

Nikkei Taiwan Manufacturing PMI[®]

Solid improvement in operating conditions in July

Key points:

- Output expands solidly despite the rate of growth easing slightly
- Total new work rises markedly, supported by sharp increase in new export sales
- Vendor performance deteriorates at accelerated pace

Data collected July 11-21

Taiwanese manufacturers signalled a sustained improvement in overall operating conditions at the start of the third quarter. A steep increase in total new work was supported by a further robust rise in new export sales, which in turn led companies to expand their production volumes again in July. At the same time, firms continued to add to their payroll numbers and increased their purchasing activity. However, stronger demand for inputs and a lack of supplies at vendors underpinned a sharp increase in average delivery times.

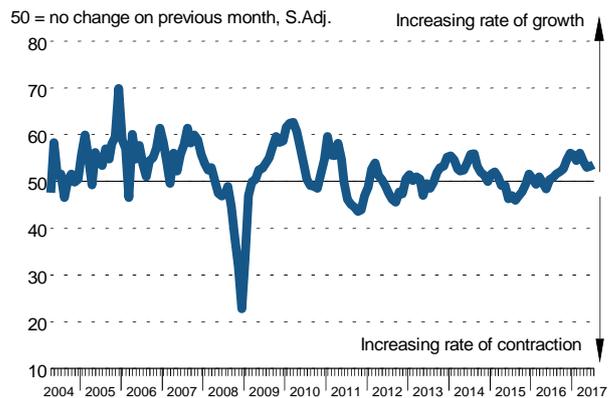
The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index[™] (PMI)[®] is a composite single-figure indicator of manufacturing performance. It is derived from sub-indices for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates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

At 53.6 in July, the headline PMI was up from 53.3 in June to signal a further solid improvement in the health of Taiwan's manufacturing sector. Operating conditions have now improved in each month since June 2016, with the latest upturn the strongest seen for three months.

July survey data pointed to a further robust increase in the amount of new business placed at Taiwanese goods producers. The rate of growth was solid overall, despite softening from the previous month. Supporting the overall increase in new work was a sharp rise in new export sales. Anecdotal evidence suggested that client demand strengthened across a number of key export markets.

Rising new business led manufacturers to increase output for the fourteenth successive month in July.

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Sources: Nikkei, IHS Markit.

The rate of expansion was solid overall, despite easing since June.

In line with the trend for production, Taiwanese manufacturers continued to add to their payrolls in July. The rate of job creation quickened since the previous month but was modest overall. As a result, capacity pressures persisted, as highlighted by a further increase in volumes of outstanding work. Moreover, the rate of accumulation was the strongest seen in 2017 so far.

Manufacturers signalled greater purchasing activity in July. Despite weakening slightly from the previous month, the rate of growth remained solid overall, with a number of firms mentioning raising input buying in line with new orders. At the same time, greater demand for inputs alongside stock shortages at vendors contributed to a further lengthening of average delivery times. The rate of deterioration in supplier lead times was one of the sharpest seen in the past six years.

Stocks of both finished and purchased items rose at the start of the third quarter, which was widely attributed to efforts to rebuild inventories due to robust client demand.

After slowing in each of the first six months of the year, the rate of input price inflation picked up to a solid pace in July. Consequently, average prices charged increased slightly, which contrasted with a marginal decline in the previous month.

Comment:

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

“Manufacturing firms in Taiwan signalled a strong start to the second half of the year, with further robust increases in output and new orders. Perhaps most encouraging was a sustained and sharp rise in new export sales, which are a key source of growth for the sector.

“However, it appears that bottlenecks at suppliers persisted in July, with average lead times lengthening to one of the greatest extents for six years. At the same time, employment levels rose at only a modest pace, leading unfinished workloads to increase at the quickest rate in 2017 so far.

“Robust demand looks set to support further increases in output over the coming months, but the overall pace of expansion may be limited by supply chain difficulties and relatively cautious hiring plans.”

-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.

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

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