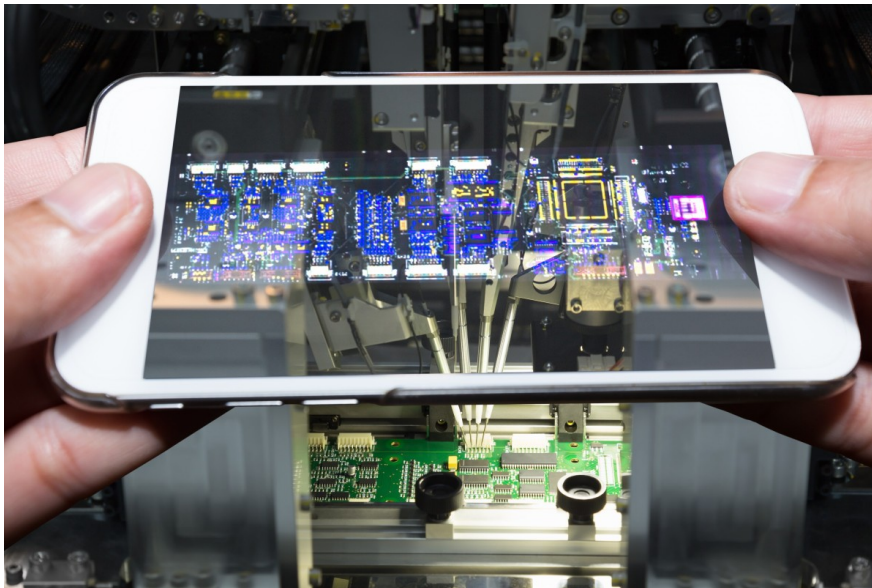


## Taiwan's GDP growth slows down and continues to face challenges

Taiwan's economy grew at a slower pace in the second quarter on a yearly basis and contracted from the previous quarter. The second quarter was complicated by Mainland China's lockdown, though logistics are nearly back to normal here. Consumer demand is now weak and could pose risks to semiconductor manufacturing - Taiwan's main pillar



Source: Shutterstock

# 3.08%

GDP 2Q22 (year-on-year)

Slower than 3.14% YoY in 1Q22

## Slower yearly gain and a quarterly contraction of GDP in the second quarter

Taiwan's GDP grew 3.08% year-on-year in 2Q22 from 3.14% YoY in 1Q22. The growth rate was lower than the government's expectation of 3.31% but close to our forecast of 3.0%.

The slower yearly growth does not fully reflect the difficulties faced by Taiwan over the period. GDP contracted on a quarterly basis by 0.74% after seasonal adjustments. The contraction was due to a slowdown in Taiwan's semiconductor sector when key cities in Mainland China were under lockdown. Domestic consumption was also weak due to an increase in Covid cases in April and May.

# -0.74%

GDP 2Q22 (seasonally-adjusted quarterly rate)

We expect another quarterly contraction in 3Q22

## Challenges in 2H22

There are still challenges for the rest of the year. Consumer demand has been weak in Mainland China, which implies weaker demand for smart devices in 2H22. This is going to put downward pressure on the semiconductor sector, which has been Taiwan's main pillar of growth.

The good news for the GDP data is that the base effect is going to change from a high base to a low base in the second half of the year, which would result in a higher growth rate mathematically. So we would focus more on quarterly growth data in the second half to see if the contraction continues into the third quarter.

**We maintain our GDP forecasts at 4.7% YoY and 4.5% YoY for 3Q22 and 4Q22, respectively. The forecasts embed another quarterly contraction in 3Q22.**

The central bank will struggle with curbing higher inflation and preventing another quarterly GDP contraction. We expect that it could possibly follow the Federal Reserve's rate hike partially by hiking 0.125bp in 3Q22 and 4Q22, respectively, which are small hikes compared to the Fed's monetary policy.

**With smaller rate hikes than the US economy, the Taiwan dollar is going to be weaker against the US dollar. We expect USD/TWD to reach 30.5 by the end of 3Q22 and 30.7 by the end of the year.**