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HSBC Taiwan Manufacturing PMI™

Operating conditions improve at moderate pace in September

Key findings:

- · Marked increase of output
- Renewed expansion of order books in September
- · Quickest rate of payroll growth for over two years

Business conditions in Taiwan's manufacturing sector improved for the first time since April during September. Improving trends were reported across output, total new orders and new export orders, which all increased for the first time in five months. Greater client demand led to the fastest rate of job creation since April 2011, while backlogs of work increased for the first time in six months. Average input costs rose for the first time since March during September, as firms discounted their factory gate prices for the eighteenth month in a row.

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 above August's 50.0 no-change index reading at 52.0 in September, and signalled the first improvement of business conditions in Taiwan's manufacturing sector since April. Though modest, the rate of improvement was the strongest since March 2012.

Output expanded for the first time in five months during September, and at a marked rate. Growth was supported by modest expansions of both total new orders and new export orders. Client demand was reportedly stronger both at home and abroad, with a number of surveyed firms mentioning increased

demand from major trading partners such as China, Europe and the US boosted new business from overseas.

Staffing levels increased for the fourth successive month in an effort to raise productive capacity in line with strengthened client demand. Furthermore, the rate of job creation was the quickest in over two years and marked overall. Meanwhile, the level of work-in-hand increased for the first time in six months, albeit at a marginal rate.

Input buying also rose in September, and for the first time since April. Moreover, it was the strongest rise in purchasing activity since May 2012, with over 21% of panellists buying more materials for production. Consequently, stocks of purchases increased for the first time in 15 months and at a modest pace.

Increased demand for inputs led to longer average lead times, though suppliers' delivery times lengthened only marginally.

Cost burdens faced by Taiwanese manufacturers increased for the first time in six months in September. The rate of input price inflation was marked, with a number of surveyed firms citing higher raw material costs, particularly increased petroleum prices. However, firms chose to absorb higher production costs by cutting their factory gate prices again in September, partially due to competitive market pressures. That said, the rate of discounting was the weakest in five months.



The HSBC Taiwan Purchasing Managers' Index $^{\text{TM}}$ (PMI $^{\text{TM}}$) 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 $^{\text{TM}}$ and PMI $^{\text{TM}}$ 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.

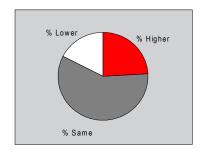




Output Index

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



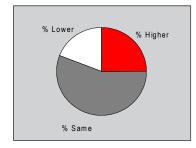


Production levels at Taiwanese manufacturing plants increased during September, ending a four-month sequence of contraction. Furthermore, the rate of expansion was marked, with growth reported at approximately one-quarter of surveyed firms (while just over 17% noted a reduction). A number of panellists suggested increased volumes of new work led to the expansion of output.

New Orders Index

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



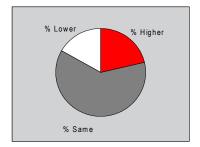


In September, new business placed at Taiwanese manufacturers rose for the first time since April. After adjusting for seasonal variation, the rate of new order growth was moderate, with one-in-four survey respondents noting an expansion of new work. According to anecdotal evidence, strengthened client demand (at both home and abroad) boosted 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.



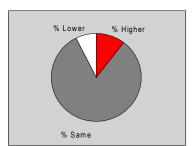


The seasonally adjusted New Export Orders Index signalled a modest increase of new business from abroad in September, following four months of reductions. Furthermore, it was the strongest expansion of new export orders since March 2012. Stronger demand from international clients, particularly from key trading partners such as China, Europe and the US, were said to have driven the renewed expansion of orders placed from abroad.

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 increased for the first time in six months during September. After adjusting for seasonality, however, the rate of accumulation was only slight, with approximately one-in-ten respondents noting an increased amount of work-in-hand. A number of panellists mentioned that backlogs of work increased as a result of new order growth.

Stocks of Finished Goods Index

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



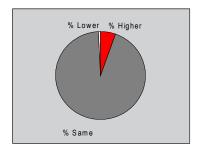


The seasonally adjusted Stocks of Finished Goods Index posted above the 50.0 no-change mark in September, signalling the first increase of post-production goods since June 2012. That said, the rate of expansion was only slight. Just over 10% of surveyed firms noted increased stocks of finished goods (while approximately 8% recorded a reduction), with a number of firms suggesting the rise was due to higher production levels.

Employment Index

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

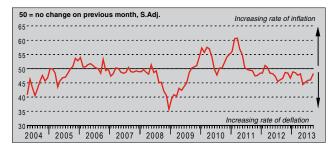


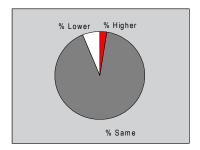


Companies operating in Taiwan's manufacturing sector increased their staffing levels for the fourth consecutive month in September. Furthermore, the rate of job creation quickened to a marked pace that was the fastest since April 2011. More than 5% of panellists noted an expansion of workforce numbers, while less than 1% reported a net reduction. According to a number of respondents, employment levels increased to expand productive capacity.

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.



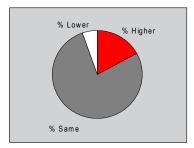


Taiwanese manufacturers cut their output charges in September, extending the current trend to 18 months. After adjusting for seasonal variation, however, the rate of discounting eased to a modest pace that was the weakest in five months. A number of surveyed firms cited competitive market pressures and relatively subdued client demand as key reasons for cutting factory gate prices.

Input Prices Index

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

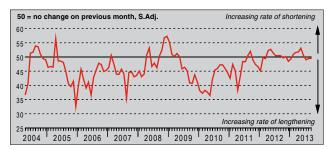


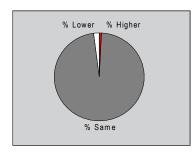


Average production costs faced by Taiwanese manufacturers rose for the first time in six months during September. The rate of inflation was marked, with exactly 17% of respondents noting increased cost burdens (while around 5% recorded a reduction). Inflation was largely driven by higher raw material costs, with increased petroleum prices mentioned in particular.

Suppliers' Delivery Times Index

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



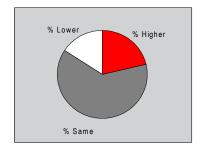


The seasonally adjusted Suppliers' Delivery Times Index signalled that delivery times lengthened for the third successive month in September. However, the rate at which times lengthened was broadly unchanged from August and marginal. Anecdotal evidence suggested that increased demand for inputs led to longer average lead times.

Quantity of Purchases Index

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

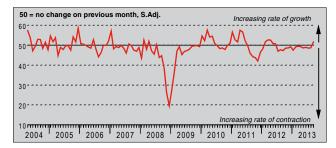


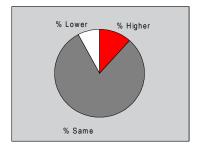


In September, purchasing activity at Taiwanese manufacturing plants increased for the first time since April. Panellists generally associated the rise in input buying with increased production requirements. The rate of growth, though modest, was the strongest since May 2012, with more than 21% of survey respondents signalling an increased amount of input buying.

Stocks of Purchases Index

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





Stocks of purchases held by Taiwanese manufacturers increased for the first time since June 2012 in September. Moreover, the rate of accumulation was moderate, with nearly 12% of surveyed firms noting higher stocks of inputs. Increased production requirements, which stemmed from stronger client demand, were said to have driven the expansion of inventories.

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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