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

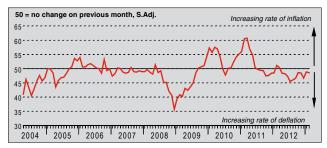


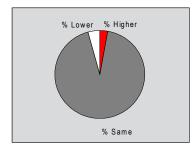


Employment levels at manufacturing companies increased for the fourth successive month in February. However, the seasonally adjusted index signalled that the rate of job creation slowed from January and was fractional. Just over 2% of panellists reported increased workforce numbers, but a majority (nearly 95%) noted no change. Some panellists mentioned that more staff were hired in an effort to expand production capabilities.

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.



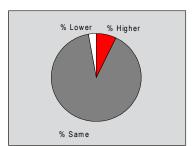


The seasonally adjusted Output Prices Index signalled lower output charges at manufacturing plants in February. Average tariffs have now been lowered for the past eleven months. The rate of discounting quickened slightly from January and was modest, with approximately 3% of panellists noting reduced output charges. A number of survey respondents reduced tariffs in the hope of attracting more new business.

Input Prices Index

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

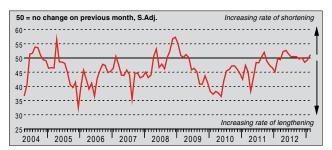


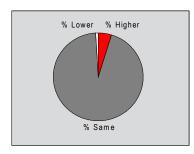


Average input prices face by Taiwanese manufacturers increased for the fifth successive month in February. After adjusting for seasonality, the rate of input price inflation eased from January and was modest overall, with just over 7% of survey respondents recording higher input costs, compared with approximately 3% that noted a reduction. A number of panellists linked inflation to rising raw material costs, with steel being mentioned in particular.

Suppliers' Delivery Times Index

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



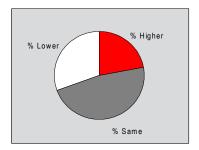


Average suppliers' delivery times shortened in February, and for the first time in three months. However, the seasonally adjusted Suppliers' Delivery Times Index signalled only a marginal improvement in vendor performance overall. Approximately 5% of survey respondents recorded faster delivery times, compared with exactly 1% that noted longer delivery times. Anecdotal evidence suggested that fewer orders placed at vendors had led to the net improvement.

Quantity of Purchases Index

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



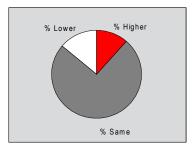


The seasonally adjusted Quantity of Purchases Index signalled an increased level of purchasing activity in the manufacturing sector during February. Input buying has now risen for the past three months, but the rate of expansion eased from January and was only slight. Exactly 22% of panellists reported increased input buying, which was generally attributed to new order growth.

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 decreased for the eighth consecutive month in February. After adjusting for seasonality, the rate of depletion was marginal, and the weakest in the current period of reduction. More than 11% of survey respondents recorded lower inventory levels in the latest survey period. A number of panellists linked stock depletion to strengthened client demand.

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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