

Is Taiwan's supply chain broken?

Taiwan's solid industrial production data is in stark contrast with weak jobs data. What's going on?



Source: ING, Bloomberg

The mixed data makes us think

Taiwan's industrial production grew at a remarkable 20.34% year on year in February, despite the instability of the job market and the number of unemployed people rising by 1.62% in comparison to February. Not only that, but export orders were also weak at -2.8%YoY in February.

Taiwan's industrial production - too good to be true?

Covid-19 has been disrupting business and manufacturing activities in Greater China since February. Also, there is a low base effect due to the Chinese New Year taking place in different months in 2019 and 2020, which could inflate factory output, but the two factors' net impact should be a lower number than a year ago. With this mind, we find Taiwan's industrial production numbers sustained double-digit growth exceptionally strong.

The strongest growth area is in integrated circuits, which grew by 46.93%YoY in February. We have always argued that the growth in integrated circuits is due to the 5G drive for new smartphones and other new gadgets. But it is therefore strange to see panel production drop by 16.81%YoY.

One potential explanation could be that Taiwan produces integrated circuits on its own and doesn't rely on other countries for vertical production while panel production requires input from the Chinese mainland.

Unemployment edged lower too

The unemployment rate slipped slightly from 3.71% to 3.70% due to a lower labour participation rate of 0.05 percentage points, i.e. some workers are no longer looking for jobs. The number of unemployed increased by 1.62% and the number of employed fell by 0.11%. In the manufacturing sector, the number of people employed also fell by 0.5% YoY in February.

All of this does not quite match the solid industrial production growth in the same month.

Global demand and supply chains in disarray

Our suggestion that Covid-19 will disturb global demand and supply chains temporarily is becoming a reality now. Looking ahead, the next question worth asking is when will it all come to an end, and this could be until all major cities around the world are able to limit the rise of new confirmed cases.

Otherwise, even production in the Chinese mainland and Taiwan is likely to suffer from the broken supply chain as factories suspend operations around the world and the dramatic drop in global demand as many cities go into lockdown. For now, we are not too optimistic.

We forecast Taiwan's GDP to be around -0.4% for 2020 and USD/TWD to be 30.50 and 31.00 by end of 1Q20 and 2Q20, respectively.