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IHS Markit Taiwan Manufacturing PMI®

Operating conditions remain challenging in October

Key findings

PMI posts just below neutral 50.0 level at 49.8

Overall new work continues to decline

Production rises fractionally

After stabilising in September, operating conditions faced by Taiwanese manufacturers deteriorated slightly during October. New work contracted modestly, leading to further reductions in buying activity and inventories. Output meanwhile rose for the first time in over a year, albeit at a fractional pace, which contributed to a reduction in outstanding workloads.

Increased competition for sales contributed to a further drop in selling prices, despite a renewed rise in input costs.

The Taiwan Manufacturing Purchasing Managers' Index® (PMI®) fell from 50.0 in September to 49.8 in October, to signal a renewed decline in the health of the sector. Operating conditions have now deteriorated in 12 of the past 13 months, though the latest reduction was only fractional.

A key factor weighing on the headline index was a decrease in total new work. Moreover, the rate of contraction quickened since September amid a sharper fall in new export sales. Companies often cited subdued demand both at home and overseas, with some firms also mentioning the impact of ongoing trade disputes.

Despite the drop in new work, manufacturing production in Taiwan rose at the start of the fourth quarter. Though fractional, it was the first time output had expanded since August 2018.

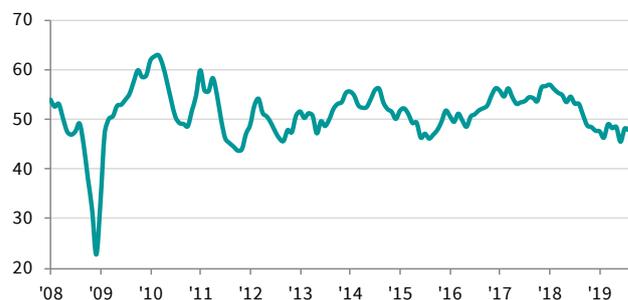
Employment also rose in October, albeit at a modest pace that was softer than recorded in the previous month.

Higher staffing levels, alongside a slight upturn in output, underpinned a renewed fall in outstanding business. The rate of backlog depletion was the fastest seen since July, albeit modest overall.

The sustained decline in new orders led companies to maintain a relatively cautious approach to buying activity and inventories.

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Taiwan Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"Latest PMI data showed that Taiwanese manufacturers continued to struggle in October amid weak global demand conditions.

"Total new work and export sales continued to contract, with a number of firms commenting on reduced orders across key markets such as China and the US as trade wars continued to weigh on demand.

"On a brighter note, output and employment both increased in October. However, the expansion of output was only fractional, and often attributed to efforts to fulfil outstanding orders which, unless replaced, may weigh on production and hiring decisions in the months ahead."

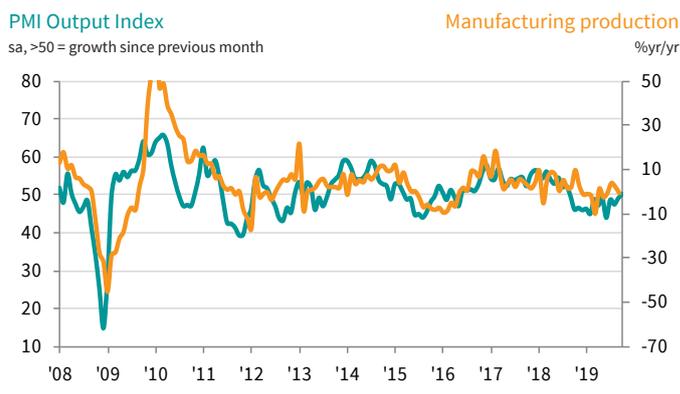
Input buying fell modestly overall, with the rate of decrease little-changed from September. Stocks of both pre- and post-production goods contracted at accelerated rates, with the latter falling solidly overall.

Average suppliers' delivery times in Taiwan lengthened again in October, and at a faster pace than in September. Delays were often linked by panellists to insufficient stocks at vendors.

Input costs rose slightly in October, thereby ending a six-month period of falling prices. Companies that recorded higher cost burdens generally linked this to price hikes for raw materials.

Although input costs increased, prices charged by Taiwanese manufacturing companies declined again in October. A number of surveyed firms linked the fall to efforts to stimulate sales as market conditions remained highly competitive. Though modest, the latest reduction extended the current sequence of discounting to 11 months.

Manufacturing firms were, on balance, pessimistic regarding the one-year outlook for output. However, the degree of negative sentiment was only slight. Companies mentioned that ongoing trade disputes and forecasts of weaker global demand conditions could curb output over the next 12 months.



Sources: IHS Markit, National Statistics via Datastream.

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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 around 400 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.

October 2019 data were collected 11-23 October 2019.

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

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.