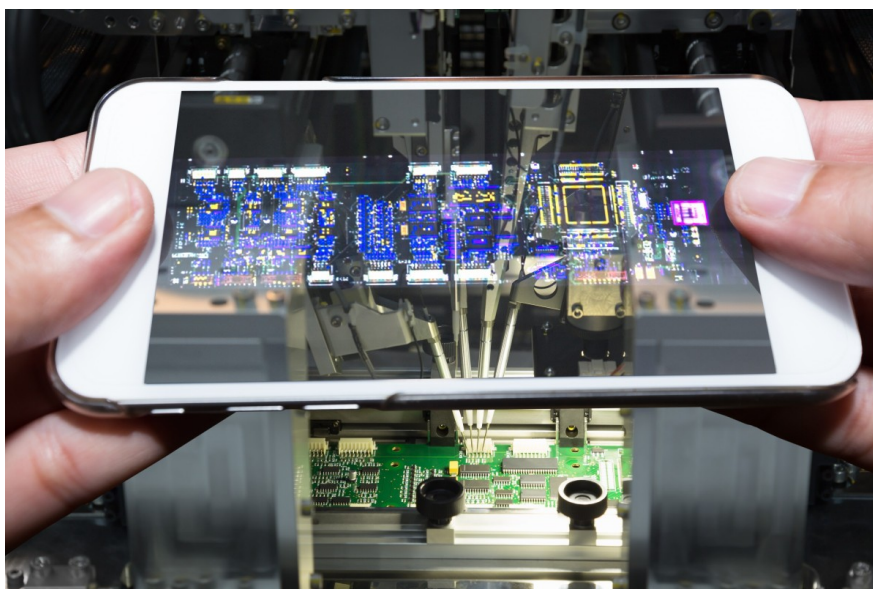# Taiwan: Industrial production shrinks again

Industrial production shrank again in May after a brief period of positive growth in April. A contraction is firmly in place, especially for LED panels, which are used in smart devices

Source: Shutterstock

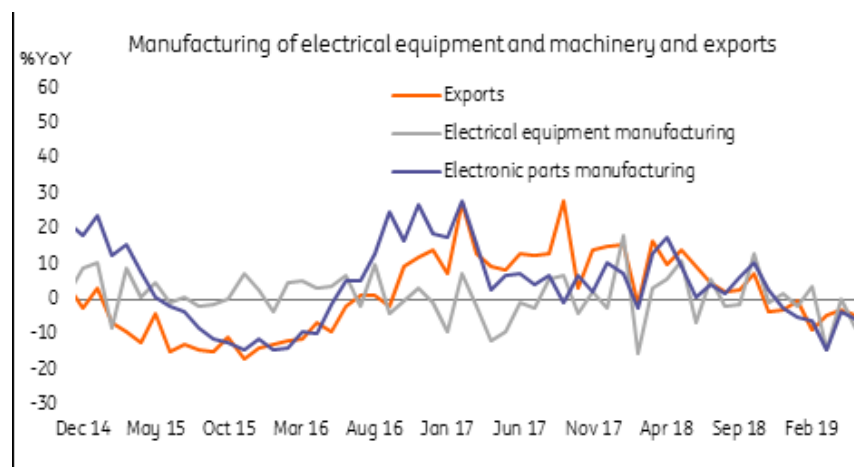## Taiwan's industrial production shrank again

Industrial production fell 3.01% year-on-year in May, continuing the negative trend seen between December 2018 and March 2019, following a brief respite in April where output grew 1.41%.

The end of the smart device product cycle has reduced demand for integrated circuits, which fell 5.83%, and other parts for the production of smart devices, e.g. LED panels, which fell 11.27% YoY in May.

5G equipment brings some hope

Production of 5G-related computer parts and equipment rose 23.30% YoY but the amount is not large enough to cover the loss of production of 4G devices. Unless 5G equipment becomes the major wireless technology globally, Taiwan's industrial production may have a significant growth problem.

Taiwan's manufacturing of electric parts and their relationship with exports

Manufacturing of electrical equipment and machinery and exports

Source: ING, Bloomberg

There is little the government can do

To combat falling production and exports, the government has encouraged manufacturers to move their Mainland China production lines to Taiwan. It is aiming for TWD 500 billion (around 2.7% of nominal GDP in 2018) of investments to be moved from Mainland China to Taiwan, which may increase investment in factory sites and demand for factory workers.

But as we have seen from the industrial production data, manufacturing activities have shrunk. Even if more production is moved, these production lines may not run at their full capacity without increased demand for upgrading smart devices.

Eventually, Taiwan needs demand for products to keep these factories running, and the current trade war between Mainland China and the US is not helping.

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