

Taiwan: Strong industrial production but higher jobless rate

The pandemic in Taiwan has affected the retail and services sectors but not manufacturing. Industrial production in electronics was still strong in June. As Covid has started to subside, we expect the economy to return to activity levels seen in April



Xinyi District in downtown Taipei, Taiwan

Industrial production beat estimates

Consensus estimates were for growth to slow in June from the 16.5% YoY pace seen in May. But industrial production actually grew by 18.37% YoY last month, even as Covid hit mobility.

Digging into the details we found the engine of manufacturing growth came from integrated circuits, which jumped 18% month-on-month and 24.6% year-on-year. This reflects the strong demand for semiconductor chips globally.

Automobiles and parts suffered a contraction of nearly 2% on a monthly basis but saw stronger YoY growth of 35.8% due to last year's low base. The monthly negative growth indicates that there was a chip shortage for automobiles although Taiwanese chip companies announced recently that they would solve this problem with special design chips for auto makers. This brings some hopes to the sector.

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But the jobless rate was high

The jobless rate was 4.8% in June, up from 4.15% in May. This was mainly due to the retail and services sectors, which were more affected by social distancing measures. The retail and catering sectors contracted by 15.26% YoY and 40.16% YoY in June, respectively.

As Covid has subsided, we expect the retail sector to recover from July to August - the summer holiday months - at least partially, to be level with April when there were no social distancing measures.

Taiwan-US relationship and chips

The consolidation of political ties between Taiwan and the US could have economic implications, with Taiwan or Taiwanese companies supplying more chips to the US. This would inevitably intensify the relationship between Mainland China versus Taiwan and the US.

We will continue to keep an eye on developments as this is important politically and economically from macro to micro progress on chips.