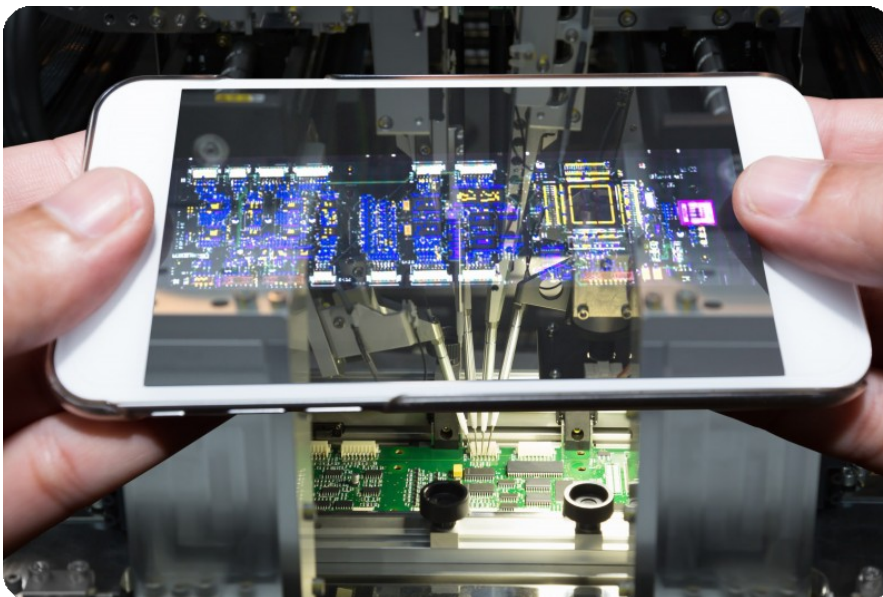


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TAIWAN

Taiwan's chip manufacturing growth slows

Data on industrial production shows that chip production in Taiwan has slowed further. This confirms our view that Taiwan's capacity to produce semiconductors has reached its limit. Faster growth will only be seen when new production lines are ready to operate



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Taiwan's semiconductor chip production slowed

Industrial production growth slowed to 11.25% year-on-year in October from 11.61% YoY in September. Manufacturing, a large sub index, decelerated to 11.53% YoY in October from 12.1% YoY a month ago.

The main driver behind this slower growth was integrated circuits (consisting of semiconductor chips), which dropped significantly to 14.72% YoY in October from 20.31% YoY in the previous month. This is equivalent to a contraction of 8.43% month-on-month.

This data confirms our view that the production capacity of semiconductor chips has reached its limit. Taiwan-owned semiconductor companies will have shifted some chip production to other locations, including Mainland China. But those production lines will be reaching their limits, too.

Production and sales of electronics should see disruption

Semiconductor companies are building new production lines to fulfil the demand for chips, but most new lines won't be ready to operate until at least late 2022 or early 2023. Until then some industries, such as those that make electronic equipment for automobiles, will be disrupted, affecting their sales as well.

Producers might need to find a way to cut down the use of semiconductors in their products in order to maintain sales volumes. This could mean reducing the level of functionality, meaning that consumers will be paying the same price for a lower quality product.

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