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IHS Markit Taiwan Manufacturing PMI®

Output expands at quickest pace since December 2016

Key findings

Sharper rise in production amid substantial increase in new work...

...but employment trend weakens

Operating margins remain under pressure as costs rise sharply

Data were collected 12-22 October 2020.

October survey data revealed a marked improvement in the health of Taiwan's manufacturing sector, with firms reporting sharper rises in both output and total new work. As a result, companies ramped up their buying activity and backlogs rose sharply. However, firms expressed a weaker degree of confidence towards the 12-month business outlook and cut their staffing levels slightly. At the same time, companies faced a further sharp rise in operating expenses, but competitive pressures led to only a modest rise in output charges.

The Taiwan Manufacturing Purchasing Managers' Index® (PMI®) was little-changed from September's two-and-a-half-year high of 55.2, posting at 55.1 in October, to signal a further sharp improvement in business conditions. The health of Taiwan's manufacturing sector has now improved in each of the past four months as the sector continues to recover from the coronavirus disease 2019 (COVID-19) outbreak earlier in 2020.

Goods producers in Taiwan signalled a sharp and accelerated rise in output in October. The latest increase in production was the most marked since December 2016, with panel members indicating that growth was driven by greater inflows of new work and the resumption of projects that had been delayed due to the pandemic.

Total new orders expanded for the fourth month running in October. Notably, the rate of expansion was the quickest since January 2018, supported by accelerated growth of new export orders. Panel members commented on stronger domestic and international demand, with China, Europe, Japan and the US mentioned in particular.

Greater amounts of new work led manufacturers to raise their purchasing activity again, and at the steepest rate since February 2018. Efforts to rebuild stock levels amid stronger inflows of new

continued...

Taiwan Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"Latest PMI data showed that growth momentum continued to build across Taiwan's manufacturing sector, with firms signalling the sharpest rise in output since December 2016 in October. The steep increase in production was supported by a substantial upturn in sales, with panel members recording greater customer demand across both domestic and international client bases.

"The steep rises in new business and purchasing activity, which act as forward-looking indicators, suggest the sector is on course for robust growth in the final quarter of 2020.

"However, there remain downside risks to the outlook, which largely stem from uncertainty due to the recent rise in COVID-19 virus cases across a number of countries. Subsequently, business confidence softened since September, while employment levels dipped slightly."

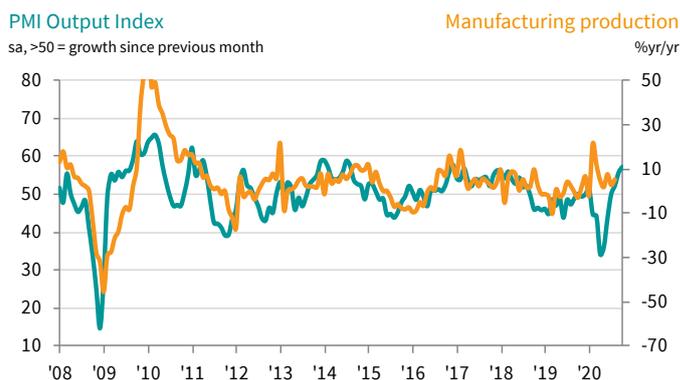
work led to a further increase in inventories of purchased items. Inventories of finished goods meanwhile rose only slightly.

The time taken for purchased inputs to be delivered continued to lengthen in October. Panel members frequently linked longer lead times to the pandemic and the impact of restrictions on supply chains.

After a solid expansion in September, firms adopted a cautious approach to recruitment at the start of the fourth quarter. Payroll numbers fell slightly overall, with a number of surveyed firms citing company policies to not replace voluntary leavers. Lower workforce numbers and rising order volumes drove a further marked increase in the level of work-in-hand (but not yet completed).

At the same time, firms expressed a weaker degree of optimism towards the 12-month outlook for output in October. Although many firms anticipate conditions to continue to recover from the virus-related downturn earlier in 2020, there were some panel members expressing concerns over the length and severity of the ongoing COVID-19 pandemic.

Prices data signalled a further squeeze on operating margins. Input costs rose sharply, with the rate of inflation easing only slightly from September's two-year high. In contrast, prices charged rose only modestly amid reports of strong market competition.



Sources: IHS Markit, National Statistics via Datastream.

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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.

October 2020 data were collected 12-22 October 2020.

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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