

# Taiwan's 2Q GDP is at risk and we're cutting our forecasts

Taiwan's GDP in 1Q22 is as expected at around 3% year-on-year. But electricity shortages and mounting Covid cases pose risks to the economy. We are downgrading our GDP forecasts



Xinyi District in downtown Taipei, Taiwan

## Taiwan's first quarter growth is quite good

GDP grew 3.06% YoY in 1Q22 after 4.86% YoY growth in 4Q21. The main growth engine is still the semiconductor sector in both production and exports. Overall exports grew more than 20% YoY but this was mostly in the first two months of the quarter. There was some slack in March in terms of semiconductor production.

Retail has not performed as poorly as first thought. Catering grew 4.93% YoY amid government support.

In general, economic activity in the first quarter increased at a good speed.

## But mind the second quarter

There are two main hurdles in 2Q22 for Taiwan:

- The first is that Covid cases have increased significantly, and the government does not seem to have a decisive plan to tackle the damage from Covid. This has put workers' health and jobs at risk.
- What's more, electricity shortages are again proving to be an issue due to the hot weather. We can expect some days of blackouts in 2Q22. It is unclear whether these blackouts will lead to the suspension of factory operations like last summer. Electricity issues, together with water shortages last summer, affected the production and shipment of semiconductors and therefore economic growth in 3Q21.

It seems that these two hurdles will not be easily resolved, and will affect GDP growth in 2Q22.

### **Forecast revision**

We are downgrading Taiwan's GDP due to the above factors, from 4% to 3% in 2Q22, and from 4.4% to 4.1% for the whole of 2022.