

Nikkei Taiwan Manufacturing PMI[®]

Manufacturing sector expands at quicker pace in June

Key points:

- Output rises at solid pace as new order growth rebounds
- Stock shortages at vendors leads to a further marked increase in delivery times for inputs
- Purchasing costs continue to rise at historically sharp rate

Data collected June 12-21

PMI data for June signalled a solid improvement in the health of Taiwan’s manufacturing sector. Both output and new orders increased at steeper rates, with the latter supported by stronger growth in new export sales. At the same time, strong demand for inputs and a lack of stock at suppliers led to a further sharp increase in delivery times for inputs. Average cost burdens meanwhile rose sharply as many vendors hiked their prices as demand for materials generally outstripped supply. In order to help protect margins, factory gate prices increased again, with the rate of inflation holding close to a seven-year record.

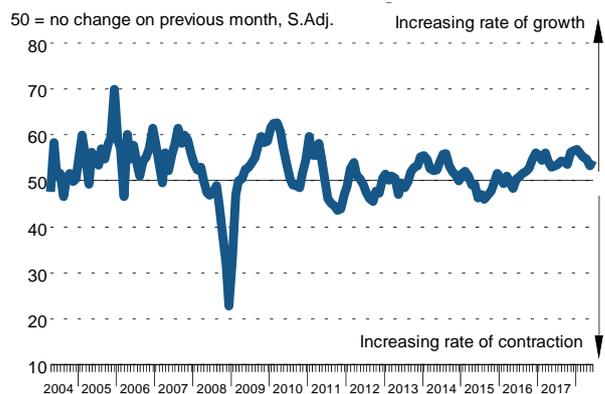
The headline Nikkei Taiwan Manufacturing Purchasing Managers’ Index[™] (PMI[®]) is a composite single-figure indicator of manufacturing performance. It is derived from sub-indices for new orders, output, employment, suppliers’ delivery times and stocks of purchases. Any figure greater than 50.0 indicates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

The seasonally adjusted headline PMI posted 54.5 in June, up from an 11-month low of 53.4 in May, to signal a solid improvement in the health of the sector. That said, the rate of expansion remained weaker than those seen at the start of the year.

The uptick in the headline index partly reflected stronger growth in new orders. Notably, the rate of expansion rebounded from May’s modest pace and was solid overall. Panellists widely commented on improved client demand at both home and overseas, with the latter highlighted by a similarly strong rise in new export work.

In response to improved new order inflows, firms increased production at a faster pace in June.

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Sources: Nikkei, IHS Markit.

Moreover, the rate of output growth quickened to a three-month high.

Although new orders and production rose solidly, firms highlighted a more cautious approach to staff hiring, as employment rose only slightly in June. Some companies mentioned that efforts to contain costs and the non-replacement of voluntary leavers had impacted job creation. Concurrently, backlogs of work continued to rise sharply at the end of the second quarter.

Rising production and strong client demand led companies to increase their buying activity again in June. However, widespread reports of stock shortages at suppliers led to a further sharp lengthening of average lead times for inputs.

Stocks of purchased and finished items meanwhile rose further, with many firms linking inventory building to firmer demand conditions.

On the prices front, average input costs continued to rise sharply, as a number of vendors hiked purchasing costs due to demand outstripping supply. Furthermore, the rate of inflation quickened from May and was among the steepest recorded since early 2011. As a result, prices charged also rose markedly in June.

Expectations towards the 12-month outlook for production remained strongly positive in June. However, sentiment remained below that seen at the start of 2018.

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 ended Q2 on a high, with companies signalling stronger increases in output and new orders. Encouragingly, the upturn was supported by firmer demand across international markets, with growth in export sales also rebounding since May.

“Although the headline PMI reading improved in June, the average reading over Q2 (54.2) remained below that seen over the opening quarter of 2018 (56.1), suggesting that overall growth momentum has softened slightly since the start of the year.

“A key concern for the sector remains the access to inputs, which is also pushing up production costs. Widespread reports of stock shortages at distributors meant that delivery times continued to lengthen sharply in June, while growing demand for inputs enabled vendors to hike their prices again. Notably, PMI prices data indicate that inflationary pressures are close to a seven-year high.”

-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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