

Lack of rain falls on Taiwan's industrial production parade

Very slow growth in industrial production should mainly be a Chinese New Year holiday effect. But it could also be down to water shortages which have impacted semiconductor chip production



A lack of rain wasn't a problem in Taiwan back in August when Typhoon Hagupit hit Taipei

Taiwan factories enjoyed the Chinese New Year holiday

It seems people in Taiwan certainly enjoyed the Chinese New Year if you look at the latest industrial production numbers. The data dropped to 2.96%YoY in February from just over 19%YoY in January. Together with retail sales growth of 12.81%YoY in February from 3.74% the month before, it's clear most factories remained closed for the holiday.

This sounds usual and implies that the Taiwan economy has regained momentum after Covid-19. But the data still makes me think there could be another factor behind this rosy scene.

Lack of water adds pressure to semiconductor chip shortage

Water is an essential natural resource for semiconductor production. Since the middle of last year, Taiwan has suffered from less rainfall than the historical average. This has started to make

semiconductor factories nervous when they have more semiconductor orders.

Let me be clear that this should not impact semiconductor factories' ability to produce.

When you've got a water shortage alongside a major holiday, the factories chose a wait-and-see approach to see if the rains would come. But they didn't. Now the government is digging up backup groundwater sites for the factories and is limiting households' water usage in areas where most semiconductor factories are located.

Sustainability

How long could this last? The global climate has changed, and every year seems to be a bit different. For Taiwan, fewer typhoons will have less damaging consequences but it also means there'll be less rainfall. And finding water from other sources will be challenging.