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IHS Markit Taiwan Manufacturing PMI®

Manufacturing sector downturn eases in June

Key findings

Softer, but still steep, declines in output and new work

Output prices fall further, but input costs increase

Firms express renewed optimism towards the one-year business outlook

Data were collected 12-22 June 2020.

June data showed that the downturn eased across Taiwan's manufacturing sector as governments worldwide loosened restrictions around the ongoing coronavirus disease 2019 (COVID-19) pandemic. Output, total new work and employment all fell at softer rates compared to the previous month, while business confidence returned to positive territory. Nonetheless, the sustained drop in client demand led to further declines in buying activity and inventories.

Supply chains remained under pressure as restrictions around travel led to another sharp increase in delivery times for inputs. At the same time, average input costs rose for the first time in three months, but firms cut their selling prices again in order to attract sales.

At 46.2 in June, the Taiwan Manufacturing Purchasing Managers' Index® (PMI®) rose from a more than 11-year record low of 41.9 in May and signalled a softer decline in the health of the sector. Though solid, the rate of reduction was the softest recorded in the current three-month sequence of deterioration.

The higher PMI reading was supported by slower falls in both output and new orders at the end of the second quarter. Though still sharp, the rates at which production and new business declined were the softest for three months. Panel members frequently mentioned that the COVID-19 outbreak continued to weigh on client demand both at home and abroad. Notably, new export orders continued to fall at a substantial pace in June, despite the rate of contraction easing since May.

On the employment front, staffing levels fell for the third successive month, albeit marginally. Companies that registered lower workforce numbers partly linked this to weaker production requirements. Despite reduced headcounts, backlogs of work fell further in June as a number of firms mentioned that weaker

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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:

"Latest PMI data showed an easing in the downturn across Taiwan's manufacturing sector, giving hope that the worst of the COVID-19 induced decline is now behind us. Though still steep, the latest falls in output and new orders were the least marked since March, helped in part by looser restrictions related to COVID-19 across the world. Furthermore, firms expressed renewed optimism towards the 12-month business outlook as companies now anticipate output to expand over the coming year.

"However, the sector has a way to go before a meaningful recovery gets under way. Companies are still reporting relatively weak demand, particularly across export markets. Concerns are also mounting over the possibility of a second wave of infections that could reinstate stricter measures to contain the virus and once again limit economic activity. This cautiousness was also evidenced by further drops in employment and purchasing activity, as firms await a much clearer pick up in global demand conditions."

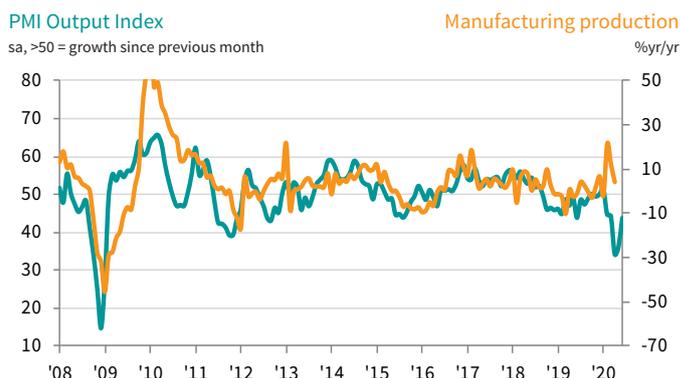
inflows of new work had created spare capacity. The rate of depletion was notably softer than seen in May, however.

Subdued client demand led companies to cut back on their purchasing activity again in June. The rate of decline was historically marked, despite easing from the previous month. At the same time, companies maintained a relatively cautious approach to their inventory holdings, with both purchased items and finished goods falling again at the end of the second quarter.

Supply chains were still disrupted by restrictions related to the pandemic, as highlighted by another marked increase in average delivery times for purchased items.

Average input costs meanwhile rose for the first time since March, albeit modestly. The renewed increase was often linked to higher raw material costs, which were in some cases attributed to supplier shortages. In contrast, prices charged for Taiwanese manufactured goods fell further amid reports of tough market competition.

The 12-month outlook for output brightened in June, with firms generally expecting production to rise over the next year. This contrasted with downbeat projections in the prior four months. A number of panellists hoped that demand conditions will recover once the pandemic is under control.



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.

June 2020 data were collected 12-22 June 2020.

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.
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