

Taiwan economy

Export orders to grow 2.5% YoY in December

Key message

1. Taiwan export orders totaled US\$52.27bn in November, up 3.3% YoY, missing consensus of 6.6% YoY growth and our forecast of 8.2% YoY growth.
2. Electronics and optical instruments outperformed, outpacing ICT. By region, export orders from Japan outperformed, and those from the ASEAN retreated YoY; orders from Europe and China underperformed.
3. We forecast export orders to rise by 2.5% YoY in December. Electronics, optical instruments, electrical machinery, and base metals will outperform, along with corresponding Taix sectors of electronic components, semiconductor, optical components/ assembly, electrical machinery, steel and chemicals.

Event

Taiwan export orders totaled US\$52.27bn in November, down 5.7% MoM and 3.8% MoM seasonally-adjusted, and grew by 3.3% YoY, missing consensus of 6.6% YoY growth and our forecast of 8.2% YoY growth (Figure 1).

Analysis

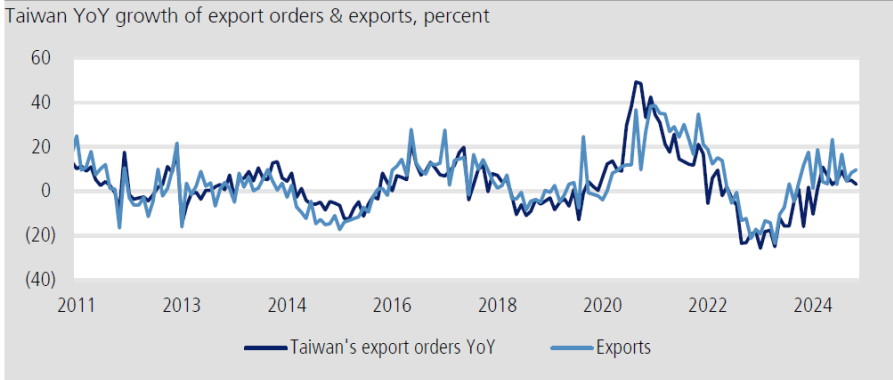
In electronics, electronic products & optical instruments outperformed, outpacing ICT. Among major products, ICT export orders were down by 10.0% MoM and 2.3% YoY to US\$15.8bn in November on slower pull-in for handsets, while robust demand for AI applications and from the cloud industry resulted in stronger server and networking orders, partially offsetting the decline. Electronics orders slipped 8.7% MoM and 7.2% YoY to US\$19.1bn, as demand for highpower computing (HPC) and AI continued to expand, resulting in more orders for IC manufacturers and PCB. However, growth was partially offset by reduced order inflows for IC operators of distribution channels. Optical instrument orders climbed 7.0% YoY to US\$1.78bn, due to TV restocking demand, which grew orders for large-sized panel. Additionally, orders for optical inspection and measuring equipment continued to expand. Recovery in orders for raw materials sustained, while sectors saw a wide divergence. Plastics and rubber orders edged up 4.0% YoY, due to stronger inventory replenishment by downstream clients, coupled with orders for rubber raw materials and rubber gloves continuing to pick up. Base metals orders fell 6.3% YoY in November, as excess capacity in steel coil and plate at overseas competitors led to price cuts to vie for orders. Orders for chemicals dipped 1.3% YoY, due to new capacity ramp-ups by overseas competitors and price cuts, capping orders. However, orders for chemical materials for electronics rose, partially offsetting the decline. Machinery orders were up by 6.0% YoY on aggressive capacity expansion by semiconductor makers, spurring demand for semiconductor equipment and increasing orders for automation equipment. Orders for machine tools sank, partially offsetting the growth (Figures 2 & 3).

Orders from Japan outperformed; orders from ASEAN retreated YoY; Europe & China underperformed. Orders from the US rose 11.7% YoY in November, with electronics up the most, by 27.0%, or US\$1.74bn. Orders from China and Hong Kong fell 3.4% YoY, with optical electronics down the most, by 4.7%, or US\$280mn. Orders from Europe fell by 7.9% YoY, with orders for ICT down the most, by 9.5% YoY. Orders from the ASEAN slipped 0.8% YoY, with orders for ICT down the most, by 5.5% YoY. Orders from Japan outperformed, with orders for game console up the most by 86.6% YoY (or US\$210mn) (Figures 4 & 5).

Conclusion

ICT export orders retreated in November due to reduced pull-in for handsets, while electronics orders grew on increased demand for HPC and AI applications. In the traditional manufacturing sector, machinery orders outperformed on aggressive capacity expansion in advanced nodes by semiconductor makers. As the global economy trends down and US-China tensions intensify, Taiwan's export orders will slow down. Taiwan's corporate number-based diffusion index was at 44.3 in December, while the order value-based diffusion index was at 48.8 (Figure 6). We estimate export orders will rise by 2.5% YoY in December, though underperforming November. Judging by individual diffusion indices, electronics, optical instruments, electrical machinery, and base metals will outperform, along with the corresponding Taix sectors of electronic components, semiconductor, optical components/ assembly, electrical machinery, steel and chemicals.

Figure 1: Taiwan November export orders grew 3.3% YoY, missing consensus of 6.6% YoY growth & our forecast of 8.2% YoY growth



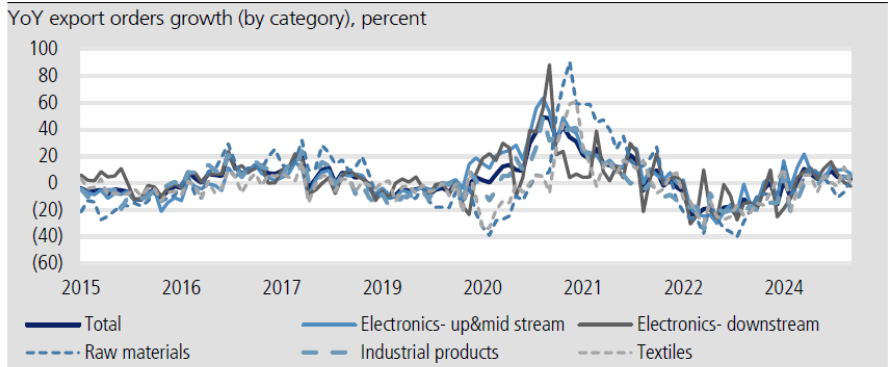
Source: Bloomberg; KGI Research

Figure 2: Main export order categories

	Nov-24			From Jan-24 to Nov-24		
	Value (US\$b)	MoM (%)	YoY (%)	Value (US\$b)	Weighting (%)	YoY (%)
ICT	15.8	(10.0)	(2.3)	156.8	29.2	2.0
Electronics	19.1	(8.7)	7.2	191.6	35.7	9.6
Optics	1.8	7.5	7.0	18.9	3.5	7.8
Base metals	1.9	(8.8)	(6.3)	23.1	4.3	0.7
Machinery	1.7	9.1	6.0	17.7	3.3	0.6
Plastics/rubber	1.5	0.4	4.0	17.5	3.3	1.4
Chemicals	1.4	0.9	(1.3)	16.4	3.1	3.2
Total	52.3	(5.7)	3.3	536.6	100.0	3.7

Source: Bloomberg; KGI Research

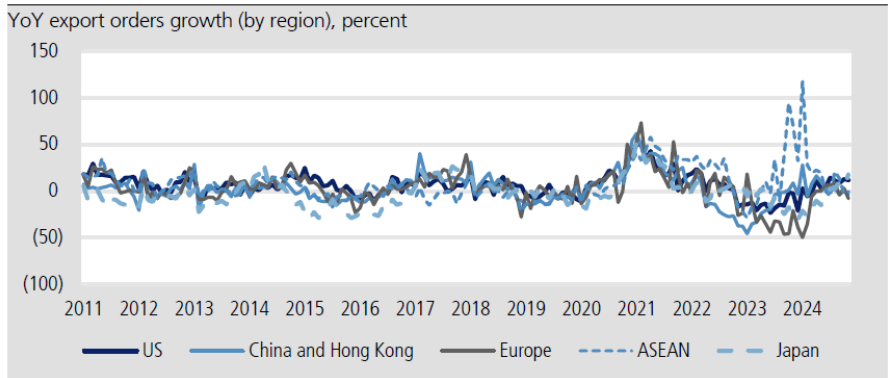
Figure 3: Electronics & optical instrument orders outperformed, outpacing ICT



Note: Midstream/ upstream electronics are electronic products and optical apparatus; downstream electronics are information and communication products; raw materials include chemicals, plastic & rubber products, base metals and minerals; industrial products are machinery, electrical machinery products and transportation equipment.

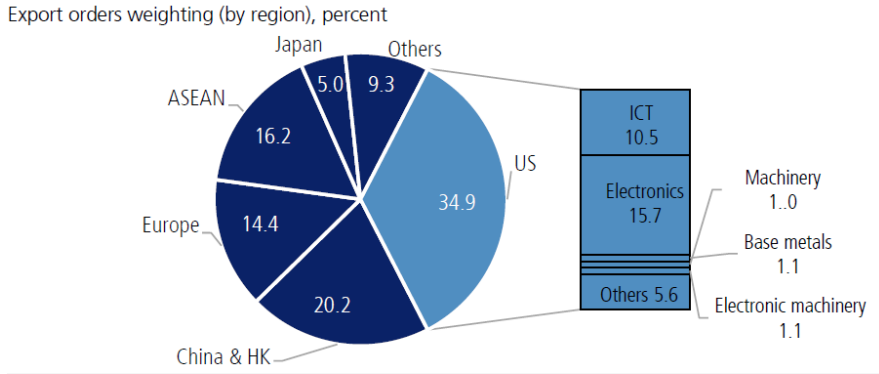
Source: Bloomberg; KGI Research

Figure 4: Orders YoY from Japan outperformed; orders from ASEAN retreated; Europe & China underperformed



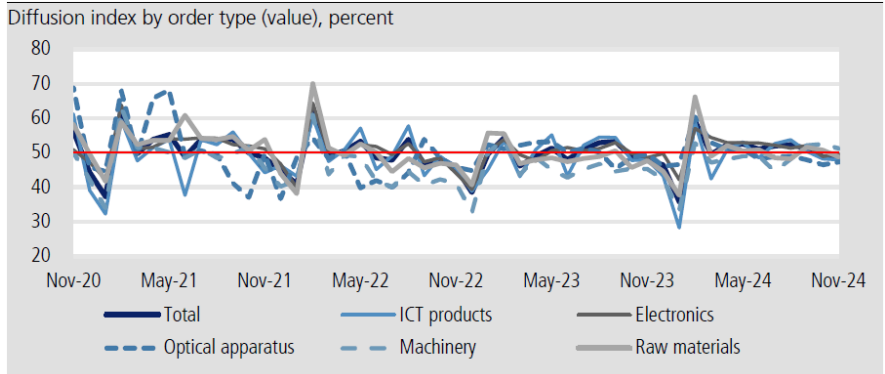
Source: Bloomberg; KGI Research

Figure 5: Taiwan export order weighting of China rose the most MoM, that of ASEAN dropped the most in November



Source: Bloomberg; MOEA; KGI Research

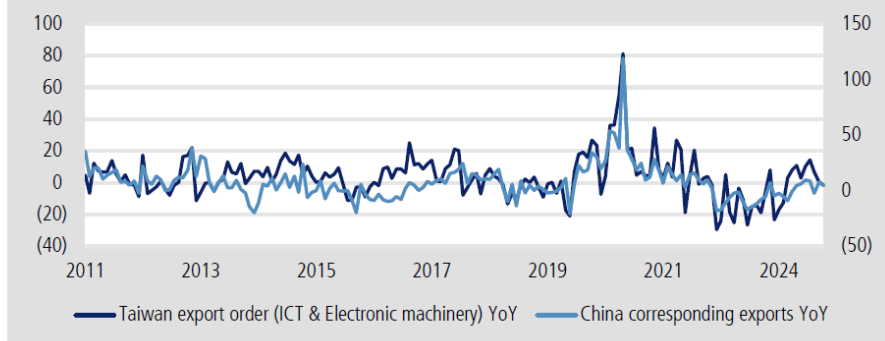
Figure 6: Diffusion indices point to order decline in December



Note: Raw materials are chemicals, plastics & rubber products, base metals, and minerals
Source: Bloomberg; KGI Research

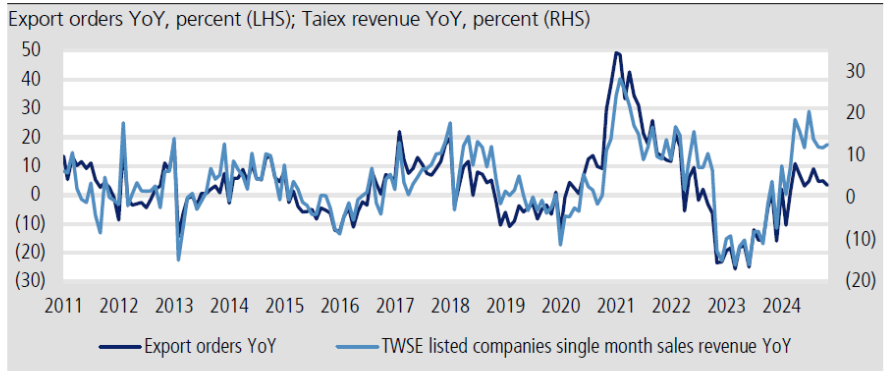
Figure 7: Order growth of ICT & electronic machinery slowed YoY in November, registering a similar trend of corresponding China exports

Taiwan export orders (ICT & electronic machinery) YoY, percent (LHS); corresponding China exports YoY, percent (RHS)



Source: Bloomberg; KGI Research

Figure 8: November YoY growth of export orders slipped from October, while Taix revenue YoY growth rose moderately



Source: Bloomberg; KGI Research

Figure 9: Major international political & economic events over the next quarter

Date	Event	Possible effect
1/20	Trump takes office	Bull run may reach an inflection point; negative trends reflecting policies may strengthen
1/20-24	World Economic Forum	Themed "Collaboration for the Intelligent Age"
1/23-24	Bank of Japan monetary policy meeting	To further raise rates to achieve normalization of monetary policy
1/28-29	Fed FOMC meeting	Fed will start to take into account impacts/ changes under Trump; although the Summary of Economic Projections are not yet issued, measures will be gradually taken; it is expected that this meeting will be the inflection point when the Fed starts to slow down the pace of rate cuts to 25bps per quarter
1/30	ECB monetary policy meeting	Rate cut expected to be unchanged at 25bps
2/23	German federal elections	The president of the Liberal Democratic Party was dismissed due to ongoing disagreements in the three-way coalition government, leading to the collapse of the ruling coalition government
3/6	ECB monetary policy meeting	Rate cut expected to be unchanged at 25bps
3/18-19	Fed FOMC meeting	Summary of Economic Projections will change drastically after incorporating the impact of Trump - Economic growth will be revised down and inflation will be revised up; the pace of rate cuts will slow down, weighing on stock market valuations once again
March	China's Two Sessions	Compared to the previous China Central Economic Work Conference in December, more specific fiscal stimulus is expected to be introduced, especially now that Trump has taken office

Source: KGI Research

Figure 10: Key economic data - US

Indicators		Units	2020	2021	2022	2023	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	
GDP	GDP QoQ SAAR	QoQ % SAAR					3.2			1.6			3.0			3.1			
	GDP YoY	YoY %	(2.2)	6.1	2.5	2.9	3.2		2.9			3.0			2.7				
Consumer prices	CPI	YoY %	1.2	4.7	8.0	4.1	3.4	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5	2.4	2.6	2.7	
	Core CPI	YoY %	1.7	3.6	6.2	4.8	3.9	3.9	3.8	3.8	3.6	3.4	3.3	3.2	3.2	3.3	3.3	3.3	
	PCE price index	YoY %	1.1	4.1	6.6	3.8	2.7	2.6	2.6	2.8	2.7	2.6	2.4	2.5	2.3	2.1	2.3		
	Core PCE index	YoY %	1.3	3.6	5.4	4.2	3.0	3.1	2.9	3.0	2.9	2.7	2.6	2.7	2.7	2.7	2.7	2.8	
Labor market	Labor force participation rate	%	61.5	62.0	62.3	62.5	62.5	62.5	62.5	62.7	62.7	62.5	62.6	62.7	62.7	62.7	62.6	62.5	
	Unemployment rate	%	8.1	5.4	3.6	3.6	3.7	3.7	3.9	3.8	3.9	4.0	4.1	4.3	4.2	4.1	4.1	4.1	
	Non farm payrolls	'000	(9,274)	7,245	4,528	3,013	290	256	236	310	108	216	118	144	78	255	36	227	
	Net Change in total employment in labor force	'000	(8,856)	6,135	4,528	3,013	(683)	(31)	(184)	498	25	(408)	116	67	168	430	(368)	(355)	
	Challenger job cut announce	YoY %	15.8	(1.2)	(1.7)	2.1	(20)	(20)	9	1	(3)	(20)	20	9	1	53	51	27	
	Opening/ hiring	x	1.07	1.56	1.75	1.58	1.54	1.54	1.52	1.49	1.41	1.46	1.51	1.42	1.45	1.32	1.46		
	Avg. hourly earnings	YoY %	5.4	5.0	4.9	4.3	4.3	4.4	4.3	4.1	3.9	4.0	3.8	3.6	3.9	3.9	4.0	4.0	
Economic activity & business condition	Industrial production	YoY %	(7.1)	4.4	3.4	0.2	0.8	(1.2)	(0.1)	(0.3)	(0.8)	0.0	0.9	(0.5)	(0.0)	(0.8)	(0.5)	(0.9)	
	Durable goods orders	YoY %	(4.6)	18.4	8.2	4.4	3.4	(0.9)	4.5	(2.2)	1.2	(1.4)	(11.3)	2.8	(0.4)	(2.9)	5.4		
	Core capital goods orders	YoY %	(8.3)	12.8	6.5	1.7	(8.3)	(0.2)	3.2	(0.9)	2.8	(0.5)	(2.2)	2.0	(1.5)	0.5	1.9		
	Total business inventory/ sales ratio	x	1.44	1.28	1.34	1.37	1.37	1.38	1.37	1.37	1.37	1.38	1.38	1.37	1.38	1.37	1.37		
	Manufacturing inventory/ sales ratio	x	1.62	1.49	1.47	1.48	1.48	1.49	1.47	1.47	1.46	1.47	1.46	1.45	1.46	1.46	1.46		
	Retail inventory/ sales ratio	x	1.34	1.15	1.24	1.27	1.28	1.30	1.29	1.29	1.30	1.31	1.33	1.32	1.33	1.33	1.33		
	ISM manufacturing index	Point	52.4	60.6	53.5	47.1	47.1	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2	46.5	48.4	
	ISM non-manufacturing index	Point	54.3	62.4	56.1	52.8	50.5	53.4	52.6	51.4	49.4	53.8	48.8	51.4	51.5	54.9	56.0	52.1	
	ISM manufacturing index: new orders	Point	53.9	64.3	51.6	46.0	47.0	52.5	49.2	51.4	49.1	45.4	49.3	47.4	44.6	46.1	47.1	50.4	
	Chicago Fed National activity Index	Point	(0.46)	0.38	(0.00)	(0.11)	(0.11)	(0.81)	0.39	(0.15)	(0.39)	0.15	(0.12)	(0.30)	(0.04)	(0.27)	(0.40)		
	Conference board leading index	YoY %	(4.7)	7.1	0.4	(7.7)	(7.1)	(7.1)	(6.5)	(5.5)	(5.5)	(5.2)	(4.9)	(5.1)	(5.0)	(4.7)	(4.2)	(3.5)	
	C&I Loans for large/medium - tightening lending standard	%	37.6	(15.1)	11.8	43.9		14.5		15.6				7.9			0.0		
C&I Loans for large/medium - stronger demand	%	(15.5)	(1.2)	12.4	(42.3)		(25.0)		(26.6)				0.0			(21.3)			
Housing market	Building Permits	'000, SAAR	1,478	1,738	1,682	1,518	1,530	1,508	1,563	1,485	1,440	1,399	1,454	1,406	1,470	1,425	1,419	1,505	
	Housing starts	'000, SAAR	1,394	1,605	1,552	1,421	1,568	1,376	1,546	1,299	1,377	1,315	1,329	1,262	1,379	1,355	1,312	1,289	
	New home sales	'000, SAAR	831	770	637	666	654	664	643	683	736	672	672	707	690	738	610		
	Existing home sales	mn, SAAR	5.6	6.1	5.1	4.1	3.9	4.0	4.4	4.2	4.1	4.1	3.9	4.0	3.9	3.8	4.0	4.2	
Consumption	NAHB housing market index	Point, SA	70	81	59	44	37	44	48	51	51	45	43	41	39	41	43	46	
	S&P/Case-Shiller 20-city composite home price index	YoY %	10.4	18.7	4.9	6.4	6.4	6.8	7.5	7.5	7.2	6.8	6.5	5.9	5.2	4.6			
	Personal expenditures	YoY % SA	(2.5)	8.8	3.0	2.5	3.6	1.9	2.1	2.7	2.4	2.8	2.9	2.8	2.9	3.1	3.0		
	Retail sales	YoY %	0.8	18.2	9.1	3.6	5.5	0.3	2.1	3.6	2.8	2.6	2.0	2.9	2.0	2.0	2.9	3.8	
	Retail sales ex-autos	YoY %	1.5	17.3	10.6	3.4	4.6	0.9	2.0	3.7	3.2	2.9	3.3	3.2	2.3	2.4	2.7	3.2	
	Domestic vehicles sales	mn, SA	173.0	179.2	164.8	185.2	15.8	15.0	15.8	15.5	15.7	15.9	15.3	15.8	15.1	15.8	16.0	16.5	
Fiscal	Conference board consumer confidence	Point	101.0	112.7	104.5	105.4	108.0	110.9	104.8	103.1	97.5	101.3	97.8	101.9	105.6	99.2	109.6	111.7	
	Michigan Consumer Sentiment Index	Point	81.5	77.6	59.0	65.4	69.7	79.0	76.9	79.4	77.2	69.1	68.2	66.4	67.9	70.1	70.5	71.8	
	Budget balance	As % of GDP	(15.2)	(10.4)	(5.3)	(6.3)	(6.3)	(6.2)	(6.3)	(5.8)	(5.6)	(6.0)	(5.4)	(5.4)	(7.0)	(6.2)	(6.9)	(7.1)	
Int'l balance	Current account balance	As % of GDP	(2.8)	(3.7)	(3.9)	(3.3)	(3.2)		(3.2)			(3.3)			(3.6)				
	Net foreign securities transactions	US \$bn	505	907	1,321	931	88.2	(69.4)	25.6	58.6	62.4	(42.8)	80.3	138.2	108.7	216.1	152.3		
Monetary & financial	Federal funds rate	%	0.25	0.25	4.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.00	5.00	5.00	4.75	
	10-Year treasury yield	%	0.91	1.51	3.87	3.88	3.88	3.91	4.25	4.20	4.68	4.50	4.40	4.03	3.90	3.78	4.28	4.17	
	Dollar index	Point	89.9	95.7	103.5	101.3	101.3	103.3	104.2	104.5	106.2	104.7	105.9	104.1	101.7	100.8	104.0	105.7	

Source: Bloomberg; KGI Research

Figure 11: Key economic data - Taiwan

Indicators	Units	2020	2021	2022	2023	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	
GDP	GDP YoY	YoY %	3.4	6.7	2.7	1.1	4.7		6.6			4.9			4.2			
Consumer prices	CPI	YoY %	(0.2)	2.0	3.0	2.5	2.7	1.8	3.1	2.2	1.9	2.2	2.4	2.5	2.4	1.8	1.7	2.1
	Core CPI	YoY %	0.7	1.9	2.7	2.4	2.4	1.7	2.9	2.1	1.8	1.8	1.8	1.9	1.8	1.8	1.6	1.7
Labor market	Unemployment rate	%	3.8	3.7	3.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.3	3.3	3.4	3.4	3.4	
Economic activity	Industrial production	YoY %	8.8	14.7	(1.7)	(12.5)	(3.8)	15.6	(1.3)	4.2	14.5	15.7	12.8	13.0	12.5	11.2	8.9	
	Markit Taiwan manufacturing PMI	Point			47.7	46.3	47.1	48.8	48.6	49.3	50.2	50.9	53.2	52.9	51.5	50.8	50.2	51.5
	NDC monitoring light signal						Yellow-blue	Green	Green	Green	Yellow-red	Yellow-red	Red	Yellow-red	Red	Yellow-red	Yellow-red	
	NDC monitoring indicators	Point	24.3	39.0	24.2	14.4	22.0	27.0	29.0	31.0	35.0	36.0	38.0	35.0	39.0	34.0	32.0	
	NDC composite leading index	YoY %	(0.4)	4.7	(3.2)	(1.5)	(1.9)	(2.0)	(1.4)	(1.2)	0.3	1.4	2.3	2.9	3.1	3.1	2.5	
	NDC composite coincident index	YoY %	(0.9)	8.3	(1.4)	(8.2)	0.3	2.3	3.5	5.5	6.9	7.9	8.2	8.5	8.1	7.6	7.0	
Consumption	Retail sales	YoY %	0.2	3.3	7.4	9.7	4.5	3.5	12.3	5.7	1.6	2.6	3.9	3.1	1.1	3.4	(0.5)	
Trade	Exports	US\$bn	345.2	446.6	479.7	432.6	39.9	37.2	31.4	41.8	37.5	37.4	39.9	39.9	43.6	40.6	41.3	41.1
	Imports	US\$bn	285.8	381.3	428.1	352.1	28.8	34.7	23.6	33.1	31.0	31.3	35.2	35.1	32.1	33.5	34.4	33.2
	Trade balance	US\$bn	59.4	65.3	51.6	80.5	11.1	2.5	7.9	8.7	6.5	6.1	4.7	4.8	11.5	7.1	6.9	7.9
	Export growth	YoY %	4.9	29.4	7.4	(9.8)	11.7	17.7	1.3	18.8	4.3	3.4	23.4	3.1	16.8	4.5	8.4	9.7
	Import growth	YoY %	0.1	33.4	12.3	(17.8)	(6.7)	18.7	(17.8)	7.2	6.5	0.6	33.9	15.8	11.7	17.3	6.5	19.8
	Export orders	US\$bn	533.7	674.1	666.8	561.0	43.8	48.4	37.7	47.2	47.1	48.9	45.6	50.0	50.2	53.8	55.5	52
	Export order growth	YoY %	10.1	26.3	(1.1)	(15.9)	(16.0)	1.9	(10.4)	1.2	10.8	7.0	3.1	4.8	9.1	4.7	4.9	3.3
Monetary & financial	M1B	YoY %	16.2	12.8	4.1	3.1	3.1	3.6	4.5	5.4	4.9	5.0	5.2	5.2	4.1	4.1	4.9	4.6
	M2	YoY %	8.5	8.0	7.1	5.3	5.3	5.4	5.6	6.2	6.1	6.0	6.3	6.2	5.8	5.6	5.8	5.5
	Foreign reserves	US\$bn	529.9	548.4	554.9	570.6	570.6	569.5	569.4	568.1	567.0	572.8	573.3	571.7	579.1	577.9	576.9	578.0
	Rediscount rate	%	1.1	1.1	1.8	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Exchange rate	USD/TWD	28.1	27.7	30.7	30.6	30.6	31.3	31.6	32.0	32.6	32.5	32.4	32.8	32.0	31.7	32.0	32.5

Source: Bloomberg; KGI Research

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