

# Nikkei Taiwan Manufacturing PMI<sup>®</sup>

## Manufacturing sector expands at softer pace in October

### Key points:

- PMI edges down to three-month low of 53.6
- Softer increases in output, total new work and export sales
- Inflationary pressures remain sharp

Data collected October 12-23

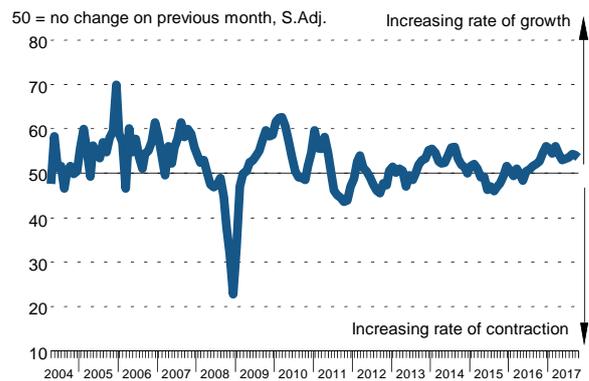
Taiwanese manufacturers signalled a further improvement in overall operating conditions at the start of the fourth quarter. However, the pace of improvement softened slightly as October data pointed to weaker increases in both output and total new business. At the same time, input prices rose sharply amid reports of higher raw material costs and stock shortages at vendors. Rising new orders and concerns over future increases to purchase prices led firms to expand their buying activity again, which contributed to the quickest rise in stocks of inputs since January 2014.

The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index<sup>™</sup> (PMI)<sup>®</sup> 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 53.6 in October, down from 54.2 in September, but above the crucial 50.0 value for the seventeenth month running to signal a further improvement in the health of the sector. The pace of improvement was solid overall, despite easing to a three-month low.

Production at Taiwanese manufacturing firms continued on an upward trend in October, thereby extending the current sequence of growth to 17 months. However, the pace of expansion softened to a modest pace that was the weakest since May. Total new business increased at a similarly modest pace, with the rate of growth the least marked for 14 months. Data indicated that softer domestic and foreign demand weighed on total new order intakes, as export sales also rose at a weaker pace.

### Nikkei Taiwan Manufacturing PMI



Sources: Nikkei, IHS Markit.

Higher overall new business led firms to raise staff numbers again in October. Notably, the rate of job creation was little-changed from September and moderate. Capacity pressures persisted, however, as shown by a further increase in outstanding work. That said, the rate of backlog accumulation was the slowest since June 2016.

Latest data highlighted a further sharp rise in total cost burdens, with the rate of inflation softening only slightly since September's recent high. According to panellists, greater raw material costs and a shortage of inputs at suppliers contributed to the latest increase in production costs. As a result, factory gate charges also rose markedly in October.

Greater new orders and expectations of further supplier price hikes led to a robust increase in purchasing activity. Consequently, stocks of inputs rose at the quickest pace since the start of 2014.

Strong demand for inputs and insufficient stock levels at vendors led to a sharp increase in average delivery times. Notably, vendor performance deteriorated at the quickest rate since January.

Looking ahead, optimism towards the 12-month business outlook moderated to a three-month low but remained strong overall.

## Comment:

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

*“The latest set of PMI data indicated that growth momentum softened across Taiwan’s manufacturing sector at the start of Q4, with companies noting weaker increases in both production and new orders.*

*“Supply chains continued to be a key area of concern, with firms reporting the quickest deterioration in supplier performance since January. Reports suggested that stock storages at vendors contributed to longer delivery times, which is likely weighing on overall growth of the sector.*

*“As demand for inputs outstripped supply, purchasing costs continued to rise sharply which, in turn, led to a further marked increase in prices charged to indicate that inflationary pressures remain sharp. Concerns that prices will continue to rise over the coming months was a main factor leading to steep increases in both buying activity and inventories, with stocks of inputs rising to the greatest extent since January 2014.”*

-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](mailto: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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