

## Nikkei Taiwan Manufacturing PMI™

### PMI edges down to seven-month low in May

#### Key points:

- Softer expansion of output, while new work continues to rise solidly
- Input price inflation eases markedly
- Staffing levels increase at slower pace, contributing to faster rise in backlogs

Data collected May 11-22

May survey data signalled a further strong improvement in overall operating conditions faced by Taiwanese manufacturers. This was despite the pace of improvement weakening to a seven-month low, which was partly due to softer production growth. Nonetheless, total new work continued to expand solidly, supported by a further strong rise in new export work.

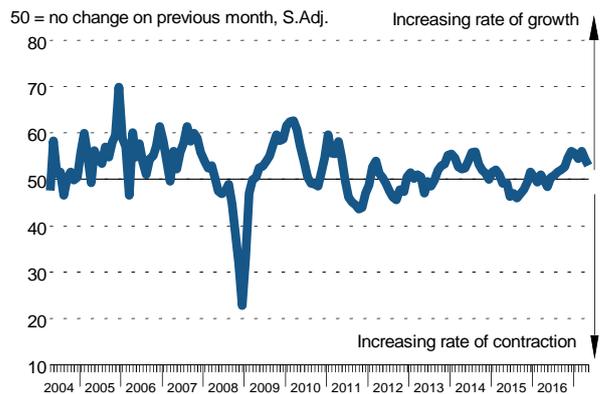
As a result companies added to their staff numbers again while also raising their purchasing activity. Cost pressures meanwhile eased markedly, with average input prices rising at the slowest rate in nine months, while prices charged increased marginally.

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.

At 53.1 in May, the headline index fell from 54.4 in April to signal an improvement in overall operating conditions for the twelfth month running. Though strong overall, the rate of improvement was the slowest seen since last October.

Weighing on the headline index in May was a softer expansion in manufacturing production in Taiwan. Furthermore, the latest increase in output was the weakest seen since September 2016. While a number of firms mentioned raising production due to higher new orders, some companies mentioned that they were unable to expand productive capacity further in that latest survey period.

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Sources: Nikkei, IHS Markit.

Overall demand conditions remained strong in May, with growth in total new work picking up slightly since the previous month. Latest data also pointed to a sharper increase in new export orders.

Greater intakes of new work prompted firms to increase their staff numbers again in May, albeit at the softest pace since last November. Slower growth in employment contributed to a further rise in outstanding workloads. Furthermore, the rate of backlog accumulation quickened to a solid pace.

Manufacturers in Taiwan signalled a softer, albeit still solid, increase in purchasing activity during May. However, lead times for inputs continued to lengthen at a marked pace, partly due to stock shortages at vendors. Subsequently, inventories of purchased items declined for the first time since August 2016, albeit marginally, as some firms commented on the increased usage of current stocks to meet production requirements. Inventories of finished goods also declined, and at the sharpest pace since October 2015.

Inflationary pressures meanwhile showed signs of subsiding further in May. Average input costs rose at the slowest rate since last August, while output charges increased only slightly.

Looking ahead, business confidence slipped to a three-month low, but remained strong overall.

## Comment:

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

*“Taiwan’s manufacturing PMI drifted down to its lowest level in seven months in May, but nonetheless pointed to a strong overall performance of the sector.*

*“The decline in the headline index was partly driven by softer expansions in output and employment during May. This was despite a stronger increase in overall new work, with businesses noting firmer demand across both domestic and international client bases. Furthermore, data revealed that the slowdown in production growth was in part due to a lack of resources with average delivery times for inputs increasing markedly, while recent changes to labour laws (that have increased the amount of rest time workers are allowed) are still feeding through to work schedules.*

*“In order for the sector to see growth momentum pick up again, it seems clear that supply chain improvements and adjustments to workforce numbers will be required. This is particularly important if firms wish to keep up with the strong increases in new orders we have seen in recent months.”*

-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](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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