

Nikkei Taiwan Manufacturing PMI™

Operating conditions improve at steepest rate since April 2011

Key points:

- Sharper increases in output and total new orders
- Input buying expands at fastest pace since April 2011
- Prices data point to strongest inflationary pressures for over five-and-a-half years

Data collected December 6-14

December data signalled the sharpest improvement in operating conditions faced by Taiwanese manufacturers since April 2011. Production rose at a steep and accelerated pace, supported by the strongest expansions in total new work and new export business since August 2014. As a result, firms raised their input buying to the greatest extent since early-2011. Inflationary pressures meanwhile picked up sharply over the month, with input costs and selling prices both rising at the steepest rates in over five-and-a-half years.

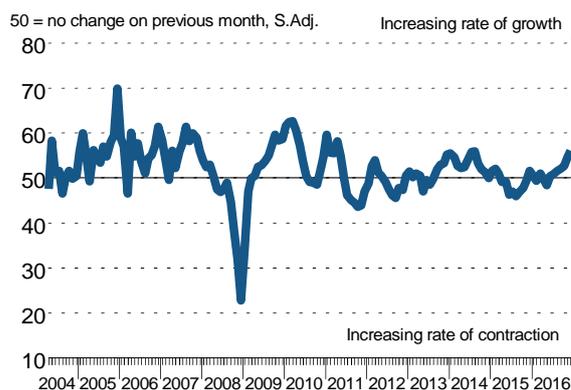
The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index™ (PMI)™ is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates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

The PMI posted 56.2 in December, up from 54.7 in November, to signal a sharp improvement in overall operating conditions. Moreover, it was the strongest rate of improvement since April 2011.

Taiwanese manufacturers signalled a further increase in output at the end of 2016, with the rate of growth picking up to its strongest since July 2014. Higher production was widely linked to greater amounts of new business.

In line with the trend for output, total new orders rose at a sharp and accelerated pace in December, with the rate of growth the fastest since August 2014. Reports from panellists commented on stronger client demand across both domestic and international markets. The latter was highlighted by a robust rise in new work from overseas at the end of the year.

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Sources: Nikkei, IHS Markit.

Increased production requirements prompted firms to raise their purchasing activity at the steepest rate in 68 months. However, stocks of purchased items rose only modestly, with some firms mentioning that cost control measures had limited growth in inventories. At the same time, companies noted a renewed rise in stocks of finished goods, albeit at a moderate pace.

Insufficient stock levels at vendors contributed to a sharp increase in average delivery times. Furthermore, the rate at which vendor performance deteriorated was the fastest since May 2011.

Taiwanese manufacturers raised their staff numbers solidly in December, with the rate of job creation the fastest recorded since April 2011. Capacity pressures persisted, however, as highlighted by a sustained and sharp rise in backlogs of work.

Input prices rose markedly in December, with the rate of inflation the quickest in 68 months. In order to help protect their margins, firms raised their output charges at a sharper rate.

Comment:

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

“Growth momentum across Taiwan’s manufacturing sector continued to pick up speed at the end of 2016. Production and total new orders both increased at rates not seen since mid-2014 in December amid reports of robust client demand.

“Employment was also a bright spot in the latest survey, with the rate of job creation picking up to its strongest since April 2011 in December. Nonetheless, capacity pressures persisted, with unfinished workloads rising at the steepest rate since the start of 2011. This suggests that firms may ramp up production and staff numbers further at the start of 2017, particularly as companies continue to raise their purchasing activity.

“Inflationary pressures remain a key area of concern, however, with manufacturers reporting the quickest rise in input prices for over five-and-a-half years, which in turn led to a steeper increase in selling prices.”

-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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