

Nikkei Taiwan Manufacturing PMI[®]

Manufacturing conditions deteriorate at quickest pace since September 2015

Key points:

- Output, new orders and export sales all fall at steeper rates
- Staffing levels decline for first time in over five-and-a-half years
- Renewed falls in both input costs and output charges

Data collected December 5-13

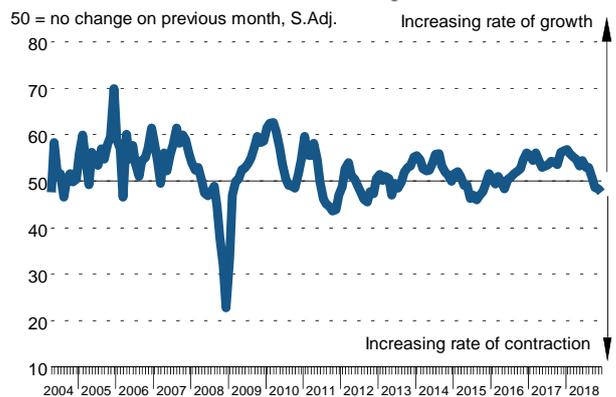
Taiwanese manufacturers signalled a further deterioration in overall operating conditions at the end of 2018. Production and total new business both contracted at the steepest rates since September 2015, which was partly driven by a sharp fall in export sales. Weaker demand conditions weighed on confidence towards the year ahead, and contributed to the first reduction in employment since May 2013. At the same time, companies cut their selling prices for the first time in a year-and-a-half due to greater competition for new work, and input costs declined for the first time since early 2016.

The headline Nikkei Taiwan Manufacturing Purchasing Managers' Index[™] (PMI[®]) 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.

At 47.7 in December, the seasonally adjusted headline PMI declined from 48.4 in November, to signal the quickest deterioration in operating conditions for 39 months. Notably, conditions have worsened in each month throughout the final quarter of 2018.

Weighing on the headline index was a steeper decline in the amount of new orders placed with Taiwanese manufacturers at the end of the year. Overall new business and export sales both declined at the quickest rates since September 2015, with panellists commonly stating weaker demand both at home and overseas. Some monitored firms also linked subdued demand to the ongoing China-US trade dispute.

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Sources: Nikkei, IHS Markit.

Reduced inflows of new work led firms to cut output again in December. In line with the trend for new orders, the pace of contraction accelerated to a 39-month record.

Weaker demand conditions and fewer new orders weighed on employment across the sector, as companies signalled the first fall in headcounts for just over five-and-a-half years. Despite lower staffing levels, firms signalled a further decline in the level of outstanding business.

Softer demand conditions also impacted purchasing activity, which decreased to the greatest extent since September 2015. Companies also reduced their inventories of inputs and finished goods in December, which both fell at quicker rates than in November.

The time taken for purchased inputs to be delivered to manufacturers increased further in December. Delays were often linked to a lack of stock at suppliers.

Average input costs fell for the first time February 2016, with a number of firms citing lower raw material costs. At the same time, greater competition for new business led companies to cut their selling prices for the first time in a year-and-a-half.

Confidence towards the 12-month business outlook remained relatively subdued at the end of 2018. Expectations were dampened over concerns that

client demand may deteriorate further and the impact of the current trade dispute between China and the US.

Comment:

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

“Latest PMI data signalled a further marked deterioration in conditions across Taiwan’s manufacturing economy, as firms signalled steep falls in output and new orders.

“Companies often mentioned that subdued global demand conditions and the impact of the current China and US trade war is hampering the sector’s performance.

“Overall, December’s data rounded off the worst quarterly performance for just over three years, with a number of indicators suggesting that companies are anticipating weakness to extend in to 2019. Notably, companies continued to cut their buying activity and inventories, and reduced their headcounts for the first time in five-and-a-half 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.

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

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