

Nikkei Taiwan Manufacturing PMI[®]

Manufacturers signal solid start to 2018

Key points:

- Production and new orders both rise sharply
- New export sales expand at fastest pace for seven years
- Strong demand for inputs leads to further deterioration in supplier performance

Data collected January 12-23

January PMI data indicated a solid start to the year for Taiwanese manufacturers. Production and new work both rose at historically sharp rates, supported by the steepest increase in export sales for seven years. As a result, companies raised their purchasing activity sharply and continued to expand their payroll numbers. However, capacity pressures persisted, as highlighted by a substantial increase in backlogs of work. Concurrently, a lack of stock at vendors led to a further marked lengthening of delivery times for inputs. Inflationary pressures remained marked, with average input costs rising sharply and selling prices increasing to the greatest extent since April 2011.

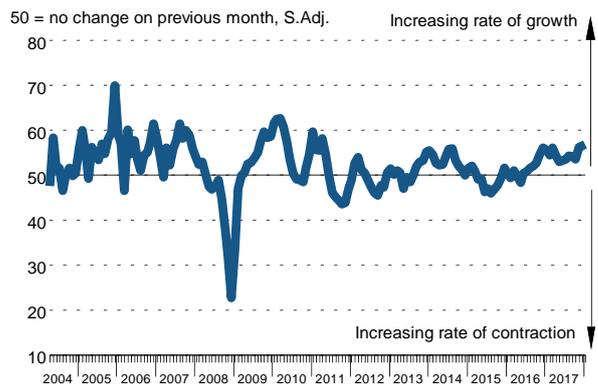
The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index[™] (PMI[®]) is a composite single-figure indicator of manufacturing performance. It is derived from sub-indices for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates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

The headline PMI posted 56.9 in January, up slightly from 56.6 in December, to signal a further sharp improvement in operating conditions at the start of the year. Furthermore, the latest index reading was the highest recorded since April 2011.

Total new orders expanded at a quicker pace at the start of 2018 amid reports of stronger demand both at home and overseas. Furthermore, overall new business increased to the greatest extent since August 2014, while new export orders expanded at the quickest pace since January 2011.

Consequently, companies increased production levels for the twentieth month in a row. Despite softening slightly since December, the rate of

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Sources: Nikkei, IHS Markit.

growth remained much stronger than the series average.

Higher production requirements led manufacturers to add to their payrolls at a solid rate. Despite higher employment, capacity pressures persisted, with backlogs of work accumulating at the quickest pace since April 2010 at the start of the year.

Buying activity also rose sharply during January, with the rate of growth picking up slightly since December. As a result, inventories of inputs rose solidly, despite the rate of expansion softening for the second month running. Stocks of finished items meanwhile rose at a moderate pace that was stronger than seen at the end of last year.

Data indicated that manufacturers faced a further marked increase in delivery times for inputs in January. According to panellists, stock shortages at vendors drove the latest increase in lead times.

Average input costs rose sharply at the start of 2018, with a number of panellists linking the increase to higher raw material costs. As a result, factory gate charges rose at the steepest rate for 81 months.

Optimism towards the one-year outlook for production strengthened to a nine-month record in January, aided by positive forecasts for global trade.

Comment:

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

“Taiwanese manufacturing companies registered a strong start to the new year, with firms signalling further steep increases in output and new orders.

“Data indicated that growth was underpinned by rising global demand, as highlighted by the sharpest increase in new export sales for seven years in January.

“The sector looks well placed to continue its current strong run of growth, as firms increased their purchasing activity and hired additional workers to expand production lines.

“A key factor that could dampen the sector’s performance is access to inputs. Companies once again noted a marked increase in average delivery times for purchased items in January, amid reports of broad-based stock shortages at vendors. As a result, input costs rose sharply, which fed through to the quickest increase in selling prices since early-2011.”

-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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