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IHS Markit Taiwan Manufacturing PMI®

PMI rises to 17-month high in January

Key findings

Stronger increases in output and new orders

Business confidence improves to 22-month high

Inventories expand for the first time since October 2018

Operating conditions faced by Taiwanese manufacturers improved at the quickest pace for nearly a year-and-a-half in January. Firms signalled stronger expansions of both output and new orders, alongside a renewed increase in export sales. Optimism regarding the year ahead also improved, to reach its highest for nearly two years. This in turn led firms to expand their payrolls and buying activity, while inventories of both purchased and finished goods rose for the first time since October 2018.

At the same time, prices data pointed to another reduction in average selling prices. Furthermore, the solid rate of discounting occurred despite a stronger rise in input costs, suggesting a tighter squeeze on margins.

The Taiwan Manufacturing Purchasing Managers' Index® (PMI®) rose from 50.8 at the end of 2019 to 51.8 in January, to signal an improvement in the health of the sector for the second month in a row. Though modest, the rate of improvement was the strongest recorded since August 2018.

The higher PMI figure was supported by faster new order growth in January. Though moderate, the latest upturn in sales was the most marked for 17 months. Companies widely commented that demand both at home and overseas had improved during the latest survey period. Furthermore, new export orders expanded for the first time since August 2018, albeit fractionally.

Greater amounts of new orders led firms to increase output, after production was largely unchanged in December. Though modest, the rate of growth was the quickest seen for nearly a year-and-a-half.

Taiwanese manufacturers expressed a stronger degree of optimism towards the 12-month outlook for output. Business confidence hit its highest level for close to two years, which

continued...

Taiwan Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Annabel Fiddes, Principal Economist at IHS Markit, said:

"Latest PMI data showed that Taiwan's manufacturing sector saw another improvement in growth momentum at the start of 2020.

"Manufacturers registered the strongest increases in output and new orders for just shy of a year-and-a-half, amid an easing of US-China trade tensions. Companies were also more confident regarding the one-year outlook, with optimism rising to its highest since March 2018.

"A brighter outlook supported further increases in employment, buying activity and, importantly, the first increases in inventories for over a year, to suggest companies anticipate production and sales to rise further in the months ahead.

"One area of concern remains around output prices, however. The data show that companies are still cutting their selling prices despite rising operating expenses, which does not bode well for margins. If demand conditions improve further, firms may regain some pricing power to help remedy this."

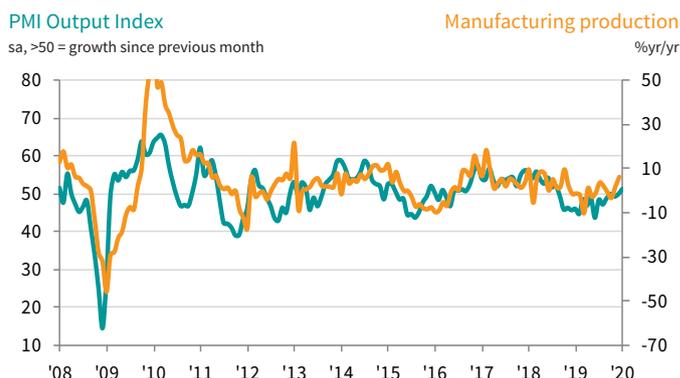
some firms attributed to an easing of US-China trade tensions, as well as the launch of new products.

At the same time, planned production line expansions contributed to a further increase in payrolls, though the rate of job creation eased since December. Despite higher staffing levels, backlogs of work grew for the second month in a row. That said, the rate of accumulation was only slight.

Rising sales also led firms to increase their buying activity in January, though growth remained modest overall. Firmer client demand and stronger business confidence also underpinned renewed upturns in inventories of both pre- and post-production goods.

Average cost burdens continued to rise at the start of 2020, with the rate of input price inflation accelerating to a solid pace. Panel members often cited that greater raw material costs had driven up their operating expenses.

Despite the stronger rise in input prices, companies continued to cut their factory gate charges in January. The marked drop in selling prices was often linked to price negotiations with clients.



Sources: IHS Markit, National Statistics via Datastream.

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Methodology

The IHS Markit Taiwan Manufacturing PMI® is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

January 2020 data were collected 13-23 January 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.