

Nikkei Taiwan Manufacturing PMI[®]

PMI reaches 80-month high in December

Key points:

- Steeper increases in output and employment
- Total new work and export sales continue to rise sharply
- Supplier performance continues to deteriorate amid stock shortages

Data collected December 5-13

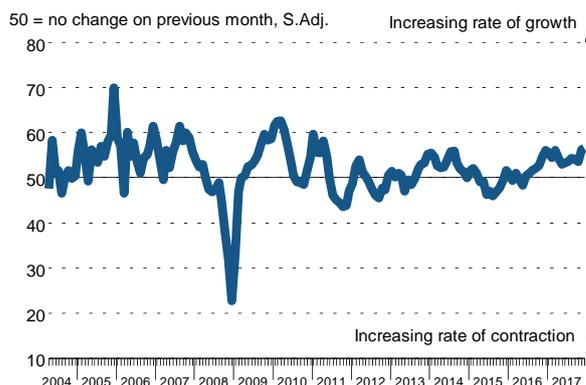
Operating conditions across Taiwan's manufacturing sector improved at the sharpest pace since April 2011 at the end of 2017. Production expanded at the quickest rate since March, supported by further marked increases in overall new orders and export business. Greater new work and rising production underpinned a sharp expansion in buying. That said, a combination of strong demand for inputs and low stock levels among suppliers led to another steep increase in average delivery times. Inflationary pressures remained sharp, with input costs rising at the fastest pace since February and selling prices increasing markedly.

The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index[™] (PMI[®]) is a composite single-figure indicator of manufacturing performance. It is derived from sub-indices for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates an overall improvement in operating conditions.

At 56.6 in December, the headline PMI was up from 56.3 in November to signal a further sharp improvement in the health of Taiwan's manufacturing sector. Furthermore, the rate of improvement was the steepest recorded for 80 months and well above the historical average (52.3).

Taiwanese manufacturers signalled a sharp and accelerated increase in production at the end of the year, with the rate of growth quickening to a nine-month record. Reports from panellists indicated that greater client demand and rising new order inflows had supported the latest increase in output. Furthermore, total new work rose at a historically marked pace that was similar to that seen in November. Encouragingly, the increase in new

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Sources: Nikkei, IHS Markit.

orders appeared to be broad-based, with new export sales also rising sharply again in December.

In response to higher workloads, companies added to their workforce numbers during December. Notably, the rate of job creation was the fastest seen for a year. However, outstanding business continued to accumulate at a marked pace.

In order to accommodate higher production, firms expanded their purchasing activity again at the end of 2017. The rate of growth remained sharp, despite easing slightly since November. Greater demand for inputs placed further pressure on supply chains, however, which combined with stock shortages at vendors led to a further sharp increase in average delivery times.

Taiwanese manufacturers raised their inventories of both finished and purchased items at the end of 2017, with the latter expanding at a solid pace.

Manufacturing firms signalled a steep and accelerated increase in average input costs that was the sharpest since February. According to panellists, higher raw material prices for items such as oil and steel contributed to the overall increase in costs. As a result, companies continued to increase their output charges at a marked pace.

Finally, business confidence improved to an eight-month high, supported by forecasts of rising client demand.

Comment:

Commenting on the Taiwanese Manufacturing PMI survey data, **Annabel Fiddes**, Principal Economist at IHS Markit, which compiles the survey, said:

“PMI data for December rounded off a solid year for Taiwan’s manufacturing sector, with the headline PMI improving to an 80-month record.

“Firms not only saw steeper increases in output and employment, but continued to report sharp growth in total new work. The sustained upturn in client demand was supported by a further marked increase in export sales, which has also been picked up in recent official data.

“However, supplier performance continues to deteriorate due to strong demand for inputs and a lack of inventory. This, in turn, has led to a further sharp rise in input costs, which is feeding through to another marked increase in selling prices.

“Overall, IHS Markit forecast that Taiwan’s economy will expand by 2.5% in 2017, up from 1.5% in 2016.”

-Ends-

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Notes to Editors:

The Nikkei Taiwan Manufacturing Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 manufacturing companies. The panel is stratified by company size and by Standard Industrial Classification (SIC) group, based on 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' Index™ (PMI®) is a composite index based on five of the individual indexes with the following weights applied: 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. IHS 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

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