

## Taiwan: GDP contracted in 2Q

Even though Taiwan successfully prevented the spread of Covid-19 locally, it could not avoid the damage done by the virus globally, which has hurt its exports, employment and wage growth, and therefore, domestic consumption. The GDP contraction is within our expectations and we maintain our forecast for a full-year recession in 2020



Xinyi District in downtown Taipei, Taiwan

### The contraction was due to weak consumption

Consumption detracted 2.69 percentage points from GDP, which contracted by 0.73% year-on-year in 2Q20. The contraction in consumption itself in 2Q20 was 5.13% YoY, which was the worst on record.

The weak consumption was a result of weak exports of goods and services, including tourism. Even though electronic exports grew at an extraordinary pace, it could not prevent overall exports from stagnating, subtracting 0.1 percentage point from GDP growth.

Investment seemed to contribute more than other categories, at 2.19 percentage points, but there is no data breakdown on inventories, which could be an important contributor to investment growth. This is positive for GDP growth in 2Q20 but means that future growth from investment in

the second half of the year should be slower, as businesses will use up inventories before producing more.

## **Weak consumption trend might not recover soon**

Though there is a slight improvement in the unemployment rate to 3.96% in June from 4.07% in May, combined with the negative inflation data, it shows that sentiment around consumption should continue to be weak for at least another quarter.

This depends heavily on Covid-19 cases globally. If Taiwan's export market continues to suffer from low domestic demand due to the damage done by Covid-19, Taiwan, as a small open economy, will feel the pain.

## **Luckily, electronics can support exports**

Taiwan's comparative advantage is on supplying advanced semiconductor chips to the Mainland China market. The US has banned more companies, especially in the area of technology, from doing businesses with Mainland China firms. This has left a market space for Taiwan semiconductor companies, and has been the main support for the economy so far since the Covid-19 outbreak.

This comparative advantage will continue if Taiwan continues to supply these advanced semiconductor chips to Mainland China. The uncertainty here is political tension with Mainland China and the pressure from the US.

## **Forecasts**

As the contraction of GDP is within our forecast range, we maintain our GDP forecast for Taiwan at -0.4% for the whole of 2020, and -1.0% YoY and -1.5% YoY for 3Q20 and 4Q20, respectively.

The bigger contraction in the second half of the year is partly due to last year's high base effect, and the uncertainty of Covid-19 damage to external demand for Taiwan's products.