Taiwan: Unexpected moderation in manufacturing; flat retail sales

Moderate industrial production growth resulted in negligible retail sales growth. High base effects cannot explain the slow growth story

The global semiconductor shortage is an opportunity for Taiwan's electronic manufacturing

10.1% Industrial production (YoY)

Lower than expected

Moderate industrial production growth depends on global demand for semiconductors

Industrial production grew 10.1% year-on-year in February, up from 10.0% YoY in January, lower than the consensus of 12%. This moderate growth is partly the result of a low base effect from February 2021.

Integrated circuits reported growth of 20.10% YoY. This important industry for Taiwan continues to lead growth in production, and this is the most encouraging news from the data.

Not without risk as exports slipping

However, Taiwan's overall exports fell for a third consecutive month in February (-6.3% unadjusted month-on-month), while export orders also fell for a second straight month (-12.4% unadjusted MoM). Even though this could be attributed to seasonal factors related to the Chinese New Year, global demand for chips might struggle to rise further from current high levels. Production of automobiles has increased since the start of the year from 4Q21, which indicates automobile manufacturers have been able to acquire the necessary chips for new car sales. This may pose a short term risk to chip prices if the supply of chips is very tight and normalising.

0.18% Retail sales (YoY)

Lower than expected

Negligible retail sales growth during the Chinese New Year holiday

Retail sales stayed flat at 0.18% YoY, from 6.3% YoY in January. One reason for such low growth was a high base from last year. According to the MOEA's statistics, the main categories that have driven retail sales higher this year, aside from the usual New Year gifts, include a wide range of items such as luxury goods and winter goods for cold weather.

However, retail sales growth in non-specialised stores lagged the overall increase, falling 3.6% YoY amid declines in hypermarket (-11%) and convenience store (-7%) sales.

The most battered sector was the catering businesses, which is a result of Covid limiting the number of tourists in Taiwan as well as local residents' appetite for dining out.

The central bank should hike further but data not supporting the move

Taiwan's central bank hiked in March by 25bp to 1.375%. We expect another hike of 25bp in the next meeting scheduled in June. Given the fairly moderate CPI inflation at 2.36% YoY, the central bank may not need to closely follow the Fed's hiking path as US inflation is a totally different picture at 7.9%YoY.

Even with smaller hikes than the Fed, we worry that GDP growth will be at risk. Higher interest costs for the economy could slow down investment growth. This means production might not grow further easily. And the job market will therefore be negatively affected, as will retail sales until the borders reopen to attract more tourists.

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