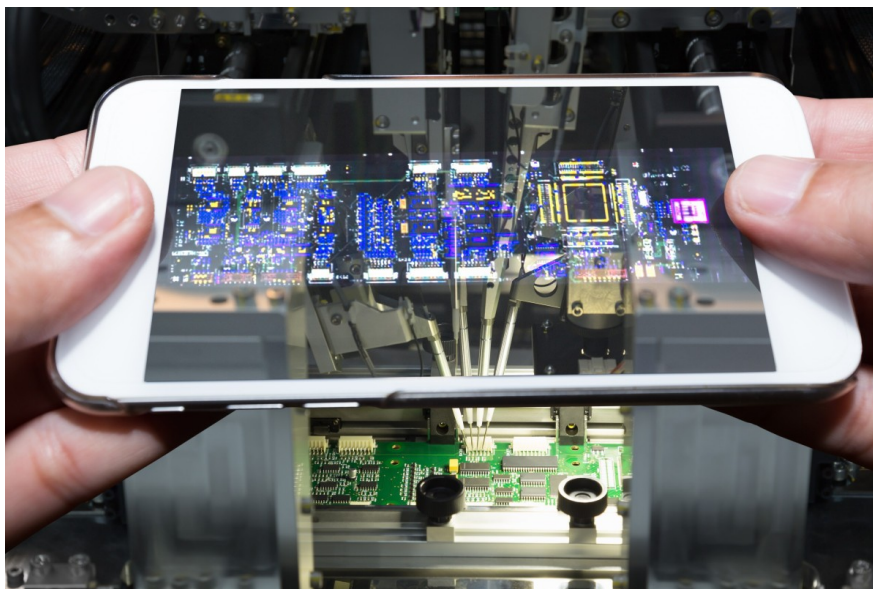


Taiwan's manufacturing rebound could prove to be short-lived

Taiwan's industrial production rebounds to positive territory from almost -10% in March. This positive surprise could prove to be short term because when we combine other data to form a more holistic view, Taiwan's manufacturing sector doesn't look that bright



Source: Shutterstock

Industrial production surprises on the upside

We are surprised by Taiwan's industrial production bouncing back to positive growth (0.9%YoY) from -9.88%YoY a month ago. It seems this was mostly the result of a big jump in the production of computers/optics category (35.63%YoY) but electronic parts continued to suffer negative growth (-3.27%YoY).

The big jump in production of computers/optics is probably the result of new smartphones that have numerous built-in cameras. We doubt this will carry-on as smart devices cannot continue to increase sales just by adding more cameras. For example, one may upgrade their smartphone to a new model that has six cameras, but after that, there would be very little additional value in upgrading to a phone with nine built-in cameras. Put simply, the creativity or technology value-added from a new smartphone is diminishing before the kick-off of 5G mobile phone networks.

Electronic parts are a better barometer

Electronic parts manufactured by Taiwan are a better barometer for the manufacturing sector as they don't have a strong seasonal element, and are widely used in many electronic products. However, this category has been displaying negative growth since December 2018.

We believe Taiwan's overall manufacturing sector will continue to suffer from low growth or single-digit negative growth throughout 2019 until trade war tensions soften.

We'll continue to monitor Taiwan's GDP

The technology war that Mainland China is facing will hurt the demand for smart devices and therefore electronic parts, and subsequently, add extra pressure to Taiwan's manufacturing sector, and this is likely to become a negative factor for Taiwan's GDP.

We will continue to monitor Taiwan's data to see if we need to revise our GDP forecast downwards from the 1.4%YoY pencilled in for 2Q19.