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HSBC Taiwan Manufacturing PMI™

Operating conditions improve at the quickest pace since March 2012

Key findings:

- Both output and new orders expand at faster rates
- Payroll numbers increase for the fifth successive month
- · Backlogs of work increase at the quickest pace in 18 months

Operating conditions in Taiwan's manufacturing sector improved for the second successive month in October. Moreover, the rate of improvement quickened from the previous month to the strongest since March 2012. Growth of output and new orders rose solidly during October, amid reports of strengthened client demand at both home and abroad. Greater volumes of new business led to the fastest accumulation of work-in-hand since April 2012, while firms continued to expand workforce numbers in an effort to raise productive capacity.

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 at 53.0 in October, up from 52.0 in September, and signalled a solid improvement of business conditions in Taiwan's manufacturing sector. Furthermore, it was the quickest rate of improvement in over a year-and-a-half.

Output levels and new orders rose solidly at Taiwanese manufacturers during October. Moreover, it was the quickest expansions of both production and new work since March 2012. New order growth was linked by panellists to stronger client demand, in both domestic and international markets, with new export orders also rising at a solid pace. Anecdotal evidence

mentioned higher demand in Europe and the US in particular.

Employment levels increased for the fifth month running in October. The rate of job creation was moderate, having eased slightly since September's 29-month high. According to some panellists, payroll numbers increased due to higher production requirements. Backlogs of work also rose over the month, and at the fastest rate since April 2012. A number of surveyed firms suggested that new order growth led to an increased amount of work-in-hand.

Purchasing activity in Taiwan's manufacturing sector increased for the second month in a row. Furthermore, the rate of growth was the quickest since March 2012. Concurrently, stocks of purchases rose for the second consecutive month and at a moderate pace.

Stronger demand for inputs led to a further lengthening of average lead times. That said, suppliers' delivery times increased at a modest pace overall.

Average input costs faced by Taiwanese manufacturers increased again in October. The rate of input price inflation was little-changed from September. However, firms generally chose to absorb increased cost burdens as average tariffs were cut for the nineteenth month in a row. That said, the rate of discounting was the second-weakest in six months.



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.

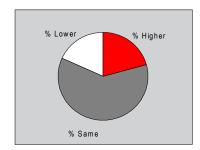




Output Index

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



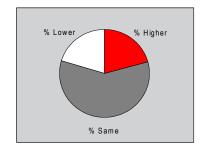


Output levels in Taiwan's manufacturing sector increased for the second successive month in October. After adjusting for seasonal variation, the rate of growth accelerated from September to a solid pace. Furthermore, it was the strongest rate of expansion since March 2012. Approximately one-in-five panellists reported increased production levels in the latest survey period, with a number of surveyed firms linking the rise to new order growth.

New Orders Index

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



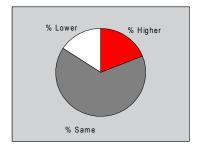


The seasonally adjusted New Orders Index signalled an increased amount of new business placed at Taiwanese manufacturers during October. Moreover, the rate of growth was the strongest in over a year-and-a-half. According to anecdotal evidence, new work increased as a result of strengthened client demand in both domestic and international markets.

New Export Orders Index

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



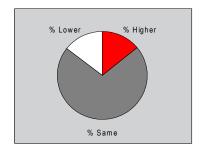


The seasonally adjusted New Export Orders Index posted above the 50.0 no-change mark for the second month running in October, signalling a further rise in new business from abroad. The rate of expansion quickened from September to a solid pace, with approximately 19% of survey respondents reporting higher volumes of new work from overseas. A number of panellists cited stronger client demand in 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.



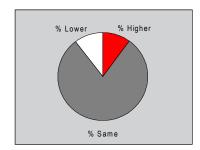


The volume of outstanding business at Taiwanese manufacturers increased for the second month in a row during October. After adjusting for seasonality, the rate of backlog accumulation was the fastest since April 2012. A number of survey respondents suggested that greater volumes of new work led to an increased amount of work-in-hand.

Stocks of Finished Goods Index

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

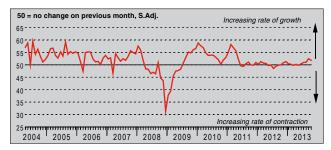


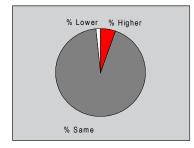


Stocks of finished goods held at manufacturing plants in Taiwan increased for the second successive month in October. That said, the rate of growth was little-changed from September and only marginal. A number of surveyed companies mentioned that stocks rose as a result of output growth, which in turn stemmed from stronger client demand.

Employment Index

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

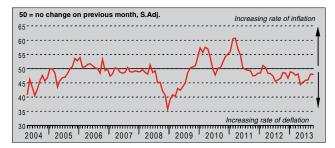


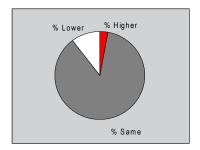


Employment levels in Taiwan's manufacturing sector increased for the fifth month running in October. The seasonally adjusted Employment Index signalled a moderate rate of job creation, having eased from September's 29-month high. More than 5% of panellists increased their payroll numbers in the latest survey period, while approximately 2% reported net job shedding. Anecdotal evidence suggested that higher production requirements led to the expansion of workforce numbers.

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.

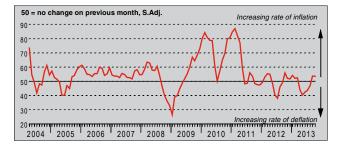


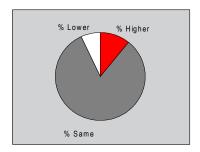


Taiwanese manufacturers reduced their average selling prices for the nineteenth consecutive month in October. After adjusting for seasonality, the rate of reduction was broadly unchanged from September and moderate. Nonetheless, it was second-weakest rate of discounting in six months. A number of surveyed firms mentioned cutting their selling prices as a result of price negotiations with clients.

Input Prices Index

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

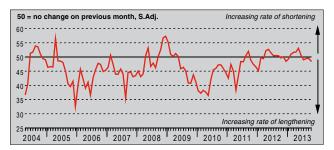


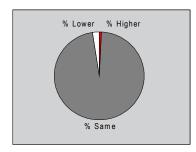


Average input costs faced by Taiwanese manufacturers increased for the second successive month in October. The rate of input price inflation was solid and similar to that recorded in September. Approximately 11% of survey respondents noted increased cost burdens, compared with 7% that recorded a reduction. Higher raw materials costs were cited as a key driver of inflation in the latest survey period.

Suppliers' Delivery Times Index

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



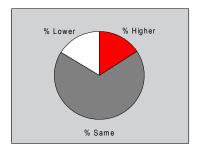


The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change mark for the fourth consecutive month in October, signalling a further deterioration of vendor performance. Though modest, the rate of deterioration was the strongest in the current sequence. According to a number of panellists, delivery times lengthened due to insufficient inventories held at vendors.

Quantity of Purchases Index

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

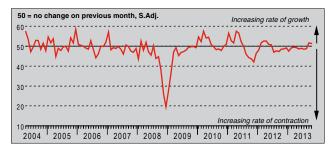


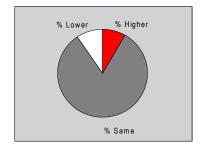


Purchasing activity at Taiwanese manufacturing plants increased for the second month running in October. After adjusting for seasonality, the rate of growth accelerated from the previous month to a solid pace. Moreover, it was the strongest increase in input buying since March 2012. Anecdotal evidence suggested that purchasing activity rose in response to higher production requirements.

Stocks of Purchases Index

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





Taiwanese manufacturers signalled an increased amount of stocks of purchases in October. The rate of stock accumulation was moderate and broadly unchanged from September. Nonetheless, it was only the second time that stocks have increased in 16 months. Increased purchasing activity was said to have raised stocks of pre-production goods, as a number of surveyed firms planned to raise productive capacity in line with greater 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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