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IHS Markit Taiwan Manufacturing PMI®

Manufacturing sector growth accelerates in July

Key findings

Business activity rises sharply, supported by stronger upturn in sales

Supply chain delays persist, and backlogs of work rise further

Inflationary pressures remain historically sharp

Data were collected 12-22 July 2021.

Taiwan's manufacturing sector saw a notable pick up in growth momentum in July, with output rising sharply overall. Driving the steeper increase in production was stronger upturns in both total new work and export sales. As a result, firms expanded their buying activity at a rapid pace, but the time taken for inputs to be delivered continued to lengthen markedly. As a result, backlogs of work rose again, while material shortages and higher transport fees drove another sharp increase in input costs.

The IHS Markit Taiwan Manufacturing *Purchasing Managers' Index*® (PMI®) rose from a seven-month low of 57.6 in June to 59.7 in July, to signal a marked improvement in operating conditions. Though not as strong as those recorded earlier in 2021, the rate of improvement was nonetheless among the steepest seen over the past decade.

Boosting the headline PMI figure was a stronger rise in output in July. Production rose sharply overall, with the rate of growth accelerating notably from June's ten-month low. The upturn was supported by a steeper rise in total new orders. Panel members mentioned that sales had risen due to stronger client demand as the impact of COVID-19 had weakened. Firms mentioned improved sales across Europe, mainland China and the US in particular, with export orders likewise rising rapidly overall.

The sustained increase in total new work led manufacturers to raise their buying activity for the twelfth month in a row, and at a sharper rate than in June. However, stock shortages at vendors and shipping delays related to the pandemic led to another rapid deterioration in average vendor performance.

Rising order intakes and difficulties sourcing inputs led to a

continued...

Taiwan Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Annabel Fiddes, Economics Associate Director at IHS Markit, said:

"Taiwan's manufacturing sector regained momentum in July, with firms reporting sharper increases in both output and new work. The data therefore indicate that the sector is expanding at one of the strongest rates seen over the past decade, boosted by firmer demand across key export markets such as Europe, mainland China and the US.

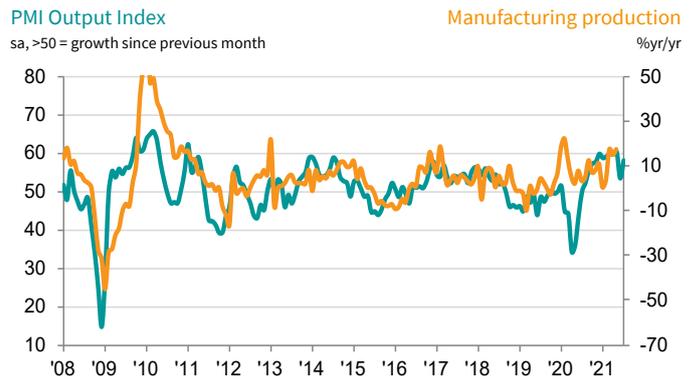
"However, companies are still noting a considerable impact from ongoing supply chain disruption amid the pandemic, as a lack of stock at vendors and low availability of shipping containers limits overall capacity and turnaround of orders. Consequently, backlogs of work rose at a near-record pace, and costs continued to surge, leading to a further increase in factory gate prices."

further accumulation in outstanding business during July. The rate at which backlogs increased was among the steepest on record. This was despite another expansion in staffing levels, though the rate of job creation was only modest.

The latest survey brought further signs of inventory building among Taiwanese manufacturers. Stocks of purchased items rose sharply overall, and was linked to efforts to protect against future supply chain delays and increased production requirements. At the same time, stocks of finished goods expanded modestly, with a number of firms mentioning that a lack of container ships had delayed the delivery of goods to customers.

As demand for inputs continued to exceed supply, average input costs rose again in July. The rate of inflation was substantial, despite slipping to a seven-month low. Higher transport fees were also linked to the latest upturn in costs. The rate of output charge inflation also remained historically marked in July, despite easing for the second month in a row.

Latest data showed that Taiwanese manufacturers remained upbeat that production would rise over the next year. Notably, the degree of optimism picked up to a three-month high. A number of companies expected that the impact of the pandemic would subside, and global economic conditions would continue to recover in the months ahead.



Sources: IHS Markit, National Statistics via Datastream.

Contact

Annabel Fiddes
Economics Associate Director
IHS Markit
T: +44-1491-461-010
annabel.fiddes@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
Telephone +44 207 260 2234
joanna.vickers@ihsmarkit.com

Methodology

The IHS Markit Taiwan Manufacturing PMI® is compiled by IHS Markit from responses to monthly 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.

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.

July 2021 data were collected 12-22 July 2021.

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

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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.
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