

Nikkei Taiwan Manufacturing PMI™

PMI signals further deterioration of operating conditions in July

Key points:

- Production and new orders both fall sharply
- New export work declines at fastest rate in nearly three years
- Purchasing activity and inventories decline markedly

Summary:

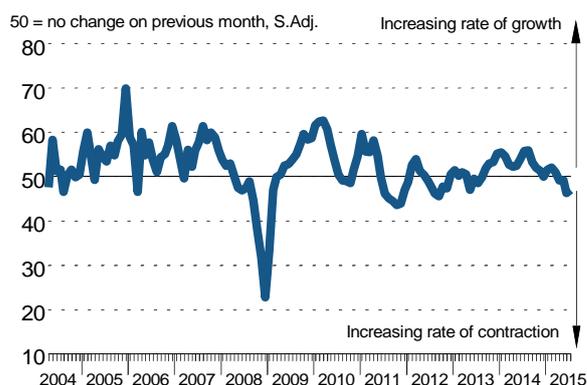
July data signalled a further deterioration in overall operating conditions faced by Taiwanese manufacturers. Total new business and new export work both fell sharply on the month, leading companies to cut their production levels again. Weaker client demand also led companies to reduce their purchasing activity, while destocking activities persisted across the sector. Meanwhile, deflationary pressures intensified, with both input prices and output charges falling at faster rates.

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

The headline PMI posted 47.1 in July, up from 46.3 in June, and signalled a fourth successive monthly deterioration in the health of Taiwan's manufacturing sector. Despite easing slightly since June's 33-month record, the pace of deterioration was nonetheless marked.

Total new orders received by manufacturing firms in Taiwan decreased for the fourth successive month in July. Furthermore, the rate of contraction eased only slightly since June's recent record and was sharp overall. Reports from panellists suggested that both domestic and external demand weakened over the month. Moreover, total new export work declined at the quickest rate since September 2012. As a result, companies tempered their production in July, lowering output at a similarly sharp rate to June.

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Sources: Nikkei, Markit.

Lower production requirements led firms to cut back on their input buying again during July. Furthermore the rate of reduction was sharp overall, despite easing slightly since the previous month. Stocks of inputs and finished goods meanwhile fell solidly over the month, which a number of companies attributed to the increased use of current inventories along with stock reduction policies that were put in place as a result of softer client demand.

Despite reduced new business and output, Taiwanese manufacturers continued to add to their payrolls in July. The rate of job creation was modest overall, and was linked by panellists to hopes that client demand will improve in the coming months, while other firms were filling current vacancies.

Cost burdens faced by manufacturers declined at the quickest rate in three months in July. According to respondents, input prices fell due to lower raw material costs. Output charges also fell at a faster rate in July, as some firms commented that weaker demand conditions had increased the bargaining power of clients.

Comment:

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

“Taiwan’s manufacturing sector had a disappointing start to the third quarter, with output, new orders and new export business all declining at historically sharp rates. It appears a global economic slowdown is likely to remain a headwind to growth in the second half of the year, as panellists mentioned softer demand in key export markets such as China, Europe and the US. Furthermore, reduced input buying combined with destocking activities suggests that manufacturers are prepared to make further cuts to production if weaker demand conditions persist.”

“Although companies are still adding to their staff numbers, making changes in employment takes time especially as labour market trends tend to lag those of output and new orders. As a result, improved client demand is likely to be required in order to sustain the current run of jobs growth.”

-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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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. 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 Markit. Please contact economics@markit.com.

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

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About PMI

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