

Taiwan's export orders fall more than expected

Taiwan has suffered from a contraction in export orders for months. They dropped even more in March. And the details reveal that the slowdown of the US economy was the key factor. This means more weakness ahead



Xinyi District in downtown Taipei, Taiwan

-25.7%

Export orders in March (year-on-year)

-18.3% YoY in February

Worse than expected

Taiwan suffers from unexpected deeper contraction in export orders

Export orders surprised on the downside by contracting 25.7% year-on-year in March. This compares to the consensus forecast of an 18.6% YoY contraction and follows an 18.3% YoY

contraction in February. This shows a continuous slump in export demand for semiconductor chips.

A breakdown of the data implies that Taiwan's exports should continue to fall if the US economy weakens further.

Export orders from Mainland China and Hong Kong fell in the first two months of the year but did not perform poorly in March. Surprisingly, export orders from Mainland China and Hong Kong rose 2.4% in March from the amount seen in November (a comparable month which was not affected by seasonal factors of Western holidays in December and Chinese holidays in Jan-Feb). Weak export orders in January and February could be seasonal due to the Chinese New Year holiday.

We believe the key factor behind the big overall fall in export orders was due to the US, where orders fell 11.8% in March from the amount seen in November.

Data implies exports should continue to be weak

As the key driver behind the weak export orders was weak demand from the US, we anticipate that this data could be softer for most of 2023. This is because we expect the US economy to deteriorate this year, and the Federal Reserve could cut interest rates by 100bp in the fourth quarter.

The implications for the Taiwan economy are that manufacturing and exports of semiconductor chips to the US could continue to be weak, and as the semiconductor industry is the pillar of the Taiwan economy, GDP growth will be hit directly.

We expect Taiwan's GDP to contract 0.5% YoY in the first quarter. This will bring Taiwan into a mild recession after the GDP contraction of 0.4% YoY in the fourth quarter of last year.

TWD should weaken on this data

USD/TWD should increase to around 30.7 - 30.80 from the recent level of near 30.6 due to the release of this economic data. We should keep an eye on the volatility of USD/TWD as Taiwan is going to release industrial production data for March next Monday (24 April) and GDP on Friday (28 April).