Manufacturing downturn intensifies in June

Key findings

- PMI falls to lowest level since November 2011
- Output, total new orders and export sales decline at sharper rates
- Buying activity contracts at quickest pace in over seven-and-a-half years

Latest PMI data indicated that the downturn in Taiwan’s manufacturing sector gathered pace in June. Output, total new business and overseas sales all contracted at steeper rates amid reports of subdued global demand conditions. Consequently, firms cut back on their purchasing activity and inventories, while staffing levels fell for the third month running.

Input costs meanwhile fell at the quickest rate in 40 months, which was generally passed on to clients in the form of lower output charges.

At 45.5 in June, the Taiwan Manufacturing Purchasing Managers’ Index® (PMI®) fell from 48.4 in May to signal a solid deterioration in the health of the sector. Notably, the latest PMI reading was the lowest seen since November 2011.

Weighing on the headline index was a sharp and accelerated decline in manufacturing production in Taiwan during June. The latest fall was the joint-sharpest since September 2012 (on a par with August 2015).

Companies widely attributed lower output to fewer sales and softer overall demand conditions. Furthermore, overall new business received by Taiwanese goods producers contracted at the steepest rate for nearly four years. External demand was reportedly a key source of weakness, with new export sales dropping at the second-quickest pace since November 2011 (after February 2019). Panel members frequently cited poor sales to key external markets, notably China, Europe and the US.

Weaker output and new order trends weighed on business confidence in June. Taiwanese manufacturers generally expected production to fall further over the coming year, with the degree of pessimism the worst seen since September 2015. Downbeat forecasts were generally linked to softer global economic conditions and the ongoing US-China trade dispute.

Comment

Commenting on the latest survey results, Annabel Fiddes, Principal Economist at IHS Markit, said:

“Operating conditions across Taiwan’s manufacturing sector deteriorated at the quickest pace for over seven-and-a-half years in June, according to latest PMI data.

“Production and total new work both fell at the steepest rates since August 2015, with companies commonly attributing this to weaker global economic conditions and a subsequent drop in foreign demand.

“Other indicators add to worries that the downturn will stretch into the second half of the year. Business confidence fell to its most negative since September 2015 as many believe the US-China trade dispute and subdued global demand will weigh on future output. As a result, purchasing activity and inventories both fell at historically sharp rates, while employment declined again.

“Unless we see a marked improvement in global demand conditions, particularly across key export markets such as the US and China, it seems unlikely that the sector will recover soon.”

continued...
Lower volumes of new orders enabled firms to work through their outstanding business in June. Furthermore, the rate of backlog depletion was the quickest since November 2011. Firms continued to trim their staffing levels amid reports of lower production requirements. Though modest, the rate of job shedding was the quickest recorded since July 2012.

Reduced inflows of new work meanwhile contributed to a further decline in purchasing activity. The rate of contraction was the sharpest in over seven-and-a-half years.

Supply chain pressures eased in June, as signalled by a further improvement in average vendor performance. That said, the degree to which delivery times for inputs shortened was only slight.

Weaker demand conditions led manufacturers to readjust their inventories in June, with stocks of both purchasing and finished items falling at quicker rates.

Average input costs declined at the fastest rate since February 2016 amid reports of lower raw material prices. At the same time, companies cut their selling prices as part of efforts to remain competitive.

Methodology

The IHS Markit Taiwan Manufacturing PMI® is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of over 300 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers’ Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

June 2019 data were collected 12-20 June 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.