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IHS Markit Taiwan Manufacturing PMI®

PMI signals renewed improvement in operating conditions in July

Key findings

Operating conditions improve slightly

Output stabilises, while new business returns to growth...

...but employment continues to decline

Data were collected 13-23 July 2020.

Taiwanese manufacturing companies signalled a renewed improvement in operating conditions during July as the sector recovered from the impact of the coronavirus disease 2019 (COVID-19) pandemic. Notably, production levels stabilised and total new orders returned to growth. At the same time, buying activity and stocks of inputs fell at much softer rates. However, companies maintained a cautious approach to employment, with staff numbers falling further in July. Prices data meanwhile showed a much steeper increase in costs, but firms' efforts to remain competitive led to only a slight rise in output charges.

The Taiwan Manufacturing Purchasing Managers' Index® (PMI®) rose above the neutral 50.0 level to 50.6 in July to signal the first improvement in operating conditions for four months. Though only marginal, the improvement contrasted with a solid deterioration in the health of the sector in the previous month (index at 46.2).

The upturn was supported by a renewed increase in overall sales during July. Though only slight, it was the first time new orders had increased since January. Companies that registered higher new business often mentioned a return to more normal market conditions as the pandemic situation improved. At the same time, new business from abroad fell at a much slower rate, declining modestly overall.

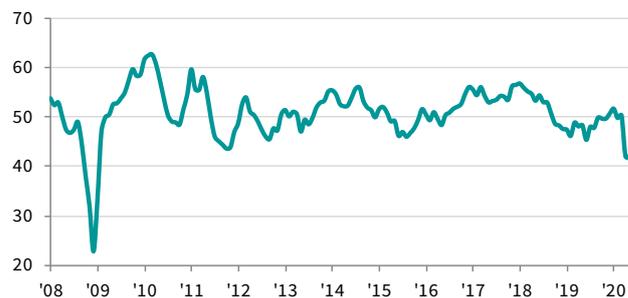
The relative improvement in market conditions also helped to stabilise production levels in July. Notably, this ended a five-month period of declining output.

Although new work expanded slightly, manufacturers cut their staffing levels again in July. The rate of job shedding quickened since June and was modest overall. A number of firms commented on relatively subdued sales and efforts to raise efficiency. As a result, there was some pressure on capacity, as

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 numbers provided hope that Taiwan's manufacturing sector is getting back on its feet after the COVID-19 pandemic weighed heavily on the sector in prior months. Firms commented that market conditions were starting to normalise, which led to a renewed increase in sales. At the same time, production levels were stable following a five-month period of decline. External demand, though still declining overall, meanwhile fell at a much slower rate than in June."

"That said, the outlook remains challenging, as economies around the globe continue to grapple with getting the virus under control, which could weigh on demand going forward. Notably, firms remained cautious with regards to staff numbers and stocks of finished goods, with both falling further in July. Costs meanwhile rose more sharply, but firms were only able to raise their charges slightly due to efforts to remain competitive, which suggests greater pressure on profit margins."

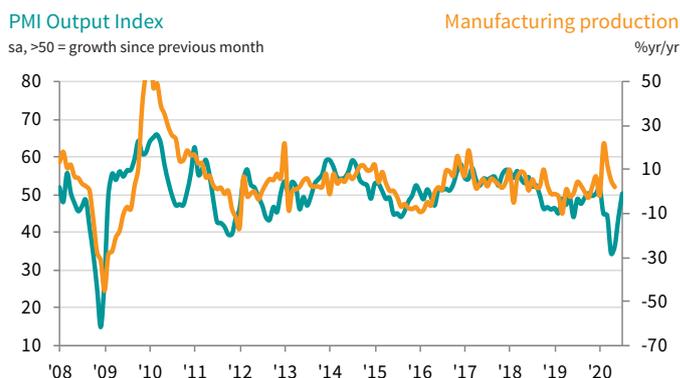
highlighted by a renewed increase in backlogs of work.

Although purchasing activity continued to decline in July, the rate of reduction was the slowest seen since the current downward trend began in February. Stocks of purchased items and finished goods both fell further at the start of the third quarter partly due to efforts to contain costs.

Average vendor performance deteriorated further amid reports that the COVID-19 pandemic continued to strain supply chains. That said, the rate at which delivery times lengthened was the slowest in 2020 to date.

Taiwanese manufacturers recorded a solid and accelerated rise in average input costs during July. Notably, the increase was the quickest recorded since October 2018, with a number of monitored firms blaming the upturn on higher raw material costs. The steeper uptick in costs led to the first rise in prices charged since November 2018. That said, the rate of increase was only slight as efforts to attract sales dampened overall pricing power.

Manufacturers were generally upbeat regarding the 12-month outlook for output in July. The degree of optimism strengthened slightly since June but remained below the long-run trend. Growth forecasts were generally linked to expectations of rising customer demand once the pandemic situation improves.



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.

July 2020 data were collected 13-23 July 2020.

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

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About PMI

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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