Taiwan - tough times

Taiwan's unemployment rate has edged up for three consecutive months largely because of a slowing manufacturing sector. We think there is little that monetary policy or fiscal stimulus can do at this point to support growth

Source: istock

Taiwan's economy is weakening

Taiwan's industrial production fell further, to -1.86% year on year in February from -1.22%YoY in January 2019.

The manufacturing sector, which is highly dependent on the production of smart devices, is slowing to the extent that it is impacting the unemployment rate, which has crept up from 3.69% in November to 3.70% in December and now 3.72% in January.

The last time we saw this level of unemployment was during the summer of 2018, due to an increase in job seekers from schools and universities.

3.72% Unemployment rate

Worse than expected

Central bank can't do much to prevent rising unemployment

The slowdown in the manufacturing sector is expected to continue until sales of new smart devices produced by Taiwan improve and we believe this could take up to a year.

In the meantime, we expect manufacturing activities to slow to negative growth and further impact the unemployment rate.

The options for the central bank to alter this weakening picture are limited. The current policy rate is 1.375% and lowering it by 12.5 basis points at a time would do very little for credit expansion and therefore economic growth.

Little room for fiscal stimulus

Taiwan had a budget balance of -0.11% of GDP in 2017 and we expect this to increase to -0.5% in 2018. The continued budget deficit, albeit limited, makes it difficult for a small open economy like Taiwan to increase fiscal stimulus to support economic growth.

Patience may be the answer

Patience may be required before an improvement in the economy is seen in Taiwan. We believe the economic environment will continue to be difficult for most of 2019, and forecast the economy to grow by 1.8% in 2019.