

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

## Output contracts solidly in October

### Key points:

- Steepest falls in production and new business for just over three years
- Purchasing activity falls for the first time since May 2016
- Companies anticipate output to fall over the next 12 months

Data collected October 12-23

Latest PMI data signalled the quickest falls in Taiwanese manufacturing production and new orders for just over three years in October. Furthermore, new export business declined solidly at the start of the fourth quarter. Weaker demand conditions led firms to cut back on their purchasing activity, while a lack of stock at suppliers contributed to a further marked increase in delivery times for inputs.

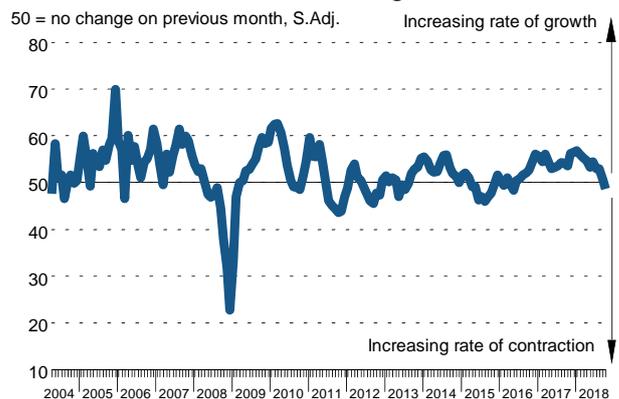
A further deterioration in client demand led companies to be pessimistic towards the 12-month business outlook. Confidence towards future output was also dampened due to concerns over the ongoing China-US trade dispute.

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 posted down from 50.8 in September to 48.7 in October, to signal a renewed deterioration in the health of the manufacturing sector. Though only modest, it was the first time that operating conditions had worsened since May 2016.

Weighing on the headline index were steeper contractions in both output and new orders in October. Production fell for the second month in a row, and at the quickest pace since September 2015, amid reports of weaker demand conditions.

### Nikkei Taiwan Manufacturing PMI



Sources: Nikkei, IHS Markit.

The latter was highlighted by a solid reduction in total new order volumes that was also the quickest seen for just over three years. Panellists indicated that demand both at home and overseas had softened in the latest survey period. Notably, new export sales fell solidly at the start of the fourth quarter.

Lower production requirements prompted a renewed fall in buying activity among Taiwanese manufacturers in October. Though modest, it was the first reduction in input buying seen since May 2016. Weaker demand conditions meanwhile weighed on inventory building, with stocks of both finished items and inputs rising only slightly.

A lack of stock at vendors underpinned a further marked lengthening of suppliers' delivery times in October.

Employment meanwhile increased for the second month in a row, though the rate of job creation was similar to that seen in September and marginal. At the same time, backlogs of work rose at a modest pace that was the slowest since June 2016.

Average input costs continued to rise sharply at the start of the fourth quarter, with a number of panellists citing greater raw material prices. Higher cost burdens led firms to raise their selling prices again in October, though the rate of increase was the softest seen for 14 months.

For the first time since mid-2016, Taiwanese manufacturers expressed pessimism towards the 12-month business outlook in October. Companies that expect output to decline linked this to concerns over the ongoing China-US trade war and forecasts that domestic and foreign demand will decline over the next year.

## 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 PMI data indicated that the overall health of Taiwan’s manufacturing sector declined at the start of the fourth quarter.*

*“Production, total new work and export sales all fell at the quickest rates for just over three years, as companies commented on weaker demand both at home and overseas.*

*“Sentiment towards the year-ahead also turned negative for the first time in over two years, with a number of companies anticipating the ongoing China-US trade dispute to weigh on the sector’s performance going forward. The fact that purchasing activity fell for the first time since mid-2016 in October also suggests that output levels may not improve in the near-term.”*

-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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