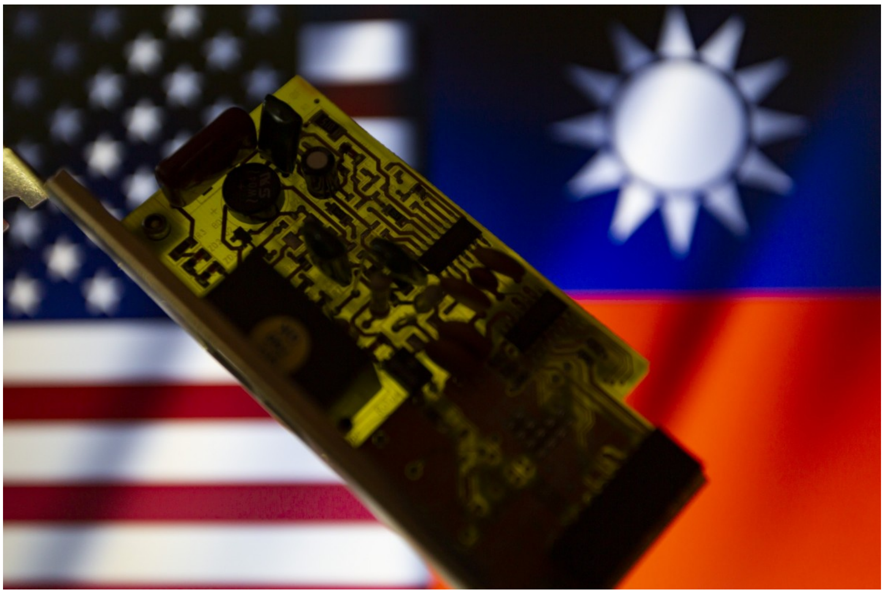
Taiwan’s exports face increasing concentration risk as growth slows in July

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



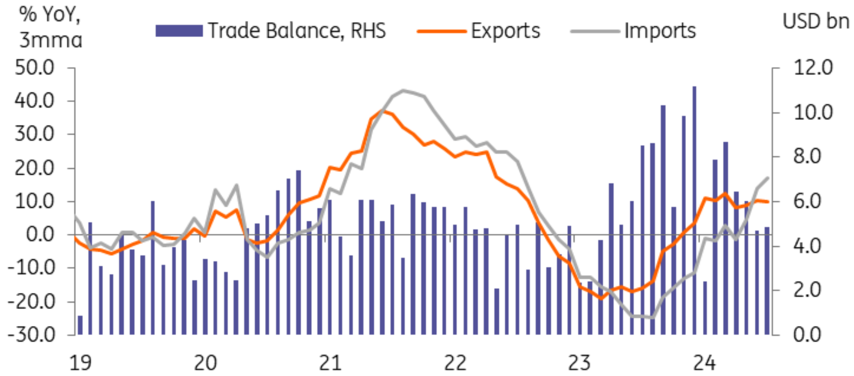
Source: Shutterstock

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



Sources: CEIC, ING

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.

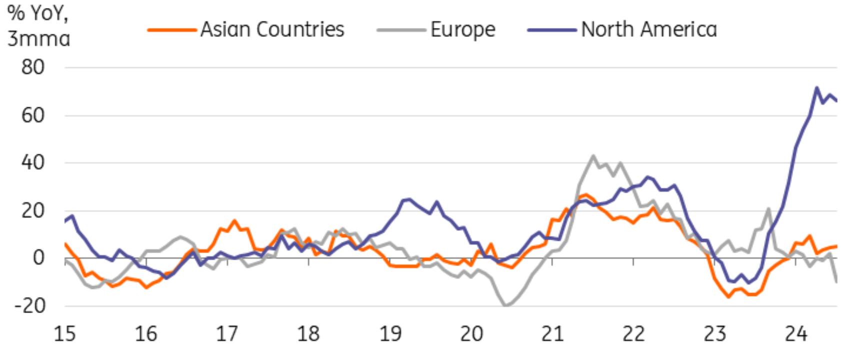
The relative undershooting of exports caused a slightly smaller trade surplus of USD4.83bn, compared to our forecasts of USD5.5bn. The month's data does not substantively alter the 2024 growth outlook for now, but there were some areas worth highlighting in the data.

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

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