

News Release

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S&P Global Taiwan Manufacturing PMI[®]

Manufacturing sector downturn persists in August amid weak global demand conditions

Key findings

Production and new orders continue to fall sharply

Selling prices cut again, despite slight rise in input costs

Companies continue to drawdown inventory levels

August PMI[®] data from S&P Global pointed to another marked deterioration in business conditions across Taiwan's manufacturing sector. A further steep reduction in overall new work led to a similarly sharp drop in output, with firms frequently mentioning reduced client demand both at home and overseas. As a result, companies cut back on input buying and downwardly adjusted their inventories. Signs of spare capacity persisted, however, with backlogs of work declining again and at the quickest rate since January.

Prices data revealed a renewed rise in input costs, albeit marginal, while prices charged by manufacturers continued to decline amid efforts to attract sales.

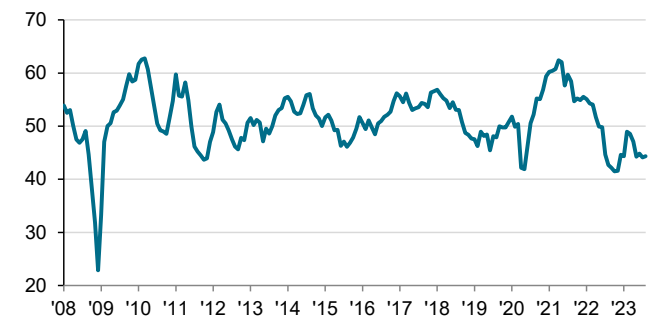
The S&P Global Taiwan Manufacturing *Purchasing Managers' Index*[™] (PMI[®]) rose only slightly from July's eight-month low of 44.1 to 44.3 in August, signalling a further steep decline in the health of the sector. Business conditions have now worsened in each of the past 15 months.

Helping to lift the PMI reading fractionally higher was a slightly less severe reduction in output during August. Although softening from July's six-month record, the rate of contraction was nevertheless among the quickest seen since the survey began nearly two decades ago.

The sustained drop in production was driven by a further decline in overall new business. The latest drop in total new work was the sharpest recorded since January, with firms commenting on weaker demand conditions across both domestic and international markets. The latest reduction in new export sales was also the fastest seen since the start of the year.

The subdued demand environment and subsequent drop in output led firms to lower their purchasing activity again in August. The rate of contraction was similar to those seen in the prior two months and historically sharp. Destocking activity meanwhile persisted, with inventories of both pre- and post-production items declining at steeper rates than in

S&P Global Taiwan Manufacturing PMI
sa, >50 = improvement since previous month



Source: S&P Global PMI.
Data were collected 10-22 August 2023.

Comment

Annabel Fiddes, Economics Associate Director at S&P Global Market Intelligence, said:

"The latest set of PMI data highlighted a tough demand environment for manufacturers in Taiwan, with firms reporting fewer new orders at home and overseas. Notably, overall new business fell at the steepest pace since the start of the year. Combined with signs of spare capacity (as backlogs continued to fall sharply), this indicates that production will remain under pressure to be cut back further.

"Moreover, with companies expressing pessimism around the 12-month outlook and trimming their inventories and staff numbers, it seems that firms are anticipating market conditions to remain weak in the months ahead.

"Overall, the PMI data suggest that official industrial production data will continue to disappoint after posting double-digit declines in recent months. Until we see an improvement in global economic conditions, which have been under pressure from stubborn inflation and higher interest rates, it's unlikely that Taiwan's manufacturing sector will swing back into growth territory any time soon."

PMI[®]

by S&P Global

July.

Lower demand for inputs contributed to a further improvement in supply chain performance, with lead times shortening for the sixth successive month. That said, the pace of improvement was marginal overall.

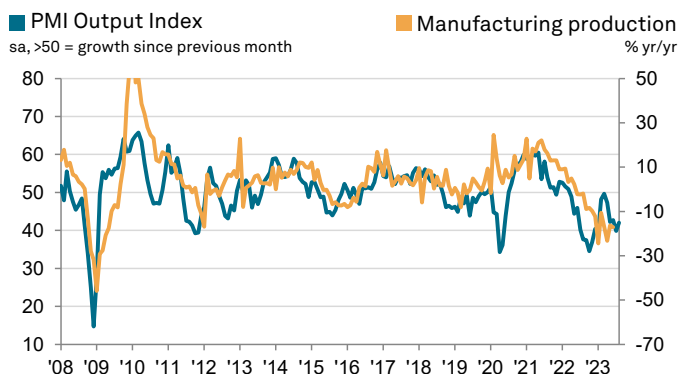
Taiwanese goods producers cut their staff numbers for the eighth month running in August. The latest reduction was linked to lower amounts of new business and decisions not to replace voluntary leavers. However, the rate of job shedding remained modest.

Fewer new orders and sufficient capacity led to another decline in the amount of unfinished work at manufacturers in Taiwan. Furthermore, the rate of backlog depletion was the sharpest recorded since January.

Average input costs increased during August, thereby ending a three-month period of decline. The rate of inflation was only slight, however, and much weaker than the post-pandemic average. There were reports that price negotiations with suppliers had kept a lid on overall cost pressures.

Despite the slight uptick in expenses, prices charged by manufacturers fell for the ninth straight month. There were reports of firms offering discounts to attract new work and due to client requests. The rate of discounting eased from July's more than three-year record, however, and was modest.

When assessing the 12-month outlook for output, Taiwanese manufacturing firms remained downbeat in August. That said, the degree of negative sentiment was not as severe as those seen in June and July. Concerns generally stemmed from worries that global demand conditions will remain weak in the months ahead.



Sources: S&P Global PMI, National Statistics via S&P Global Market Intelligence

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Survey methodology

The S&P Global Taiwan Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in April 2004.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI®). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.