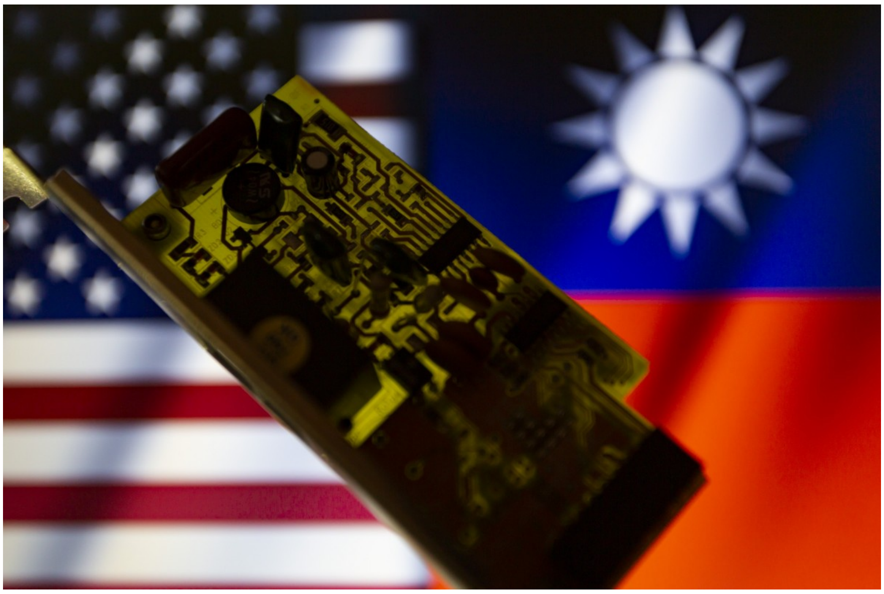
Taiwan’s strong industrial production doesn’t conceal semiconductor shortage

Taiwan's industrial production grew more than expected on a yearly basis, but details of the data show that chip shortage is still a critical issue



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Industrial production rose more than expected but only for non-core manufacturing activities

Taiwan's industrial production rose 16.51% year-on-year in May compared to 13.62%YoY in April.

Most of the growth came from non-core manufacturing activities, including LED panels, chemical raw materials, equipment and automobile parts, which combined contributed to 39% of total manufacturing production.

The core item, and the most important one - integrated circuits, only grew by 12.59%YoY, which is below the headline growth rate in May, and also slower than the growth of integrated circuits seen in April - at 16.02%YoY.

Expanding production line for chips, but where?

Our view is that the trend of non-core manufacturing growing faster than producing integrated circuits may continue.

First, the main element of producing integrated circuits is semiconductor chips, and that problem is still not resolved even with more rain in Taiwan. Covid-19 and electricity supply are still impacting chip production.

We believe Taiwanese manufacturers are producing more equipment and chemicals to produce more chips, which can be used both locally and for exports.

The latest export orders data shows that more than 40% of export orders were contributed by Mainland China and Hong Kong. But if we combine industrial production and export order data, some equipment and chemicals might have been produced for Taiwanese factories located in Mainland China to circumvent climate change-related risks.

TWD and GDP growth are under pressure

TWD's strength is under pressure as we believe the market has already priced in slower growth in chip production, which is the major reason for foreign capital entering Taiwan asset markets. Our forecast for USD/TWD is 28.00 by the end of 2021. We may revise this forecast lower if Covid-19 lasts into 3Q21.

The risk of slower than expected chip production will continue to weigh on GDP growth.

Our forecast is 4.1% GDP growth for 2021.

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