Operating conditions deteriorate at softer pace in July

Key findings

- Production and new orders both decline at slower rates
- Employment increases slightly
- Input costs and output charges continue to fall

Operating conditions faced by Taiwanese manufacturers continued to deteriorate in July, albeit at a weaker pace. Production fell only modestly, while firms also signalled softer reductions in total new work and purchasing activity. At the same time, companies expanded their workforce numbers slightly for the first time since March. Nonetheless, reports of relatively subdued global demand conditions continued to dampen business confidence regarding the year ahead.

Price pressures weakened further in July, with input costs falling at the quickest rate since early 2016, while firms cut their selling prices again.

The Taiwan Manufacturing Purchasing Managers' Index® (PMI®) rose from June's 91-month low of 45.5 to 48.1 in July, to indicate a softer decline in the health of the sector. Notably, the rate of reduction was only modest and weaker than seen on average over the current ten-month sequence of deteriorating operating conditions.

After falling sharply in June, production at Taiwanese manufacturers fell at a moderate pace in July. Lower output was generally linked to weaker client demand and reduced sales.

In line with the trend for production, total new work contracted at a slower pace in July. Nonetheless, the rate of reduction was solid overall, in part due to a further sharp decline in new export business. Respondents frequently mentioned that muted demand across key export markets had dampened sales.

Employment rose slightly in July, with a number of firms indicating that extra staff were needed for new projects. At the same time, companies continued to signal a lack of pressure on their operating capacities, as highlighted by a further fall in backlogs of work. That said, the rate of depletion was softer than that seen in June.

Comment

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

"Taiwan's manufacturing sector continued to contract at the start of the third quarter of 2019, with July PMI data registering further declines in output and new orders.

"Although the latest set of numbers were not as weak as those seen in June, the export trend remains a key point of concern for Taiwanese goods producers. Notably, new business from abroad continued to contract sharply amid widespread reports of reduced demand across key markets and worries over the ongoing US-China trade dispute.

"As firms continue to cut back on buying activity and inventories, weakness is likely to extend into August unless global economic conditions pick up or there is more progress regarding trade negotiations between China and the US."
Lower volumes of new business led firms to cut their buying activity for the tenth month in a row. The rate of reduction was solid, despite easing since June.

Weaker demand for inputs contributed to a further improvement in lead times for purchased items, albeit only fractional.

Subdued order book trends meant that manufacturers remained relatively cautious with regards to their inventory holdings. Stocks of purchases fell at a solid pace, despite the rate of reduction weakening from June’s 44-month record. Inventories of finished goods meanwhile fell at a sharp pace that was the quickest since June 2015.

Manufacturers registered the steepest fall in average input costs since February 2016 in July. There were frequent reports that raw material prices had fallen across international markets in the latest survey period, particularly for metals.

Lower cost burdens were generally passed on to clients as firms continued to discount their selling prices as part of efforts to boost competitiveness.

Although firms generally anticipate output to fall over the next year, the degree of pessimism was much less marked than seen in June. Nonetheless, confidence across the sector remained notably weaker than seen historically, largely due to concerns of a slowing global economy and the ongoing China-US trade dispute.

Contact

Annabel Fiddes
Principal Economist
IHS Markit
T: +44-1491-461-010
annabel.fiddes@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

July 2019 data were collected 12-23 July 2019.

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

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