

Nikkei Taiwan Manufacturing PMI[®]

PMI slips to 11-month low in May

Key points:

- Production growth slows amid weakest upturn in new orders since July 2016
- Lead times for inputs continue to lengthen markedly
- Selling prices increase at second-fastest rate for over seven years

Data collected May 11-22

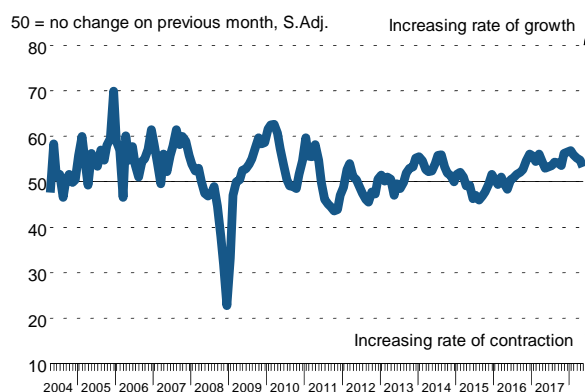
Latest PMI data signalled a further loss of growth momentum across Taiwan's manufacturing sector midway through the second quarter. Output rose to the weakest extent since last October, as growth in new orders slipped to a 22-month low. Consequently, confidence towards the year ahead outlook for production fell to its lowest since last July. At the same time, reports of stock shortages at suppliers contributed to a further sharp increase in delivery times for inputs. Inflationary pressures remained sharp, with a further steep increase in input costs leading firms to raise their selling prices at a faster pace.

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 53.4 in May, the seasonally adjusted headline PMI fell from 54.8 in April. The health of Taiwan's goods producing sector has now strengthened in each month for the past two years. However, the latest index reading signalled that the pace of improvement weakened to an 11-month low.

Softer increases in both output and total new orders were key factors weighing on the headline index in May. Total new business rose at the weakest pace since July 2016, which contributed to the slowest increase in production since last October. A number of firms commented that relatively subdued demand conditions had hampered growth. Moreover, new export sales increased at the slowest pace for nearly two years.

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Sources: Nikkei, IHS Markit.

Employment continued to increase across Taiwan's manufacturing sector in May. However, the pace of job creation softened from that seen in April. At the same time, companies signalled sustained pressures on operating capacities, as highlighted by a further rise in backlogs of work. The rate of accumulation was solid, despite moderating for the third month in a row.

Reflective of softer demand conditions, manufacturers expanded their purchasing activity at a weaker pace in May. However, widespread reports of stock shortages at suppliers led to a further sharp increase in average lead times for inputs. Meanwhile, companies reported higher inventories of both purchased items and finished goods in May, with the former rising solidly overall.

Taiwanese manufacturers signalled a further sharp rise in average input costs during May, despite the rate of inflation easing to a nine-month low. Panellists widely attributed higher prices to greater input costs for raw materials. The sustained and steep increase in costs led firms to raise their prices charged at the second-sharpest rate for over seven years.

Finally, confidence towards the year ahead outlook for production slipped to a ten-month low in May, with some firms citing a relatively uncertain demand outlook.

Comment:

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

“Latest PMI data indicated that growth momentum across Taiwan’s manufacturing sector cooled further in May, with firms signalling softer rises in both output and new work.

“Another key finding in the latest release was a further slowdown in new export sales growth, as companies signalled the weakest upturn in new export business for nearly two years. The disappointing trend in exports could add to concerns that the performance of the sector may be hindered by signs of cooling global demand. Furthermore, confidence towards the year ahead slipped to a ten-month low in May, while supply chain delays continued to hamper firms’ operations.

“Overall, the data show that the manufacturing sector is on course to expand at a weaker pace than seen in the opening quarter of the year, to hint that GDP growth could edge down again in Q2.”

-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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