

Nikkei Taiwan Manufacturing PMI™

Manufacturing PMI edges down to four-month low

Key points:

- Production and new orders both expand at weakest rate since October 2016
- Purchasing activity growth slows but remains sharp
- Further steep increase in average input costs

Data collected February 10-20

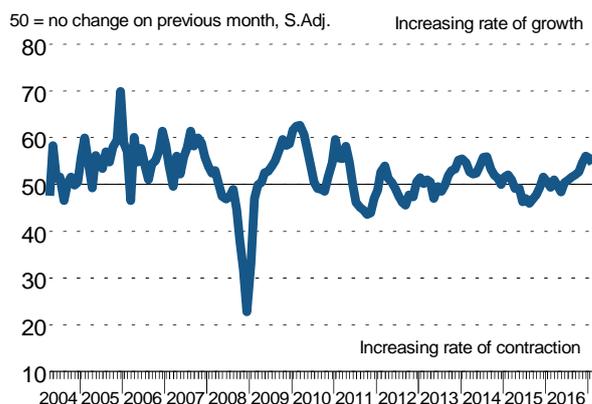
February survey data signalled a further softening of growth momentum across Taiwan's manufacturing sector, with firms pointing to slower increases in output, new orders and employment. Nonetheless, a further marked rise in new business led to a sharp increase in purchasing activity. Strong demand for inputs added further pressure on suppliers, which led to a steep increase in delivery times. Inflationary pressures meanwhile remained elevated, with input costs and output charges both rising markedly.

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.

The PMI reading of 54.5 in February was down from 55.6 in January, but above the crucial 50.0 value to signal an improvement in the health of the sector for the ninth successive month. That said, the rate of improvement softened further from December's recent peak to a four-month low.

Taiwanese manufacturing production continued to expand in February. Although the rate of growth slowed to its weakest since October 2016 it remained solid overall, with a number of panellists commenting on greater intakes of new work. As was the case for output, the rate of new order book expansion slowed further from December's recent record, but remained marked overall. The amount of new export work also rose at a robust pace in February, despite the rate of growth edging down to a four-month low.

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Sources: Nikkei, IHS Markit.

Payrolls continued to increase in February as a number of companies hired additional workers in response to higher new orders. Though solid, the rate of employment growth was the weakest seen since last November. At the same time, backlogs of work increased markedly, despite the rate of accumulation easing to its weakest in four months.

Purchasing activity increased again as a number of firms sought to accommodate higher production requirements. Although softening to its weakest since last October, the rate of expansion remained sharp. However, greater demand for inputs contributed to a marked increase in delivery times amid reports of stock shortages at vendors.

Greater input buying meanwhile contributed to a further rise in stocks of purchased items in February, though the rate of accumulation eased since January. Some panellists indicated that they boosted their inventories to help protect against future price increases and stock shortages.

Latest data pointed to a sharp rise in average input costs, despite the rate of inflation edging down to a three-month low. Panellists widely commented on higher costs for raw materials. Prices charged also rose markedly in February, albeit to a lesser extent than input costs.

Finally, optimism towards the one-year business outlook weakened to its lowest since November 2016.

Comment:

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

“PMI data for February indicated that Taiwan’s manufacturing sector continued to expand at a robust pace, despite growth momentum softening for the second month in a row. This was highlighted by weaker, yet still solid, increases in output and new orders, while payrolls also expanded at a slower pace.

“Although price pressures also appeared to ease slightly, the increase in input prices was nonetheless one of the fastest seen in six years, and underpinned a further marked rise in output charges.

“Encouragingly, the data indicated that the current upturn in demand remains broad-based across both domestic and international markets, while a further steep increase in purchasing activity raises the prospect of continued production growth in coming months. IHS Markit forecast that Taiwan’s GDP will expand by approximately 1.7% in 2017, up from 1.4% 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 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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