

Even smartphones can't rescue Taiwan's production data

Taiwan's industrial production is contracting despite the better-than-expected smartphone sales. We now think smartphones can't really do very much for the overall economy



Following moderate positive growth in July and August, we were surprised to see Taiwan's industrial production contract by 0.75% year-on-year.

We had hoped that better-than-expected smartphone sales would help the economy and industrial production, but it seems that we were too optimistic.

We have already seen that [smartphone sales provided little support to overall exports](#) and the same now goes for industrial production now. Even though smartphone and supply chain production has been growing positively with [electronic items growing by more than 24%YoY](#) and electronic parts production growing by 3%YoY, they can't seem to prevent overall manufacturing from contracting.

Expect industrial production to remain in contraction territory

If overall global demand for electronics is slowing down, then Taiwan's industrial production is unlikely to start growing any time soon given that it is a manufacturing hub for electronics. Until 5G becomes widely available and there is a wave of demand for new smartphones and other electronic equipment, Taiwan's manufacturing industry is likely to remain in contraction territory.

It also seems that the policy to attract manufacturers to move factories from mainland China to Taiwan hasn't worked very well. According to [news reports](#), lack of water, electricity, workers and the appropriate talent pool to start production when manufacturers move is a problem. Lack of infrastructure is not an easy issue problem to solve and can take years to resolve if not properly planned. Wages are also likely to rise given the limited size of the population.

It is difficult to find a positive aspect that might support an uptrend in Taiwan's manufacturing, apart from a temporary strong increase in smartphones sales.