

## Taiwan's industrial production fell from previous month; further contraction is ahead

Taiwan's industrial production growth seems to be slowing down, with data revealing a monthly contraction. Export orders have also recorded a contraction on a yearly basis. China's lockdowns, Covid in Taiwan, and electricity stoppages could be reasons behind this, and these reasons are here to stay



### Industrial production recorded month-on-month contraction

April data seems to point to worsening growth in Taiwan. While industrial production recorded 7.5% year-on-year growth in April, it contracted 5.06% from the previous month. This pattern usually points to a change in trend. Production of semiconductors, which had been the growth engine of Taiwan's industrial production as well as GDP, recorded a mere 0.5% MoM growth rate, while other manufacturing industries showed contraction, e.g. computer and electronic goods (-21.14% MoM), LED panels (-16.63% MoM).

## **Mainland China lockdown, Covid in Taiwan, electricity stoppages are factors behind this**

The main reason behind this is that inventory levels of electronic items, particularly LED panels, are higher than usual. In Mainland China, which is a big consumer market in addition to being a manufacturing hub, demand for consumer electronics shrank during the Shanghai lockdown.

The same explanation can be applied to the contraction in export orders (-5.5% YoY) released on Friday. With export orders shrinking, industrial production in the coming months could continue to contract, perhaps even showing a contraction from last year.

Covid in Taiwan is also part of the reason, as this has reduced the number of employees at work. Though the unemployment rate fell to 3.62% in April from 3.66% in March, most industries, including semiconductor manufacturing, recorded a small drop in employment in April.

Electricity is also an issue. Though the government states that there is enough electricity this year, electricity generators have failed occasionally, leading to the suspension of work at some factories.

## **Cautiously optimistic for the rest of 2022 and monetary policy may be less aggressive**

The factors discussed above, which point to a changing trend in semiconductor production in Taiwan from strong to slow, are here to stay. Demand for semiconductors used in consumer electronics will be affected by the muted consumer market in Mainland China. Supply shocks from fewer workers due to Covid and electricity failures (especially over the summer) could also remain for the rest of 2022.

We are cautiously optimistic about the semiconductor industry as there is still strong demand for digital infrastructure to mitigate some of the negative factors cited above.

Central bank rate hikes were expected to follow the path of the Federal Reserve but this is less likely given this latest set of data. Though we still need more data points to confirm that the strong trend has changed in semiconductor production and therefore GDP, the central bank may be less aggressive than previously thought, and the rate hike path could therefore be flatter, with hikes of 12.5bp rather than 25bp until the negative factors fade.