

Nikkei Taiwan Manufacturing PMI[®]

PMI edges down to five-month low in March

Key points:

- Slower increases in total new work and employment weigh on headline PMI...
- ...but production growth edges up to three-month high
- Input prices rise at quickest pace for 14 months

Data collected March 12-21

Business conditions across Taiwan's manufacturing sector improved at a softer pace in March, with companies signalling weaker increases in total new work and employment. In contrast, growth in production picked up slightly to a three-month high. Sustained increases in total new work and export sales meanwhile led to further rises in purchasing activity and stocks of inputs. However, average input prices rose to the greatest extent since January 2017 amid reports of higher raw material costs, which underpinned a further marked rise in factory gate charges.

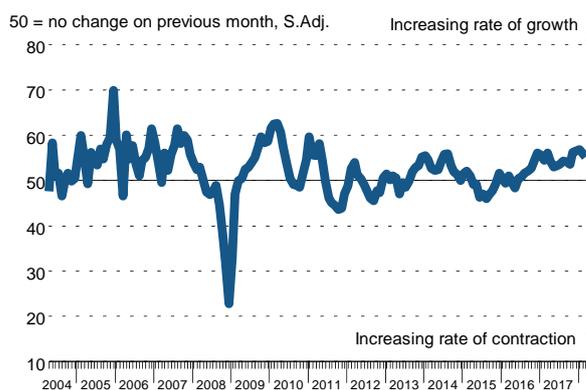
The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index[™] (PMI[®]) is a composite single-figure indicator of manufacturing performance. It is derived from sub-indices for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates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

At 55.3 in March, the headline seasonally adjusted PMI dipped slightly from 56.0 in February to signal a further improvement in business conditions across Taiwan's manufacturing sector. Though sharp and firmly above the survey's long-run trend, the pace of improvement was the slowest seen since last October.

The decline in the headline index was partly linked to a softer rise in total new work during March. Overall, the increase in new orders was sharp, albeit the slowest seen for five months. New work received from abroad also expanded at a softer pace, but remained robust overall.

At the same time, companies signalled a more cautious approach to staff hiring. Notably, payroll numbers expanded at a modest pace that was the weakest recorded since last June.

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Sources: Nikkei, IHS Markit.

Meanwhile, backlogs of work continued to accumulate at a steep pace in March, despite the rate of increase softening since the previous month. Rising new order volumes were cited as the main driver of higher unfinished workloads.

Growth in purchasing activity remained sharp in March, despite the rate of increase easing to the lowest for five months. As a result, stocks of purchased items rose at a steep pace that was only slightly softer than that seen in February. Inventories of finished goods meanwhile rose for the sixth month in a row.

Average vendor performance deteriorated sharply in March amid widespread reports of stock shortages at suppliers. Notably, the rate at which delivery times lengthened was among the sharpest since 2011.

Manufacturers signalled increased pressure on their operating margins during March. Average input costs rose to the greatest extent since January 2017, while prices charges rose at a softer, but still marked, pace. According to panellists, inflationary pressures predominantly stemmed from greater costs for raw materials.

Although business confidence towards the year-ahead outlook remained strongly positive in March, the overall level of optimism dipped to a five-month low.

Comment:

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

“Taiwan’s manufacturing sector continued to expand at a solid pace at the end of Q1, despite the headline PMI posting at a five-month low in March. Furthermore, the average PMI reading over the opening three months of the year signalled the strongest quarterly performance since Q1 2011.

“Rising client demand, particularly from export markets, remains a key driver of growth. However, latest data show that demand conditions, while still robust, show signs of softening slightly. Notably, total new work and export sales both expanded at the slowest rates for five months, which could weigh on growth of production going forward.

“Prices data meanwhile showed that operating margins came under further pressure in March, with a sharper rise in input costs contrasting with a slightly softer increase in factory gate charges.”

-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.

Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

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