

Nikkei Taiwan Manufacturing PMI[®]

Manufacturing output expands at quicker pace

Key points:

- Stronger production growth supported by sharp increase in overall new work
- Employment rises at weakest pace since October 2015
- Suppliers' delivery times continue to lengthen markedly

Data collected June 11-22

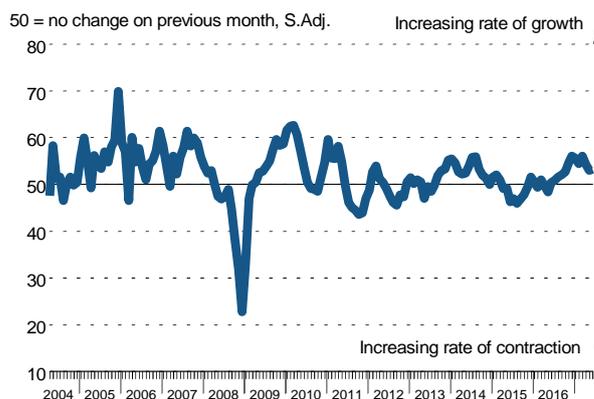
Latest PMI data signalled a further robust improvement in operating conditions across Taiwan's manufacturing sector in June. Production and new business both expanded at the quickest rates in three months, helped by a sharp and accelerated rise in new export work. Employment rose only slightly, however, which contributed to a steep increase in outstanding work. At the same time, purchasing activity increased markedly in line with new orders, but stock shortages at vendors led to a further sharp lengthening of average delivery times.

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 overall improvement of sector operating conditions.

The headline PMI posted 53.3 in June, up from 53.1 in May, and indicative of a further marked improvement in operating conditions. However, the average PMI reading over Q2 (53.6) was below that seen for Q1 (55.4), to signal a slight softening of underlying growth momentum.

Taiwanese manufacturers reported a solid increase in production during June. Notably, the rate of expansion picked up from May to its fastest for three months. Growth was supported by a steep increase in overall new orders. Panellists indicated that stronger customer demand at both home and overseas helped to lift sales. Furthermore, new export business increased at the second-fastest rate for nearly three years.

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Sources: Nikkei, IHS Markit.

Despite faster growth in output and new orders, employment rose only slightly in June. Moreover, the latest increase in staff numbers was the weakest in 20 months. Subdued job creation and higher new orders added to pressure on operating capacity, as shown by a sharp and accelerated rise in the level of outstanding business.

Reflective of greater new work intakes, manufacturing firms raised their purchasing activity for the thirteenth month running and at a steeper rate than in May. This helped to lift overall stocks of inputs, albeit only slightly. At the same time, inventories of finished items rose at a fractional pace following a two-month sequence of reduction.

The time taken for purchased items to be delivered continued to increase at a marked rate in June amid reports of stock shortages at vendors. Furthermore, the current period of deteriorating vendor performance is the worst seen since 2009-10.

Cost burdens rose at the softest pace for a year, and was generally linked to higher prices for raw materials. However, average output charges declined for the first time since August 2016. Panellists mentioned that strong market competition was a key factor leading firms to lower their selling prices.

Manufacturers in Taiwan remained optimistic that output would rise over the next year, though the

degree of confidence dipped slightly to its lowest in four months.

Comment:

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

“Latest PMI data indicated that Taiwan’s manufacturing sector ended Q2 on a strong footing, despite overall growth momentum slipping slightly from the opening quarter of the year.

“Encouragingly, production, total new work and new export sales all rose at faster rates in June amid reports of robust customer demand, particularly from overseas.

“However, staffing levels rose only slightly, and companies faced a further marked increase in suppliers’ delivery times for inputs due to a lack of stock at suppliers. As a result, unfinished workloads rose at one of the fastest rates since the start of 2011, to highlight that operating capacity remains under great pressure across the sector.

“Therefore firms need to see an improvement in supply chains alongside greater efforts to boost staff numbers in order to keep up with client demand.”

-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 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. 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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