Taiwanese goods producers faced another challenging month in May, as the coronavirus disease 2019 (COVID-19) pandemic continued to weigh on performance. Companies signalled substantial falls in both output and total new work, with export sales dropping at the steepest rate since January 2009. As a result, firms continued to cut back on purchasing activity and lowered their staffing levels.

The ongoing restrictions around travel and business operations worldwide led to a further sharp deterioration in vendor performance. However, weak demand conditions led to solid falls in both input costs and output charges.

The Taiwan Manufacturing Purchasing Managers’ Index® (PMI®) edged down from 42.2 in April to 41.9 in May, to signal the sharpest deterioration in overall business conditions since the depths of the global financial crisis in January 2009.

The decline in the health of the sector was partly driven by substantial falls in both output and new orders in May. Production fell at the second-sharpest rate since early-2009 (after April 2020), with companies mentioning that the COVID-19 outbreak had impacted productivity and reduced customer demand. Notably, total new orders fell at a pace that was little-changed from April’s more than 11-year record. Panel members frequently mentioned subdued demand across key export markets as many nations implemented travel restrictions and temporary company closures to help stem the spread of the virus. Notably, foreign sales fell at the steepest rate since the start of 2009.

The weaker new business trend enabled firms to reduce their unfinished workloads in May, with the rate of backlog depletion the sharpest since November 2011. At the same time, signs of spare capacity prompted firms to cut workforce numbers for the continued...
second month running.

Lower production requirements led manufacturers to cut their buying activity at the fastest pace since January 2009. Companies also lowered their stock holdings of both pre- and post-production items in May, with firms widely linking inventory depletion to reduced inflows of new work. Notably, stocks of purchases declined at the second-steepest rate for nearly five years.

Although demand for inputs softened, supply chains remained under pressure due to limited capacity and restrictions around travel. As a result, average delivery times continued to lengthen sharply.

Weak demand conditions were also reflected in prices data, with both input prices and output charges falling midway through the second quarter. Average input costs fell solidly overall, with the rate of decline easing only slightly since April. Efforts to attract and secure sales meanwhile led to a similarly steep fall in prices charged.

Taiwanese goods producers remained downbeat towards the 12-month outlook for output in May. That said, the level of negative sentiment was not as severe as the record low seen in April. Lingering uncertainty over the overall impact of the COVID-19 pandemic on business operations and global demand weighed heavily on forecasts for production over the next year.

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. May 2020 data were collected 12-20 May 2020.

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

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