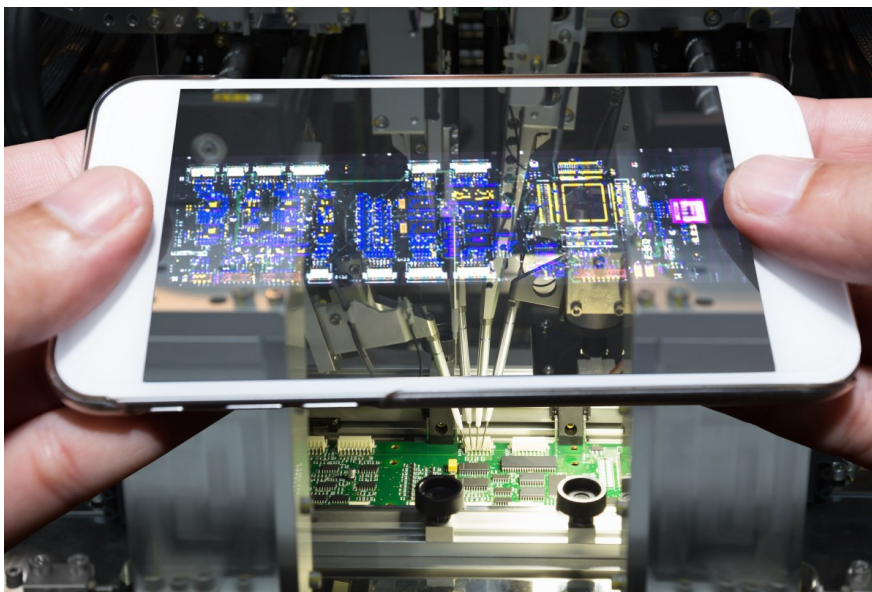


Taiwan struggles with Covid-19 and chip shortages as industrial production falls

Taiwanese industrial production growth slips as Covid-19 and chip shortages play their roles in the economy



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 Industrial production

Worse than expected

Disappointing industrial production growth

Taiwan's industrial production growth rate fell to 13.97% year-on-year in July from 18.37%YoY a month ago.

Integrated circuits - the heavyweight in industrial production manufacturing sub-index item, recorded 16.3%YoY growth after a contraction of 12.43%MoM.

We didn't expect the manufacturing of integrated circuits to fall on a monthly basis because chip shortages around the world mean that Taiwan's semiconductor factories should be running at full capacity. The unemployment rate that fell to 4.36% in July from 4.76% in June corroborates our view.

Unexpected fall in Taiwan's industrial production and export orders of electronic items could be a result of Covid-19 affecting workers in the world to continue to build 5G infrastructure.

If we dig deeper, export orders of electronic items fell 2.7%MoM too. We believe that global 5G infrastructure development could have slowed down due to the spread of the Delta variant that has affected many workers globally.

We expect GDP growth to fall in 2H21 to 2.4%YoY compared to 1H21's 8.35%, and therefore a full-year forecast of 5.4%.

That is because of the large base effects and Covid-19. The Delta variant is affecting the world, and it is uncertain how it will affect demand for electronic goods and the development of 5G infrastructure, which would directly affect Taiwan's semiconductor chip production and exports.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com