

Taiwan's exports face increasing concentration risk as growth slows in July

Export growth slowed more than expected while import growth came in broadly in line with expectations, leading to a slightly smaller trade surplus for July



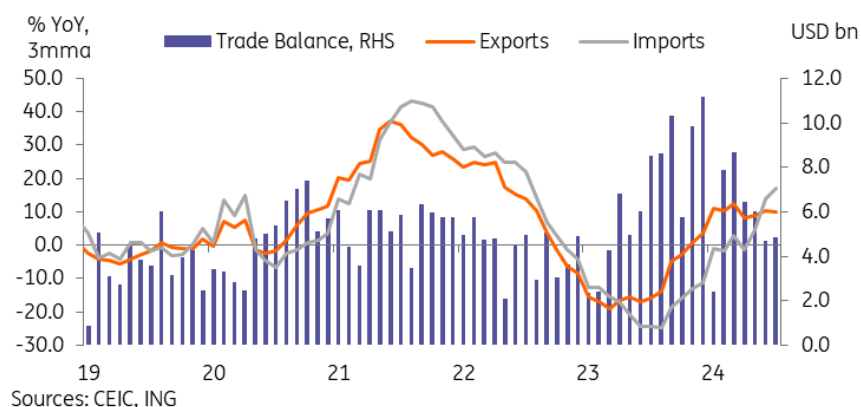
Source: Shutterstock

3.1%

Taiwan's July export growth (year-on-year)

Lower than expected

Taiwan's trade surplus a little lower than forecasts for the second consecutive month



Slower export growth led to a slightly lower than expected trade balance

Taiwan's exports slowed to 3.1% year-on-year in July, down from the torrid 23.5% YoY pace in June. This pullback was expected, but export growth cooled more than our expectations for high single-digit growth. Exports managed to eke out 0.1% growth on the month.

Meanwhile, despite a 0.3% MoM decline in imports, they still grew 16.2% YoY in July. At first glance, this might give the appearance that demand has recovered strongly, however, this has very much been a base effect story, which should continue for the next several months. Imports contracted by -19% YoY in the third quarter of 2023, meaning that it won't take much to see strong growth this year.

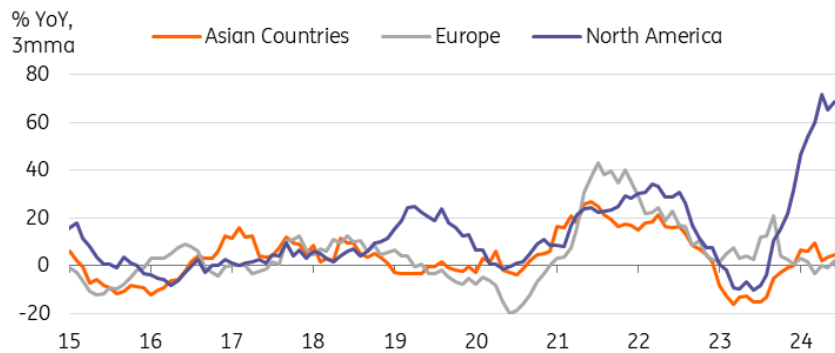
The relative undershooting of exports caused a slightly smaller trade surplus of USD4.83bn, compared to our forecasts of USD5.5bn. The month's data does not substantively alter the 2024 growth outlook for now, but there were some areas worth highlighting in the data.

Firstly, most of the export categories exhibited weakness in July. The main export category of machinery and electrical equipment (6.6% YoY) appeared to show decent strength but this was almost entirely driven by the 42.4% YoY growth in the information, communication, and audio-video product category, namely tied to the continued strong growth of computer exports which grew 85.5% YoY. Other machinery and electrical equipment subcategories were in contraction, and semiconductor exports swung back into negative YoY growth of -12.8% YoY in July after a solid 7.6% YoY growth rate in June. Exports of chemicals (-6.7%), plastic & rubber articles (-4.5%), and textiles (-8.5%), which combine to account for around 10% of Taiwan's exports, also contracted on the month.

Export destinations continued to show significant divergence as well. Export growth was almost entirely reliant on growth to North America, which was up 68.9% YoY in July. However, we saw that exports to Asia (-8.3%) and Europe (-33.7%) contracted in year-on-year terms, in large part due to a 13.5% YoY decline of exports to Mainland China and Hong Kong and a 29.1% YoY decline of exports to Germany. Taiwan's export growth has remained worryingly dependent on demand from the US.

In short, it looks like exports are being driven by exports of computers to the US, while other areas are showing some signs of vulnerability. This sets up Taiwan's exports for a larger-than-normal impact if the US ends up facing a recession, which appears to be an increasingly salient risk given the developments of the past week.

Taiwan's export growth remains heavily dependent on US demand



Sources: CEIC, ING

Author

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.