

Nikkei Taiwan Manufacturing PMI[®]

Output falls for first time in over two years

Key points:

- Production declines for first time since May 2016...
- ... amid renewed falls in both total new orders and export sales
- Raw material shortages weigh on supplier performance

Data collected September 12-20

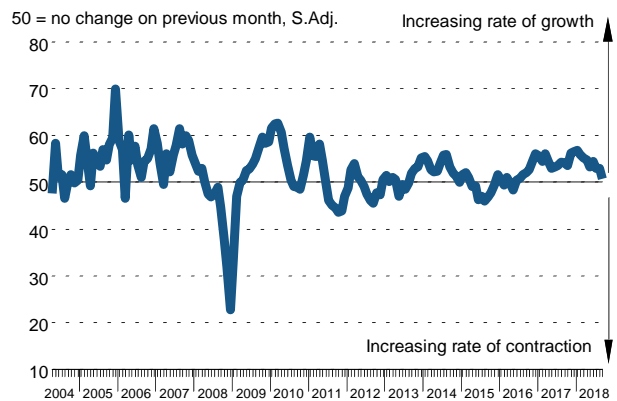
Taiwanese manufacturers signalled renewed falls in both output and total new work during September, though rates of reduction were only slight. New work from overseas also fell, and at the quickest rate since February 2016, amid reports of relatively subdued demand across key markets. At the same time, stock shortages at vendors led to a further steep increase in suppliers' delivery times, and also contributed to a further marked rise in purchasing costs.

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 50.8 in September, the seasonally adjusted headline PMI fell from 53.0 in August, to signal only a marginal improvement in the health of the sector. Notably, the reading was the lowest recorded since June 2016. Slight reductions in output and new orders weighed on the headline index in September. However, a further marked increase in suppliers' delivery times, along with increases in both employment and stocks of purchases, acted as positive influences on the composite PMI figure.

The amount of new business placed with manufacturing companies in Taiwan declined at the end of the third quarter. Though only slight, it was the first time that total new orders had fallen since June 2016. Panellists indicated that softer demand conditions had dampened sales. Furthermore, new orders from abroad decreased at the quickest pace since February 2016.

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Sources: Nikkei, IHS Markit.

Weaker client demand led to the first reduction in output since May 2016, albeit only marginal.

After stagnating in August, employment at Taiwanese manufacturers expanded during September. That said, the rate of jobs growth was fractional and weaker than that seen at the start of the year. The amount of unfinished business meanwhile rose at only a modest pace that was the slowest for 27 months.

Inflationary pressures remained historically strong at the end of the third quarter. Average purchasing costs rose sharply, despite the rate of inflation softening to a 14-month low. According to panellists, low stock levels among vendors had contributed to supplier price hikes. Higher cost burdens prompted firms to raise their factory gate prices at a solid pace in September. Low stock availability also underpinned a further steep increase in suppliers' delivery times at the end of the third quarter.

Companies raised their purchasing activity in September, albeit at the weakest pace since June 2016. Inventories of both inputs and finished items meanwhile rose only modestly in the latest survey period.

Although business confidence towards the year ahead improved to a three-month high, it remained weaker than that seen earlier in 2018. Optimism was often linked to forecasts of rising client demand and new product launches. However, concerns

over the impact of the ongoing China-US trade war weighed on overall sentiment.

Comment:

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

“September PMI data for Taiwan’s manufacturing sector marked a disappointing end to the third quarter, with both production and new orders falling for the first time in over two years.

“Companies often linked the renewed fall in new business to softer demand conditions, both at home and overseas. Notably, export sales declined at the quickest pace since early 2016, with a number of panellists citing weaker demand across key markets such as China, Europe and US.

“Other indicators suggest that conditions may remain muted in the months ahead, as input buying and inventories rose only modestly, while employment expanded at a fractional pace. Confidence around the business outlook, though up from August, meanwhile remained mired by concerns over the impact of the US-China trade war and a potential slowdown in the domestic economy.”

-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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