

Nikkei Taiwan Manufacturing PMI[®]

PMI signals solid deterioration in operating conditions during February

Key points:

- Headline PMI slips to three-and-a-half year low
- Sharper falls in output and total new work
- Export sales decline at fastest rate since November 2011

Data collected February 12-20

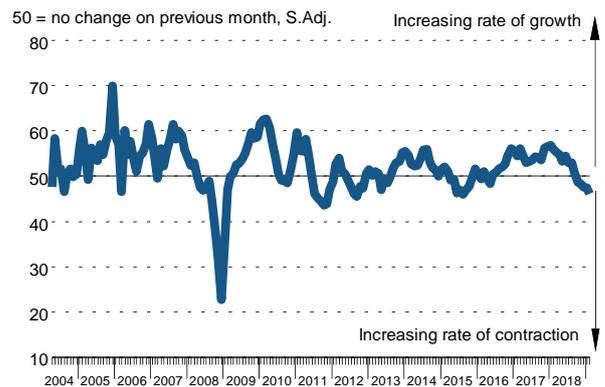
February survey data signalled a faster deterioration in overall operating conditions faced by Taiwanese manufacturers. Production and overall new work both declined at the fastest rates for three-and-a-half years, while export sales fell at the quickest pace since November 2011. Weaker demand conditions meanwhile led firms to sharply lower their buying activity and reduce their inventory levels. As part of efforts to stimulate new work, companies cut their selling prices for the third month in a row, despite a slight increase in input costs. Looking ahead, sentiment regarding future output turned slightly negative, which was often linked to the ongoing China-US trade dispute and projections of a global economic slowdown.

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.

The seasonally adjusted headline PMI posted below the neutral 50.0 level at 46.3 in February, to signal a deterioration in the health of Taiwan's manufacturing sector for the fifth month in a row. Moreover, the index was down from 47.5 in January, to mark the quickest rate of decline for three-and-a-half years.

The amount of new business placed with Taiwanese goods producers fell sharply in February, with the rate of reduction accelerating to a three-and-a-half-year record. According to panellists, weaker overall demand conditions, particularly across key export markets, underpinned the latest reduction in new work. Furthermore, export sales fell at the quickest pace for over seven years.

Nikkei Taiwan Manufacturing PMI



Sources: Nikkei, IHS Markit.

As a result, firms reported a further reduction in output, with the pace of contraction also picking up to its sharpest since August 2015.

Input buying fell at a historically marked pace in February, as firms cited greater efforts to consume and streamline current stocks. Furthermore, inventories of purchased items fell at the quickest rate since October 2015, while stocks of finished goods fell at the steepest pace for three-and-a-half years.

Fewer new orders enabled firms to reduce the level of work-in-hand, with the rate of backlog depletion accelerating to the fastest for 42 months. Meanwhile, staffing levels fell only slightly in February, as has been the case in each of the past three months.

Average input costs increased for the first time in three months in February, albeit only slightly. However, companies continued to cut their output charges as part of efforts to gain new business. The rate of discounting was modest overall, but quicker than the long-run trend.

Concerns over the ongoing China-US trade dispute alongside expectations of a global economic slowdown weighed on sentiment towards the year-ahead, which slipped into negative territory during February.

Comment:

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

“The latest set of manufacturing PMI data for Taiwan showed that the current downturn gathered pace in February, with firms registering the quickest falls in output and new orders for three-and-a-half years. The export trend was also a key point of concern, with overseas sales declining at the quickest rate since November 2011 amid reports of weak global demand conditions.

“Expectations that client demand, particularly from overseas, will remain subdued led to sharp reductions in purchasing activity and inventories, indicating that firms could cut production further in the months ahead.”

-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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