Manufacturing output falls for first time in five months

Key findings
Production declines at quickest rate since June 2020...
...as supplier delays persist and demand stagnates
Input costs and output charges continue to rise sharply

Manufacturing firms in Taiwan registered the first fall in production for five months in April, according to PMI data from S&P Global. The decline was linked to strained supply chains and softer demand conditions, which were in turn often attributed to the recent COVID-19 lockdowns in mainland China and the Russia-Ukraine war. Total new work stagnated as foreign demand weakened for the second month running. Inflationary pressures remained elevated, with both input costs and output charges rising at rapid rates.

The S&P Global Taiwan Manufacturing Purchasing Managers’ Index™ (PMI®) posted 51.7 in April, down from 54.1 in March, to signal a weaker improvement in overall business conditions. Notably, the rate of growth was the slowest seen since the current period of expansion began in July 2020.

Of the five sub-components of the PMI, both output and employment indices weighed on the headline index, while stagnant sales meant that new orders had no directional influence. Only two sub-indices had a positive influence on the headline figure; most notably suppliers’ delivery times, as lead times continued to lengthen rapidly, while stocks of purchases had a relatively mild positive impact.

Taiwanese goods producers signalled the first reduction in output since November 2021 in April. Though marginal, the rate of contraction was the steepest seen since June 2020. Firms generally linked the fall to material shortages and softer demand conditions, which were in turn often attributed to the recent COVID-19 lockdowns in mainland China.

The tightening of pandemic restrictions in mainland China, rising costs and the Russia-Ukraine war weighed on total sales in April. After rising in the prior 21 months, new business stagnated in April. Notably, new export business fell for the second month running, and at the quickest pace since June 2020.

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

“Taiwan’s manufacturing sector performance weakened in April as the recent increase in COVID-19 cases and lockdowns in mainland China impacted supply and demand. Notably, manufacturers in Taiwan registered the quickest drop in output for nearly two years amid difficulties sourcing inputs and stagnant inflows of new work.

“The slowdown in client demand was attributed to rising costs and greater hesitancy among customers to place orders amid the tightening of restrictions in mainland China and the Russia-Ukraine war. Notably, foreign sales fell at the quickest rate since mid-2020.

“Overall, the data suggest that the sector may struggle to regain momentum unless we see marked improvements in supply chains and customer demand. As there is still a great deal of uncertainty over the outlook in terms of the pandemic, Russia-Ukraine war and intense cost pressures, risks remain tilted to the downside.”
Manufacturing employment in Taiwan also fell during April. Though only slight, it marked the first decline since October 2020. Job shedding was often linked to lower production requirements and a lack of available workers (particularly from overseas). Material and staff shortages contributed to a further rise in backlogs, albeit one that was the slowest for 20 months.

The time taken for purchased inputs to be delivered to Taiwanese manufacturers increased again in April. The extent to which lead times lengthened was rapid overall, albeit not quite as severe as that seen in March.

As part of plans to protect against future material shortages and price hikes, firms raised their purchasing activity and expanded inventories of pre-production items. That said, the rates of growth slipped to 20- and 17-month lows, respectively. Stocks of finished items meanwhile fell for the first time since November 2020, as some firms were unable to accumulate finished goods stocks due to shortages.

Prices data meanwhile showed that inflationary pressures remained intense. Companies registered a sharp and accelerated rise in operating expenses, with a wide variety of inputs reported as having gone up in price, notably raw materials, fuel, labour and transport. Companies often passed on additional cost burdens to clients, with output charges rising at a rapid rate.

While businesses were generally optimistic that output would increase over the next year, the level of optimism improved only slightly from March's six-month low. Concerns largely stemmed from forecasts of further increases in costs, strained supply chains, COVID-19 restrictions in mainland China and the war in Ukraine.