

# Nikkei Taiwan Manufacturing PMI<sup>®</sup>

## PMI edges down to 40-month low in January

### Key points:

- Further marked falls in output and new business at start of 2019
- Destocking activity persists
- Input costs and output charges both decline at faster rates

Data collected January 11-23

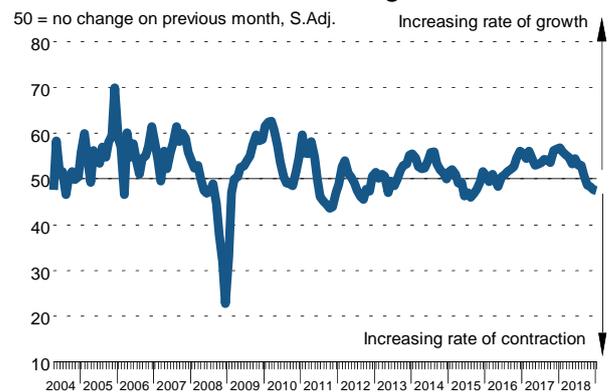
Operating conditions faced by Taiwanese manufacturers continued to deteriorate at the start of 2019. Firms signalled solid falls in both production and total new work, with new export sales declining at the sharpest pace since August 2015. Consequently, firms cut back on their purchasing activity and lowered their holdings of both purchased and finished items. A lack of pressure on capacity meanwhile led to a further fall in backlogs of work, despite staffing levels falling for the second month in a row. Average input prices declined again in January, leading firms to cut their selling prices at the quickest pace for nearly three years.

The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index<sup>™</sup> (PMI<sup>®</sup>) is a composite single-figure indicator of manufacturing performance. It is derived from sub-indices for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates an overall improvement in operating conditions.

The seasonally adjusted headline PMI slipped to 47.5 in January from 47.7 in December, to signal a further deterioration in overall operating conditions. The health of the sector has now worsened in each of the past four months, with the latest deterioration the most marked since September 2015.

Production continued to fall solidly across Taiwan's manufacturing sector, despite the rate of decline easing slightly since December. Firms widely linked lower output to reduced amounts of new work. Total new business fell at a similarly sharp rate to that seen at the end of last year, with panellists commonly citing weaker external demand. Furthermore, new export sales dropped at the fastest rate since August 2015.

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Sources: Nikkei, IHS Markit.

January data indicated that employment fell at a slightly quicker pace amid reports that firms were choosing not to replace voluntary leavers. At the same time, fewer new orders enabled manufacturers to work through their outstanding business for the third month in a row.

Reflective of the trends for output and new orders, purchasing activity declined at the start of 2019. Notably, the pace of reduction held close to December's 39-month record. At the same time, companies signalled further falls in stocks of both purchased and finished items in January, with a number of manufacturers voicing concerns over the demand outlook.

The squeeze on supply chains appeared to ease slightly in January. Notably, average delivery times for inputs increased at the slowest rate since April 2016.

On the costs front, average input prices fell for the second month in a row. Though modest, the decline contrasted with sharp price increases through the majority of 2018. Firms generally passed on lower input costs by cutting their output charges, with the rate of discounting the quickest seen for nearly three years.

Looking ahead, companies anticipate output to be unchanged in a year's time amid concerns over softer global demand and the ongoing China-US trade dispute.

## Comment:

Commenting on the Taiwanese Manufacturing PMI survey data, **Annabel Fiddes**, Principal Economist at IHS Markit, which compiles the survey, said:

*“Taiwan’s manufacturing sector had a disappointing start to 2019, with conditions deteriorating at the quickest pace for nearly three-and-a-half years. Dragging down the headline PMI were further marked drops in output and new orders.*

*“A key area of weakness was a sharp fall in new export work that was the steepest recorded since August 2015, as many firms reported softer global demand conditions. Furthermore, manufacturers registered lower purchasing activity, workforce numbers and inventories, which suggests the sector may continue to contract in the months ahead.*

*“Prices data also showed very different trends to this time last year. In contrast to the sharp rises seen through most of 2018, input costs fell during January. However, companies generally passed on savings by lowering their output charges, and at the quickest rate for nearly three years.”*

-Ends-

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## Notes to Editors:

The Nikkei Taiwan Manufacturing Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 manufacturing companies. The panel is stratified by company size and by Standard Industrial Classification (SIC) group, based on industry contribution to Taiwanese Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI®) is a composite index based on five of the individual indexes with the following weights applied: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

**Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.**

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