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IHS Markit Taiwan Manufacturing PMI®

Production expands at quickest pace since January 2011 amid robust sales growth

Key findings

Strongest increases in output and new orders for over a decade

Firms continue to build input stocks amid severe supplier delays

Output charge inflation hits fresh record high as costs continue to surge

Data were collected 12-20 May 2021.

Taiwan's manufacturing sector expanded sharply in May, with both output and new orders increasing at faster rates. However, supply chain delays remained severe, and companies continued to build inventories as part of efforts to protect themselves against raw material shortages and surging costs. The latter led to a new record increase in selling prices, as companies sought to pass on higher expenses to clients.

Expectations around the 12-month outlook for output slipped to a six-month low, with some firms expressing concerns over ongoing supply chain issues and uncertainty around the pandemic.

The Taiwan Manufacturing Purchasing Managers' Index® (PMI®) edged down slightly from April's more than 11-year high of 62.4 to 62.0 in May. Nonetheless, the index signalled a rapid improvement in operating conditions, and extended the current period of growth to 11 months.

Taiwanese manufacturing production rose further in May, with the rate of expansion picking up to its strongest since January 2011. That said, firms commented that material shortages continued to dampen overall growth.

The sustained expansion of output was supported by a substantial increase in total new work amid reports of greater customer demand both at home and across key export markets. Notably, overall sales and new export business both increased at the fastest rates for over a decade.

In order to keep up with customer demand, firms expanded their purchasing activity again in May. The upturn was the quickest seen since March 2010 and sharp. However, the time

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:

"PMI data pointed to a further robust expansion of Taiwan's manufacturing sector during May, with growth of output and sales accelerating to rates not seen for over a decade. Stronger demand across key export markets such as Europe, the US and mainland China was mentioned in particular, as the global economy continues to recover from the pandemic.

"However, the latest survey brought further signs of capacity pressures and supply chain disruption. Vendor performance continued to deteriorate sharply, while shortages of inputs led to a further marked build-up of backlogs and dampened overall output growth.

"Shortages at suppliers also led to a further rapid rise in costs. This has fed through to the quickest increase in factory gate prices since data collection began in 2004.

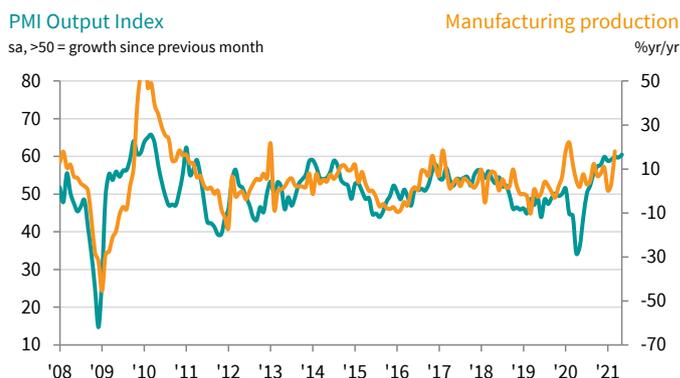
"Not only are firms facing challenges of material shortages and rising costs, but also a rise in COVID-19 cases across the region. All have the potential to weigh on performance in the months ahead."

taken for purchased items to reach firms continued to lengthen at a historically marked rate amid reports of stock shortages and shipping delays.

Companies also raised their staffing levels for the seventh month in a row in order to help expand capacity. That said, the rate of job creation eased since April and remained much slower than sales growth. As a result, backlogs of work continued to expand, with the rate of accumulation the sharpest for over 11 years.

Prices data indicated that inflationary pressures continued to mount in May. Average input costs rose rapidly overall, with the rate of inflation easing only slightly from April's 122-month record. Higher expenses were frequently linked to increased raw material costs and shortages. In order to help protect operating margins, firms hiked their prices charged again, and at the fastest rate on record.

Inventories of inputs rose sharply in May, with a number of firms indicating that they were building up stocks to meet rising customer demand and to help protect against any supply chain disruption in the months ahead. Stocks of finished goods also expanded, albeit modestly overall.



Sources: IHS Markit, National Statistics via Datastream.

Manufacturers in Taiwan were generally optimistic that output levels will increase over the next 12 months. However, the degree of positive sentiment dipped to a six-month low, with some firms expressing concerns over whether material shortages will persist in the months ahead and uncertainty around the pandemic.

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.

May 2021 data were collected 12-20 May 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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