

Nikkei Taiwan Manufacturing PMI[®]

PMI points to further solid improvement in operating conditions

Key points:

- Production expands at quickest pace in six months as new orders rise solidly
- Inflationary pressures intensify
- Supplier performance deteriorates markedly amid reports of stock shortages

Data collected September 12-21

Latest data revealed a further solid improvement in operating conditions across Taiwan's manufacturing sector, with production and new business both expanding markedly in September. Greater production schedules prompted firms to raise purchasing activity and expand their payroll numbers. However, greater demand for inputs and stock shortages at vendors contributed to a further marked increase in suppliers' delivery times. Meanwhile, both input costs and output charges rose at sharper rates at the end of the third quarter.

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.

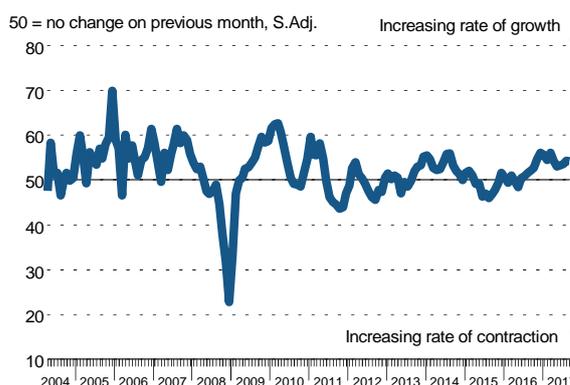
At 54.2, the headline PMI was little-changed from August's reading of 54.3 to signal a further solid improvement in overall operating conditions at the end of the third quarter. The health of the sector has now strengthened in each of the past 16 months.

Taiwanese goods producers signalled a further solid increase in total new business during September, despite the rate of growth easing slightly since the previous month. A number of firms commented on stronger foreign client demand, which was highlighted by a sharp increase in new export sales.

As a result, companies raised output again in September, and to the greatest extent in six months.

Employment continued on an upward trend in September, with many companies hiring additional

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Sources: Nikkei, IHS Markit.

workers in order to expand capacity. That said, the rate of job creation eased to a modest pace. Backlogs of work meanwhile continued to rise sharply, despite the rate of accumulation edging down to a four-month low.

In line with the trend for output, buying activity increased during September. Although the rate of growth moderated slightly from August's five-month record, it remained sharp overall. Robust demand for inputs and stock shortages at vendors added further pressure on supply chains, as shown by a marked lengthening of lead times.

Stocks of inputs increased for the fourth month in a row, albeit modestly, with a number of firms commenting on efforts to raise inventories in light of stronger client demand. However, stocks of post-production goods declined in September, which was often linked by panellists to the delivery of goods to clients.

Average input costs rose at a sharp and accelerated pace in September, with the rate of inflation strengthening to a seven-month high. According to panellists, higher purchasing costs were partly due to vendors adjusting prices due to limited supply of raw materials. As a result, firms raised their output charges at a sharper rate.

Optimism towards the year ahead dipped slightly since August, but remained robust in September.

Comment:

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

“September PMI data indicated that Taiwan’s manufacturing sector had robust growth momentum at the end of the third quarter. Furthermore, the latest survey signalled the quickest increase in output for six months, while a sustained and sharp rise in new export orders helped to lift overall sales again.

“Although the data painted a largely positive picture, concerns over squeezed supply chains remain a key issue that could weigh on the sector’s performance. Notably, a shortage of raw materials led to a further sharp increase in suppliers’ delivery times. Furthermore, strong demand for inputs and limited availability of materials contributed to one of the sharpest increases in manufacturers’ input costs over the past six years.

“Overall, the data suggested that the economy remains on course to expand at a stronger rate than last year, with IHS Markit forecasting real GDP to expand by around 2.2% in 2017.”

-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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