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IHS Markit Taiwan Manufacturing PMI®

Manufacturing sector continues to expand sharply at start of 2021

Key findings

Output and new orders expand at substantial rates

Steepest increase in employment since April 2018

Record supplier delays adds further upwards pressure on costs

Data were collected 12-21 January 2021.

Taiwanese manufacturers had a strong start to 2021, with firms signalling further substantial increases in output and new orders. Rising customer demand and greater optimism towards the year ahead drove a steeper increase in employment. However, strained supply chains and shortages led to a record increase in suppliers' delivery times, which in turn led to a sharper rise in input costs and output charges.

The Taiwan Manufacturing *Purchasing Managers' Index*® (PMI®) rose from 59.4 in December to 60.2 in January, to indicate the strongest improvement in the health of the sector since April 2010. The PMI has now signalled an improvement in business conditions for seven successive months, as the sector continues to recover from the coronavirus disease 2019 (COVID-19) outbreak.

The increase in the headline composite index was driven by stronger job creation, a steeper deterioration in supplier performance and a sharper rise in stocks of inputs. Meanwhile, rates of expansion in output and new orders softened since December, but were nonetheless among the quickest recorded over the past decade.

Panel members indicated that the substantial increase in production was driven by firmer customer demand and rising sales. Firms widely commented on greater demand both at home and abroad, with new export work also expanding sharply at the start of the year, while there were also reports of clients submitting orders so that they could replenish relatively low inventory levels.

Employment across the sector continued on an upward trend in January, with the rate of job creation the strongest since April 2018. Capacity pressures persisted, however, as highlighted by a further increase in backlogs of work. Notably, the latest rise

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:

"The latest PMI data showed that Taiwan's manufacturing sector continued to expand sharply at the start of 2021. Notably, growth momentum remained at a near-decade high, with firms pointing to substantial increases in both output and sales.

"The further marked rise in new work encouraged firms to increase employment and buying activity at faster rates. However, stock shortages, limited freight availability and delays linked to the pandemic drove a record increase in suppliers' delivery times. If this trend persists, it could hamper production over the coming months. As a result, there was evidence of further stock-building among manufacturers in order to help protect against supply chain delays.

"Supplier shortages have also translated into much stronger inflationary pressures. Input costs rose at one of the quickest rates in nearly 17 years of data collection, which in turn drove a record increase in selling prices."

in outstanding workloads was the quickest for nearly ten years.

As new business continued to expand markedly, firms raised their purchasing activity again in January, and at the quickest rate for a decade. However, a lack of stock at vendors, reduced freight capacity and shipping delays related to the pandemic led to a record increase in the time taken for inputs to be delivered.

On the inventories front, firms stepped up their efforts to accumulate their stocks of both pre-and post-production goods due to rising customer demand. Stocks of inputs expanded at the quickest rate since May 2011, while the upturn in inventories of finished goods was the fastest for over three years.

Manufacturers signalled the sharpest increase in operating expenses for nearly a decade in January. Survey respondents frequently mentioned that stock shortages and higher transportation costs had driven up input prices. As part of efforts to protect operating margins, companies raised their prices charged at the fastest rate on record.

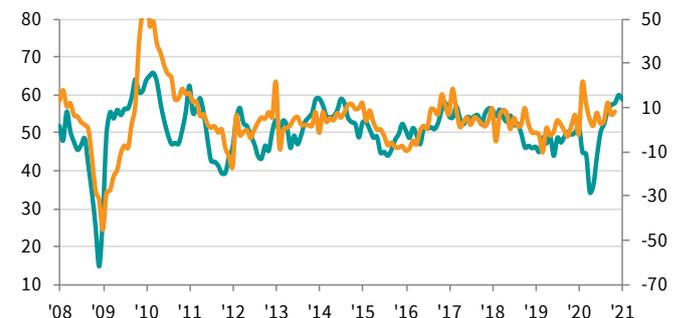
Business confidence towards the 12-month outlook for production rose to its highest since April 2014 at the start of the year. Optimism was supported by hopes of a recovery in global customer demand, new product launches and improvements to productivity.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%yr/yr



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.

January 2021 data were collected 12-21 January 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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