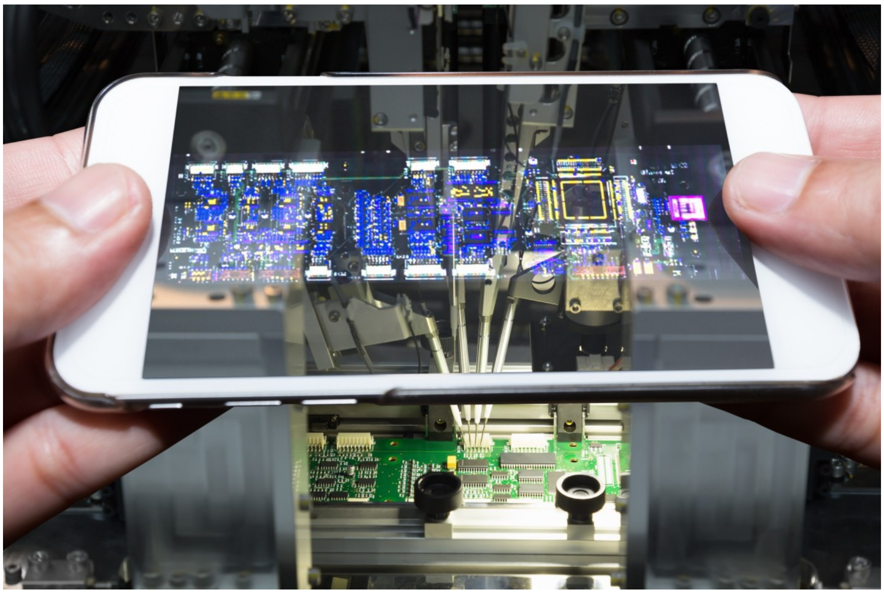
Taiwan: Why we're slashing our GDP growth forecast

Taiwan's exports and imports dropped as the Chinese New Year holiday fell in January this year as opposed to February in 2019. However, this fall should be the start of a downward trend resulting from the coronavirus. Broken supply chains are now a real concern, and we're cutting our 2020 growth forecast in half



Source: Shutterstock

Taiwan trade fell in January due to the Chinese New Year

Exports fell 7.6% year-on-year in January after a rise of 4.0% YoY in December. And it was a similar story for imports, which fell 17.7% YoY in January after growth of 13.9% YoY in December.

If we take out the Chinese New Year effect, combining production data and trade data in December 2019 and January 2020 in Mainland China and Taiwan, we see that electronic components dominated the flows of trade.

Exports of routers rose 35.9% YoY and integrated circuits rose 6.7% YoY even as most other items contracted on a yearly basis.

The 5G network development should bring more trade flows in and out of Taiwan even if the trade hurdles between Mainland China and the US continue.

But there is a risk of broken supply chains

The threat of coronavirus is not reflected in the trade data. And there could be more cases of broken supply chains in the global manufacturing system. There are many electronic parts and products produced in Mainland China, and these could be disrupted due to the outbreak.

The delay of Mainland workers going back to factories, following the lockdown of many Chinese cities, will affect the semiconductor, electronics, and smart devices production and shipments. Taiwan is part of this supply chain, and will inevitably be affected.

Wait-and-see

There is not enough information to forecast with any precision the impact on Taiwan's production and trade, as we have yet to see how many people will be able to return to work. This is a big uncertainty for manufacturers and retailers, even if consumers are willing to buy products online.

The only certainty is that this will slow production and shipments in the first quarter and possibly also in the second.

Uncertainty is the key risk.

Revising forecasts on Taiwan

We are revising Taiwan's GDP growth downward to 0.8% from 1.6% in 2020 due to the disruption of the supply chain caused by the coronavirus. This disruption will affect Taiwan's production, imports and exports, and therefore investment into Taiwan. Consumption will be affected only to a limited extent as Taiwan had very few Mainland visitors even before the outbreak.

The central bank can do very little to alleviate the damage in the economy. Cutting interest rates will not bring marginal investments, which have been delayed due to the virus.

Capital continues to flow into the Taiwan stock market, fuelling the strength of the Taiwan dollar, but this should be temporary as companies may well be affected by broken supply chains. We expect the USD/TWD to end at 30.00 in 2020, unchanged from our previous forecast.

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com