

Nikkei Taiwan Manufacturing PMI™

Manufacturing sector expands at softer pace in January

Key points:

- Slower increases in output, new orders and employment
- Input buying rises markedly, adding to strain on suppliers
- Input costs continue to rise sharply

Data collected January 11-23

Taiwanese manufacturers reported further robust increases in output, total new orders and employment at the start of 2017, despite the rates of expansion easing since December. Higher production contributed to a further marked rise in purchasing activity, though a lack of stock at suppliers led to the fastest increase in delivery times since early 2011. At the same time, companies faced a sharp increase in input costs amid reports of higher raw material prices. Consequently, prices charged increased at a faster pace as firms sought to protect their margins.

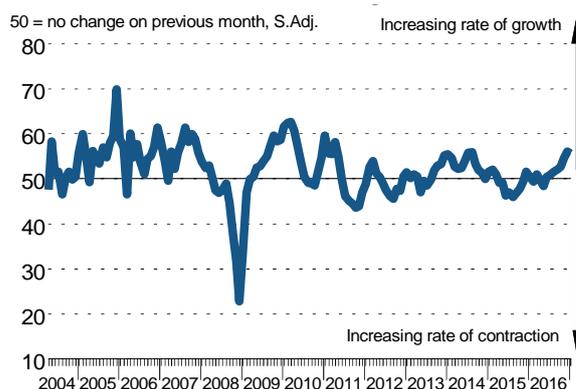
The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index™ (PMI)™ is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates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

At 55.6 in January, the PMI signalled a further sharp improvement in the health of Taiwan's manufacturing sector. This was despite falling from a 68-month high of 56.2 in December. Furthermore, the headline index remained well above the series long-run average (52.2).

Manufacturers saw a further robust upturn in total new work at the start of the year amid reports of stronger underlying demand in both domestic and international markets. That said, the rate of new business growth softened slightly since the previous month, which coincided with a slower increase in new export work.

Reflective of the trend for overall new business, growth in production eased since December's recent peak, but was still solid overall.

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Sources: Nikkei, IHS Markit.

Manufacturing employment in Taiwan continued on an upward trend in January as firms sought to increase their capacity. Although weakening since December, the rate of job creation was nonetheless the second-strongest recorded since April 2011. However, capacity pressures persisted, as highlighted by a further sharp rise in backlogs of work.

Higher production led firms to raise their purchasing activity again in January, and at the second-sharpest rate in 30 months. Greater demand for inputs and stock shortages at vendors contributed to the quickest increase in delivery times since April 2011.

Stronger demand conditions led companies to increase their stock holdings again in January. Furthermore, stocks of inputs and finished goods increased at the fastest rates in 36 and 58 months respectively.

Manufacturers registered a further sharp rise in input costs during January, with the rate of inflation edging down only slightly from December's 68-month peak. As part of efforts to protect their margins, companies increased their selling prices again in January, and at the steepest rate since April 2011.

Companies remained optimistic that output would increase over the next year in January. That said, the degree of positive sentiment weakened slightly from December.

Comment:

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

“Taiwan’s manufacturing sector had a strong start to 2017, with PMI data pointing to robust increases in key variables such as output, new work and employment in January. However, the survey also signals a slight loss of growth momentum as rates of expansion slowed from the peaks reached at the end of last year.

“As demand conditions remain favourable and firms continue to increase their capacity, it seems likely that the sector will continue to expand in the coming months. However, bottlenecks at suppliers may hinder manufacturers, with the latest survey pointing to the fastest deterioration in supplier performance since April 2011 amid reports of stock shortages.

“Inflationary pressures are also an area of concern in January, as the rate of input price inflation held close to December’s 68-month peak. This translated into the most marked increase in prices charged since April 2011, as firms generally passed on greater cost burdens to clients.”

-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. 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 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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