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IHS Markit Taiwan Manufacturing PMI®

COVID-19 pandemic pushes PMI to its lowest level since January 2009

Key findings

Output and new orders drop at steepest rates since global financial crisis

Suppliers' delivery times lengthen at quickest pace on record

Firms cut employment at fastest rate since May 2009

The impact of the coronavirus disease 2019 (COVID-19) pandemic on Taiwan's manufacturing sector intensified during April. Operating conditions deteriorated at the quickest pace since January 2009 amid substantial drops in output and new orders.

At the same time, firms reported severe disruption to supply chains as restrictions stemming from the virus impeded vendor performance. Firms meanwhile cut back on their staffing levels, purchasing activity and inventories. Sentiment regarding future output slipped to a fresh low.

The Taiwan Manufacturing Purchasing Managers' Index® (PMI®) fell from 50.4 in March to 42.2 in April, to signal a renewed decline in the health of the sector. Furthermore, the rate of deterioration was the quickest seen since the depths of the global financial crisis in January 2009.

The COVID-19 pandemic led to severe falls in output and new business at the start of the second quarter, with both declining at the quickest rates since the start of 2009. Firms noted that temporary business closures and lockdowns across a number of countries had weighed on overall demand. New export orders fell to the greatest extent in over 11 years.

Travel restrictions and temporary company closures across the globe also impacted on supplier performance. Notably, lead times for inputs increased at the sharpest pace on record in April.

Reduced intakes of new work underpinned the first decline in manufacturing employment in Taiwan for ten months. Though modest, the rate of job shedding was the most marked since May 2009. Despite lower headcounts, firms were able to reduce their backlogs of work for the first time in five months as a result of the substantial drop in new orders.

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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, Associate Director at IHS Markit, said:

"The COVID-19 pandemic led to a substantial deterioration in the health of Taiwan's manufacturing sector in April. Output and new orders both fell at the quickest rates since the depths of the global financial crisis in January 2009, with many firms noting that lockdowns across key export markets in Europe and the US had weighed heavily on performance.

"The virus, which has caused mass company closures and travel restrictions across a number of nations, also meant that supply chains came under greater pressure, with the latest survey pointing to the sharpest increase in delivery times since the survey began in 2004."

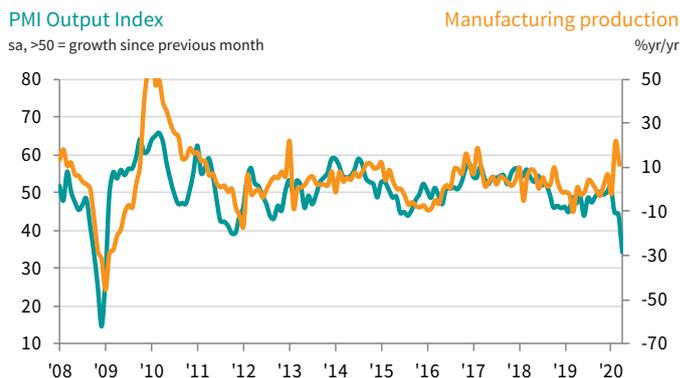
"Uncertainty regarding the outlook subsequently weighed heavily on business confidence, which fell to a new series low in April. Consequently, firms cut back on employment, buying activity and inventories, as they geared up for a challenging second quarter."

Concurrently, companies cut their purchasing activity for the third month in a row. Furthermore, the rate of contraction was the most severe since January 2009. Efforts to readjust inventories due to weaker demand conditions meanwhile led to lower stocks of both pre- and post-production goods. Both fell at sharper rates than seen in March.

Input costs dropped for the first time since September 2019 in April, with a number of firms commenting on lower raw material costs for inputs such as oil and metals. Notably, the rate at which cost burdens fell was the most marked since January 2016.

As part of efforts to remain competitive and attract new work, Taiwanese manufacturers cut their selling prices again at the start of the second quarter. The rate of discounting accelerated to a substantial pace that was the joint-quickest since August 2015.

Looking ahead, firms anticipate output to be lower than current levels in one year's time. Moreover, the degree of pessimism was the most severe since the series began in April 2012. Downbeat forecasts were often linked to expectations that the COVID-19 pandemic will continue to weigh on global economic conditions in the months ahead.



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.

April 2020 data were collected 7-22 April 2020.

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

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About PMI

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.
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