

Nikkei Taiwan Manufacturing PMI™

Manufacturing sector growth remains strong

Key points:

- Growth in output and new orders slips but remains solid
- Staffing levels rise markedly
- Inflationary pressures soften but stay sharp

Data collected April 10-20

Operating conditions continued to improve across Taiwan's manufacturing sector during April, but the latest upturn was the weakest seen since last October. The slight loss of growth momentum was partly down to slower, albeit still solid, increases in output and total new orders. Meanwhile, growth in purchasing activity and employment remained marked, despite also easing since March.

Higher prices for raw materials contributed to a further sharp increase in average input costs. As a result, firms raised their selling prices and at a solid pace.

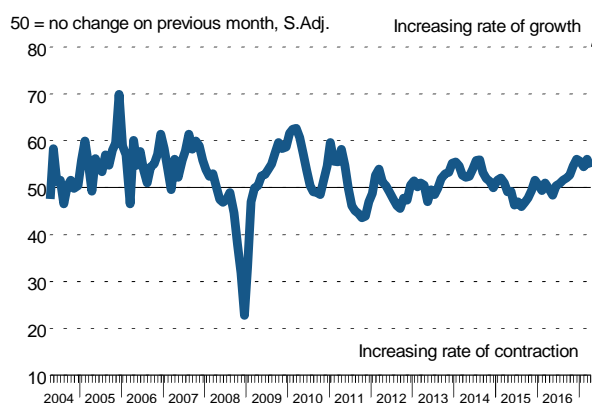
The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index™ (PMI)™ is a composite single-figure indicator of manufacturing performance. It is derived from sub-indices for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates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

The headline PMI posted 54.4 in April, down from 56.2 in March, but above the crucial 50.0 value to signal a further improvement in overall operating conditions. Though solid, the rate of improvement was the slowest since last October.

One of the factors weighing on the headline index in April was a weaker increase in total new orders. Though solid, the rate of growth was the slowest seen in six months. Nonetheless, a number of firms commented on a broad-based upturn in client demand in the latest survey period. This was also highlighted by a further rise in new export work at the start of the second quarter.

Reflective of the trend for new orders, growth in production also slowed to a six-month low in April. However, the latest increase was solid overall and faster than the series average.

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Sources: Nikkei, IHS Markit.

Encouragingly, firms remained strongly optimistic towards future output growth, with the level of confidence unchanged from March's 26-month peak.

Taiwanese manufacturers continued to add to their payrolls during April, with the rate of expansion holding close to March's solid pace. According to anecdotal evidence, higher workloads and recent amendments to labour laws had prompted firms to hire additional staff. Despite increased workforce numbers capacity pressures persisted, as shown by a further rise in unfinished business. That said, the rate of accumulation was the slowest since June 2016.

Sustained growth in production led firms to raise their purchasing activity in April. Although the rate of growth was the weakest since last September, it remained sharp overall. Concurrently, inventories of inputs increased at only a modest pace that was the slowest in seven months. Inventories of finished items were meanwhile depleted for the first time in five months.

Input costs continued to rise sharply amid reports of higher raw material prices. This was despite the rate of inflation weakening to a six-month low. Companies generally passed on greater cost burdens to clients, and raised their prices charged solidly during April.

Comment:

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

“April’s survey data pointed to a further robust expansion of Taiwan’s manufacturing sector, despite growth in output and new orders softening since March.

“The headline PMI reading of 54.4 was down slightly from the average seen over Q1 (55.4), but nonetheless indicated that the sector is still enjoying its strongest patch of growth since early-2011. Manufacturers continue to benefit from strong demand both at home and abroad which has underpinned the upturn. However, input costs continue to rise at a faster rate than output charges, to indicate a further squeeze on operating margins.

“Overall, the sector looks on track to support a stronger pace of economic growth this year, with IHS Markit forecasting Taiwan’s GDP to expand by 1.8% in 2017, up from 1.5% 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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