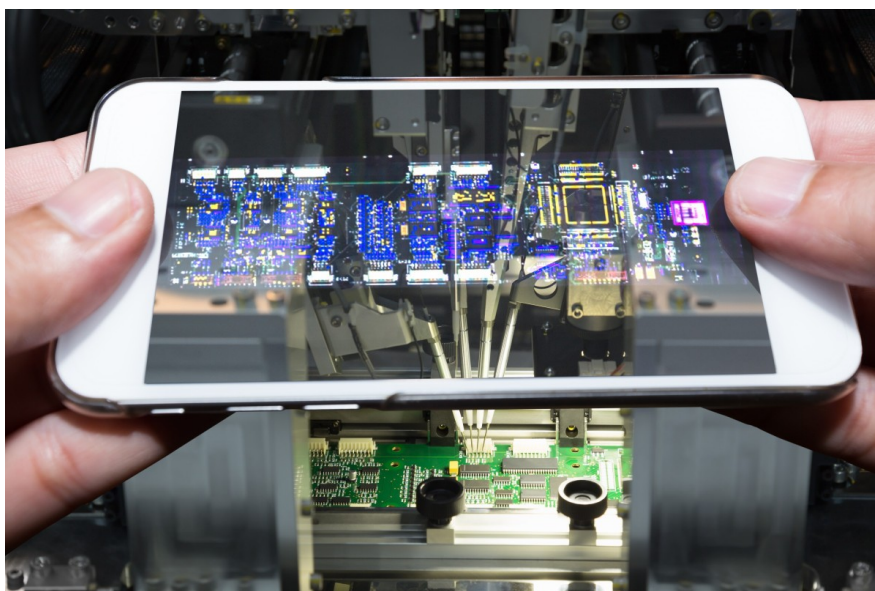


## Taiwan: When will industrial production recover?

Taiwan's industrial production fell the most in October since the Chinese New Year holiday. The economy does not seem to be benefiting from good Apple sales, and the "Return to Taiwan" investment has not translated into more production



Source: Shutterstock

### Taiwan is drilling into a manufacturing contraction cycle

Industrial production shrank 2.92% year-on-year in October after a small contraction of 0.6% in September. The contraction last month was the deepest this year, with the exception of March, which was affected by the Chinese New Year.

### Pairing with Apple

Taiwan produces parts for Apple and sales of Apple's products were good in September and October. But this did not help to boost production in Taiwan. In fact, production of integrated circuits and panels shrank 1.91% YoY and 8.34% YoY, respectively. The contraction is also surprising given that Black Friday (29 November) and Cyber Monday (2 December), are typically strong sales periods.

## "Invest Taiwan" has yet to be seen in production

The longer-term plan to boost Taiwan's factory activity does not seem to be working out so well. Manufacturing of equipment contracted 18.66% YoY.

The Taiwanese administration estimated that the amount of investment could total TWD800 billion in 2019, which is around 4% of nominal GDP. This sort of investment should have helped to revive production activity. Instead, we have seen the reverse.

The fact is that investors have adopted a wait-and-see approach. This is probably due to the trade war, as Taiwan is so intertwined with the manufacturing of Apple products and will likely be affected by the ongoing dispute. Unless there is certainty about fresh demand for Taiwan's electronic products, investments may just sit in Taiwan for the time being.

## GDP forecast

Our analysis of Taiwan, especially on its production and trade trends, has been in line with the data releases. As such, we think our GDP forecast of 2.1% for the whole of 2019 need not be revised.

We also seem to be on the right track with respect to Taiwan's currency and expect USD/TWD to reach 30.50 by the end of 2019.