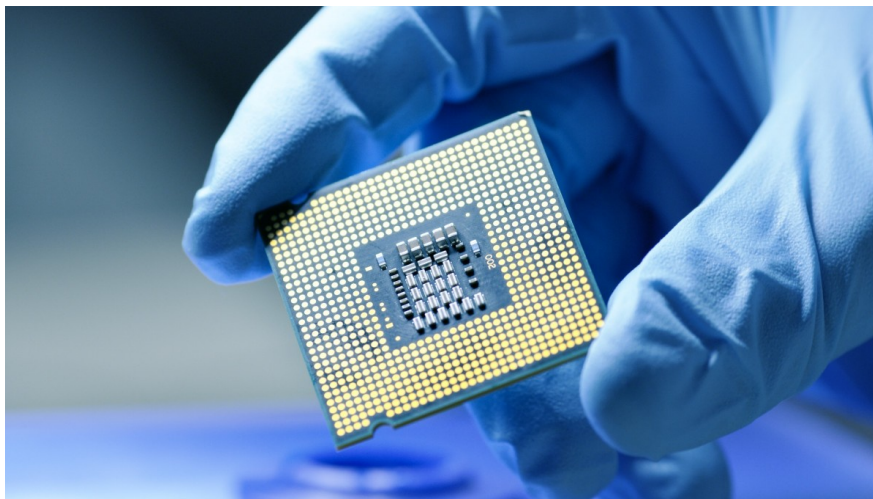


## Taiwan: challenging road ahead despite faster growth in the third quarter

Taiwan's economy grew faster at 4.1% year-on-year in the third quarter from 3.05% in the second. But weak global demand for semiconductors has already led to almost no growth in investments, pausing the momentum from strong investment growth in the first half of 2022. We are downgrading Taiwan's GDP forecasts for 2022



### Consumption supported growth in 3Q22 but this could be temporary

Taiwan's GDP grew faster at 4.1% year-on-year in the third quarter, from 3.05%YoY in the second. That was mainly a result of strong consumption in the quarter due to fewer Covid restrictions. Consumption contributed 3.84 percentage points to the overall economic growth of 4.1%. This has helped Taiwan avoid recording another quarterly economic contraction.

But this may not last into 4Q22.

Global demand for semiconductor chips has subsided, and that has hit the main industry of Taiwan, from production to sales. This has been reflected in the fact that there was no growth in industrial production in the third quarter. As chips are mainly for export markets, export growth slowed to 1.36%YoY in 3Q from 4.32% in 2Q and 9.06% in 1Q. Weak export prospects led to slow investment growth.

As capital formation grew only 0.91%YoY in 3Q after strong growth of 9.42%YoY in 2Q22, we expect the future growth of Taiwan's economy will be slower than previously expected next year if the global market for semiconductors does not recover.

## Revising GDP forecasts

We are revising GDP forecasts downward to 3.2% from 3.4% for 2022, and to 3.1% from 3.4% for 2023.

That is mainly a reflection of our US and Europe economic forecasts of a mild recession and my upcoming downward revision of China's GDP forecasts. Slower global economic growth implies weak demand for goods and therefore semiconductors, as these are used in many goods nowadays.