

TAIWAN'S ECONOMIC SITUATION AND OUTLOOK

August 2013

Council for Economic Planning and Development
Executive Yuan

WELCOME TO C.E.P.D.

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I. PREFACE

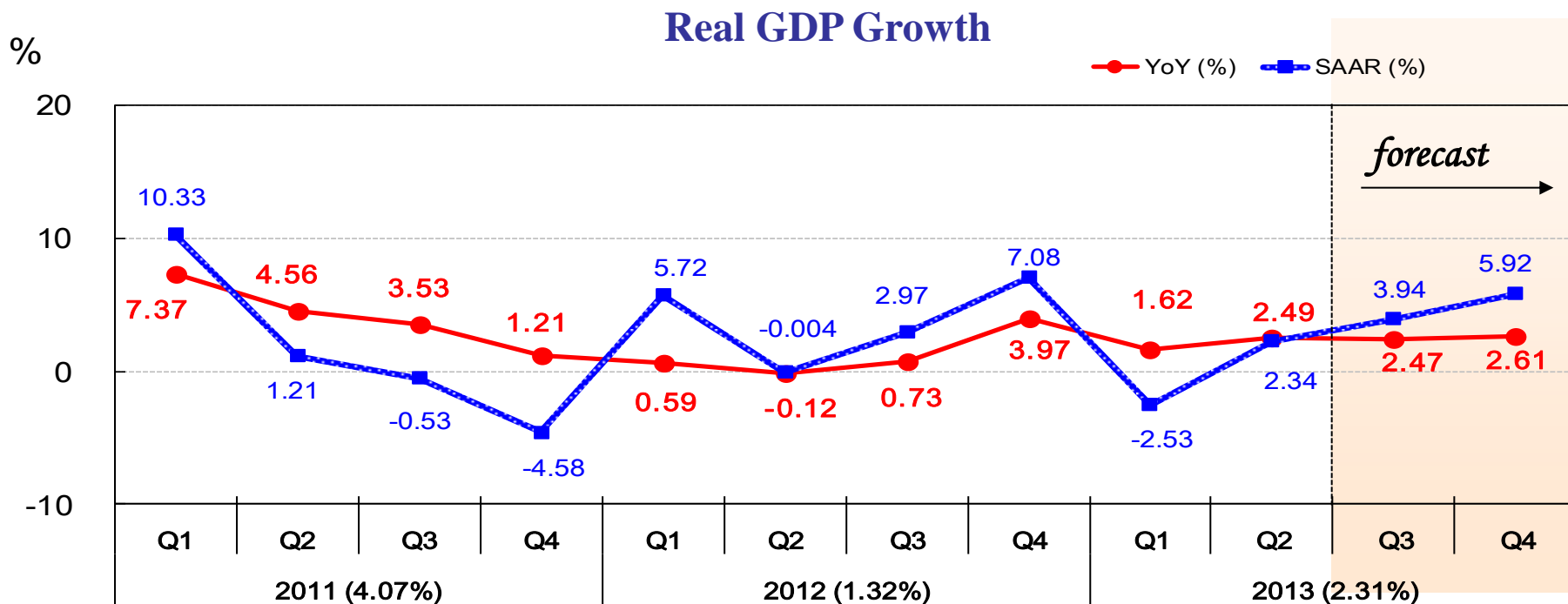
- *Taiwan's Economic Situation and Outlook* is designed to give domestic and foreign readers concise analysis on Taiwan's current economic situation, including its economic growth, foreign trade, domestic demand, industrial production, employment, prices, and financial aspects. It also provides prospects for 2013 and 2014.
- Mainly due to the global economic outlook being weaker than initially expected, the 2013 real GDP growth forecast has been revised to 2.31% in the DGBAS's latest estimation, down 0.09 of a percentage point from May's forecast of 2.40%. As the global economy is likely to improve next year, Taiwan's real GDP is projected to grow by 3.37% in 2014.

II. CURRENT DOMESTIC SITUATION

Economic Growth

⇒ In Q2 2013, due to the slightly better-than-expected goods export and a modest improvement in private consumption, the year-on-year (yoy) growth rate of real GDP was 2.49%, according to the latest preliminary estimation by DGBAS. Meanwhile, the seasonally adjusted quarterly rate (saqr) of real GDP growth increased from the previous quarter by 0.58%, and the seasonally adjusted annualized rate (saar) was 2.34%.

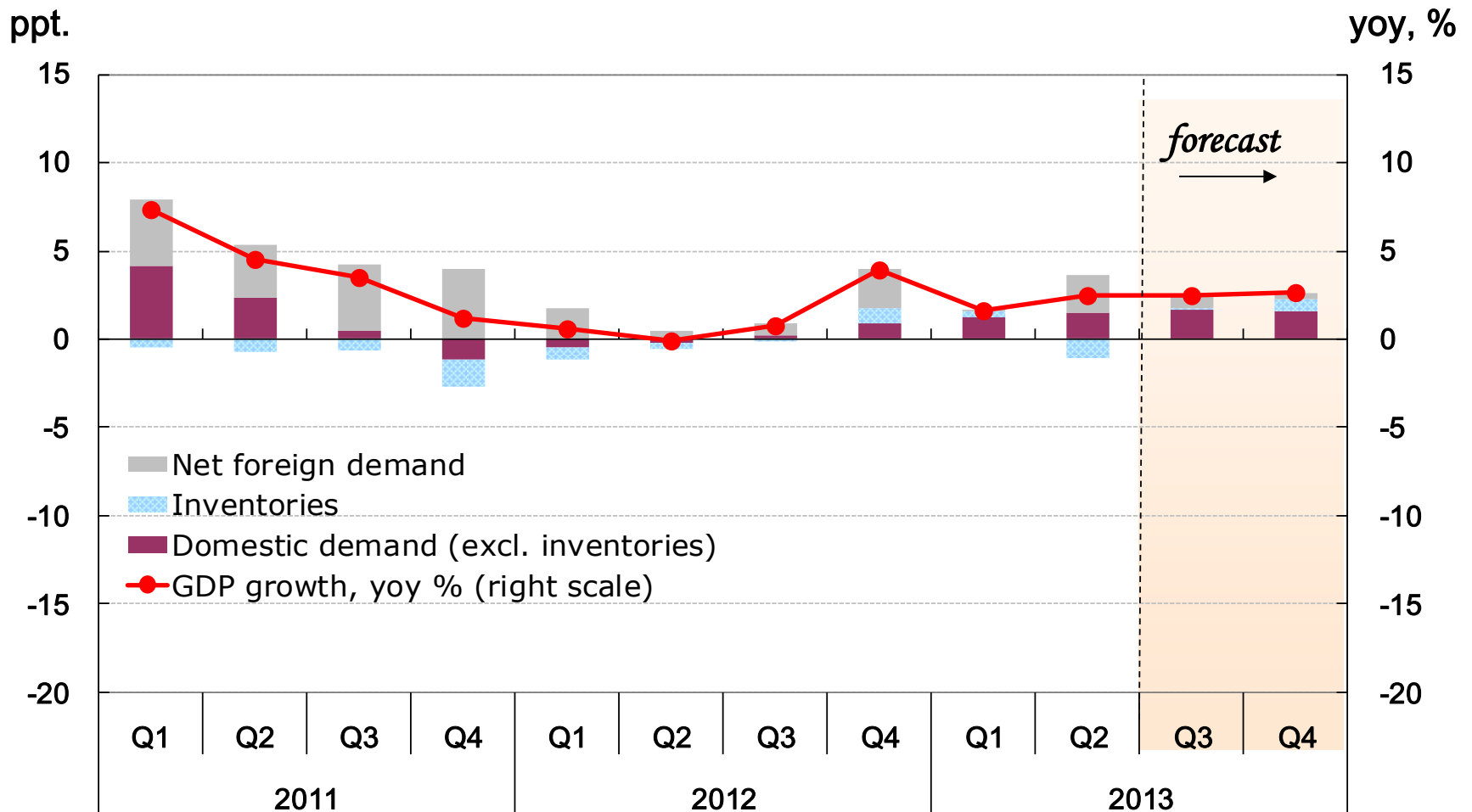
⇒ In the whole of 2013, Taiwan's real GDP is projected to rise by 2.31%.



Source: Directorate-General of Budget, Accounting and Statistics (DGBAS).

II. CURRENT DOMESTIC SITUATION

Contributions to GDP Growth (in percentage points)



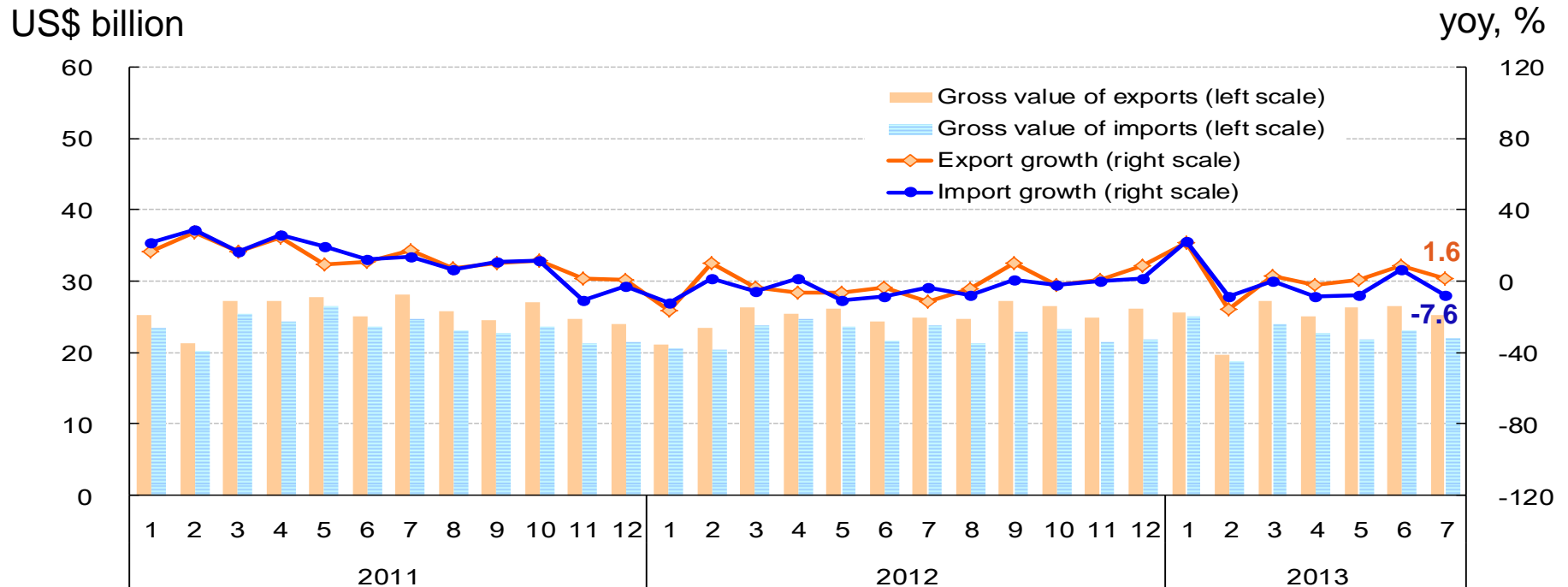
Source: Directorate-General of Budget, Accounting and Statistics (DGBAS), May 2013.

II. CURRENT DOMESTIC SITUATION

Foreign Trade

⇒ In July 2013, exports expanded 1.6% year on year, mainly due to increased export of electronic products, plastics & rubber and articles thereof, and optical and photographic instruments. Imports fell 7.6%, with machinery the main contributor to the decrease. The month's foreign trade yielded a balance of US\$3.21 billion in Taiwan's favor.

⇒ Exports for the first 7 months of 2013 were up 2.3% from the same period last year.



Note: Trade data are adjusted according to the United Nations IMTS Compilers Manual (2004). Total exports include “exports” and “re-exports,” and total imports include “imports” and “re-imports.”

Source: Ministry of Finance, August 2013.

II. CURRENT DOMESTIC SITUATION

Major trade partners

⇒ China (including Hong Kong) and ASEAN have become increasingly important trade partners to Taiwan since 2000.

Changes in Two-Way Trade with Major Trading Partners (yoy %)

	Exports						Imports					
	Total	USA	Japan	Europe	China (incl. Hong Kong)	ASEAN 6*	Total	USA	Japan	Middle East	China (incl. Hong Kong)	ASEAN 6*
2002	7.1	-2.7	-5.0	-5.9	29.4	7.4	4.9	-0.8	5.5	9.8	24.2	3.7
2002 Share	-	20.2	9.1	13.9	32.1	11.9	-	16.1	24.2	6.4	8.7	14.7
2003	11.3	-3.0	0.5	10.4	23.6	10.5	13.0	-6.9	19.6	43.7	30.9	5.2
2004	21.1	8.3	11.1	14.7	28.8	33.0	31.8	28.2	33.6	34.6	47.7	16.2
2005	8.8	1.3	9.4	-0.8	12.2	13.8	8.2	-2.8	5.3	36.5	16.2	3.8
2006	12.9	11.2	7.9	10.5	14.8	13.8	11.0	7.1	0.5	30.1	20.1	10.4
2007	10.1	-0.9	-2.2	9.7	12.6	16.7	8.2	17.0	-0.8	11.7	11.9	1.7
2008	3.6	-4.0	10.2	4.6	-0.8	7.3	9.7	-0.7	1.2	39.9	10.2	8.0
2009	-20.3	-23.5	-17.4	-24.6	-15.9	-21.5	-27.5	-31.0	-22.1	-42.2	-22.3	-22.8
2010	34.8	33.6	24.2	30.1	37.1	37.2	44.1	39.8	43.3	39.4	47.1	45.6
2011	12.3	15.6	1.2	6.2	8.1	22.7	12.0	1.5	0.5	14.7	20.5	13.4
2012	-2.3	-9.3	4.2	-7.8	-4.4	9.8	-3.9	-8.4	-8.9	20.2	-3.8	-3.9
2012 Share	-	10.9	6.3	9.6	39.4	18.5	-	8.7	17.6	16.0	16.1	11.6
2013 Jan.-Jul.	2.3	-1.1	4.8	-6.9	3.1	7.3	-0.9	6.5	-8.2	0.5	1.3	-0.5

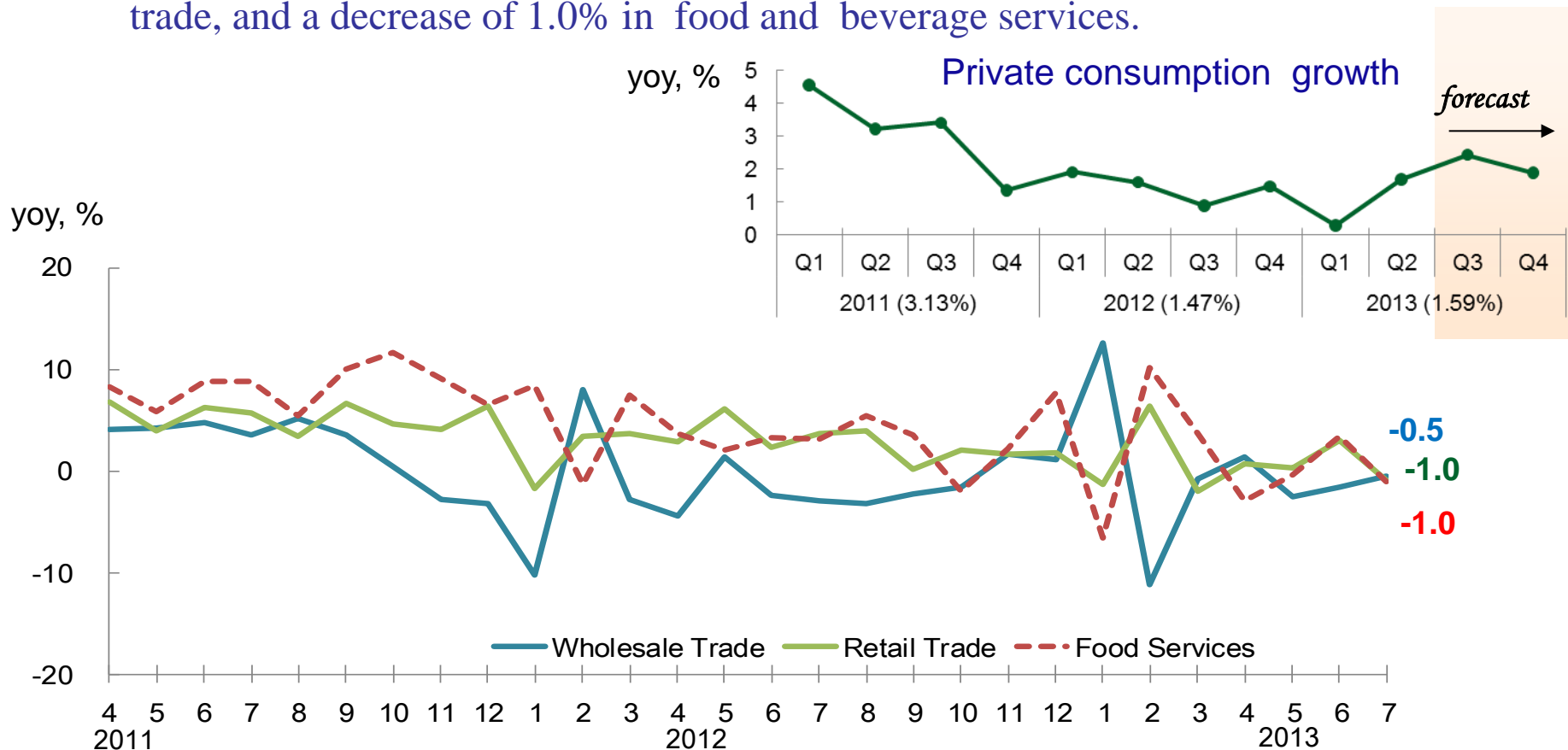
*ASEAN 6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Source: Ministry of Finance, August 2013.

II. CURRENT DOMESTIC SITUATION

Domestic consumption

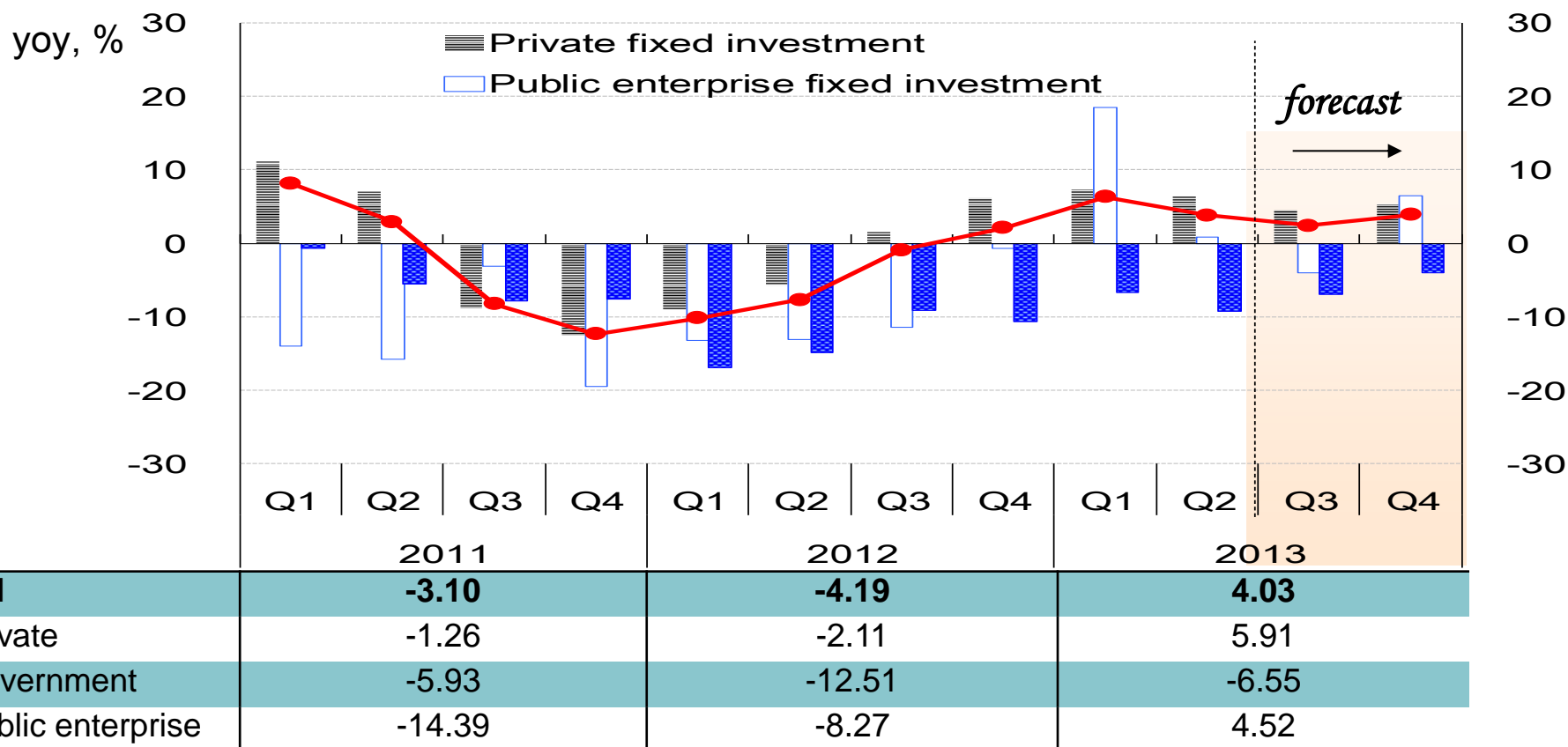
- ⇒ In Q2 2013, private consumption grew by 1.69% from a year earlier, while government consumption fell by 0.18%. In the whole of 2013, private consumption is projected to rise by 1.59%.
- ⇒ In July 2013, sales of trade and food services posted an annual decrease of 0.7%. This included a decrease of 0.5% in wholesale trade, a decrease of 1.0% in retail trade, and a decrease of 1.0% in food and beverage services.



II. CURRENT DOMESTIC SITUATION

Domestic Investment

⇒ In Q2 2013, gross fixed capital formation was up 3.80% yoy, with private enterprise gross fixed capital formation increasing 6.47%. The increase was mainly generated by new investment in semiconductor production, driven by the successive release of new ICT products. The DGBAS has projected that gross fixed capital formation will increase by 4.03% in 2013.

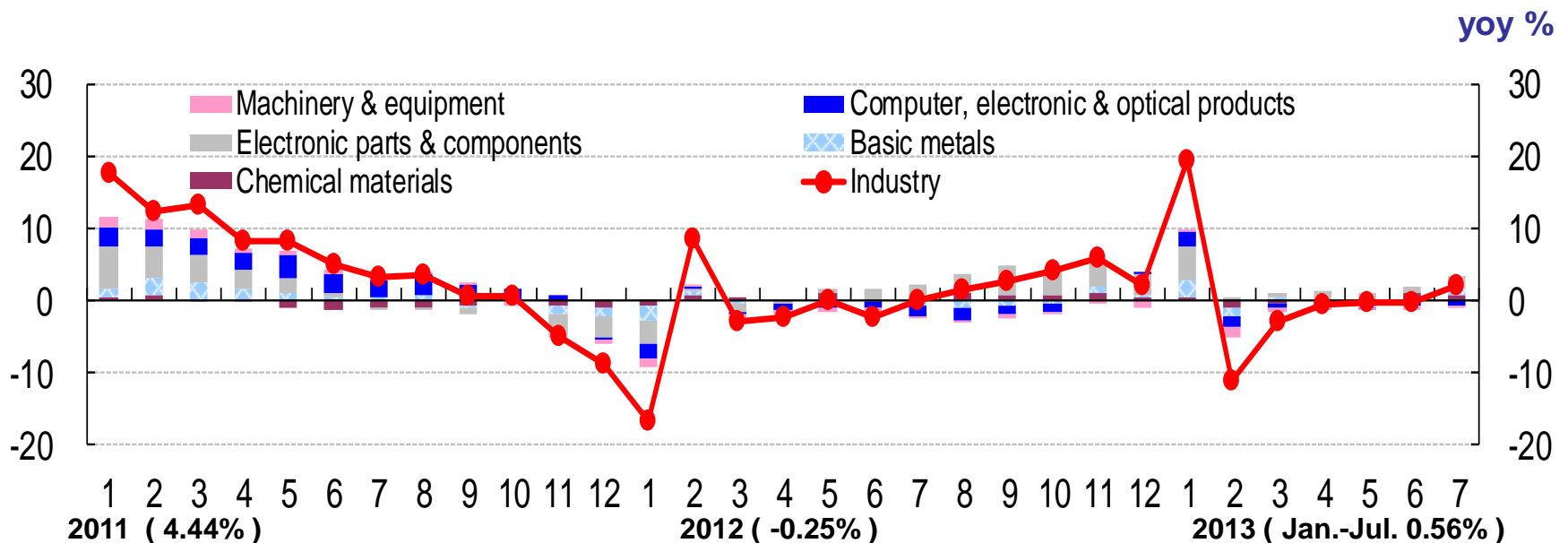


Source: DGBAS, August 2013.

II. CURRENT DOMESTIC SITUATION

Industrial Production

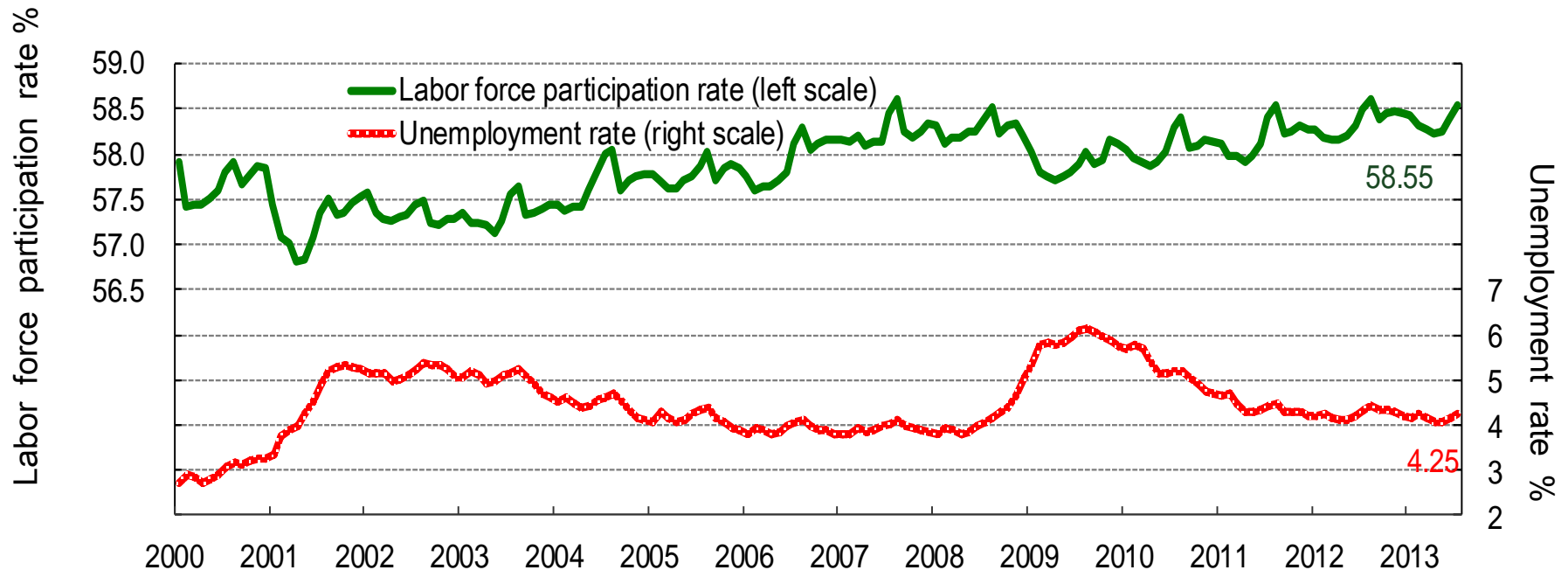
- ⇒ In July 2013, the industrial production index posted an annual increase of 2.07%, with manufacturing output up 2.00% and building construction up 18.93%.
- ⇒ The increase in manufacturing output came largely from increasing production of basic metals, as iron and steel producers prepared inventories for annual maintenance and suspension of production in September.
- ⇒ Industrial production for the first 7 months of 2013 was up 0.56% from the same period last year.



II. CURRENT DOMESTIC SITUATION

Unemployment Rate and Labor Force Participation Rate

- ⇒ In July 2013, the unemployment rate stood at 4.25%, up 0.11 of a percentage point from the previous month. The seasonally adjusted unemployment rate was 4.18%.
- ⇒ The labor force participation rate increased by 0.17 of a percentage point from the previous month to 58.55%, up 0.06 of a percentage point from a year earlier.

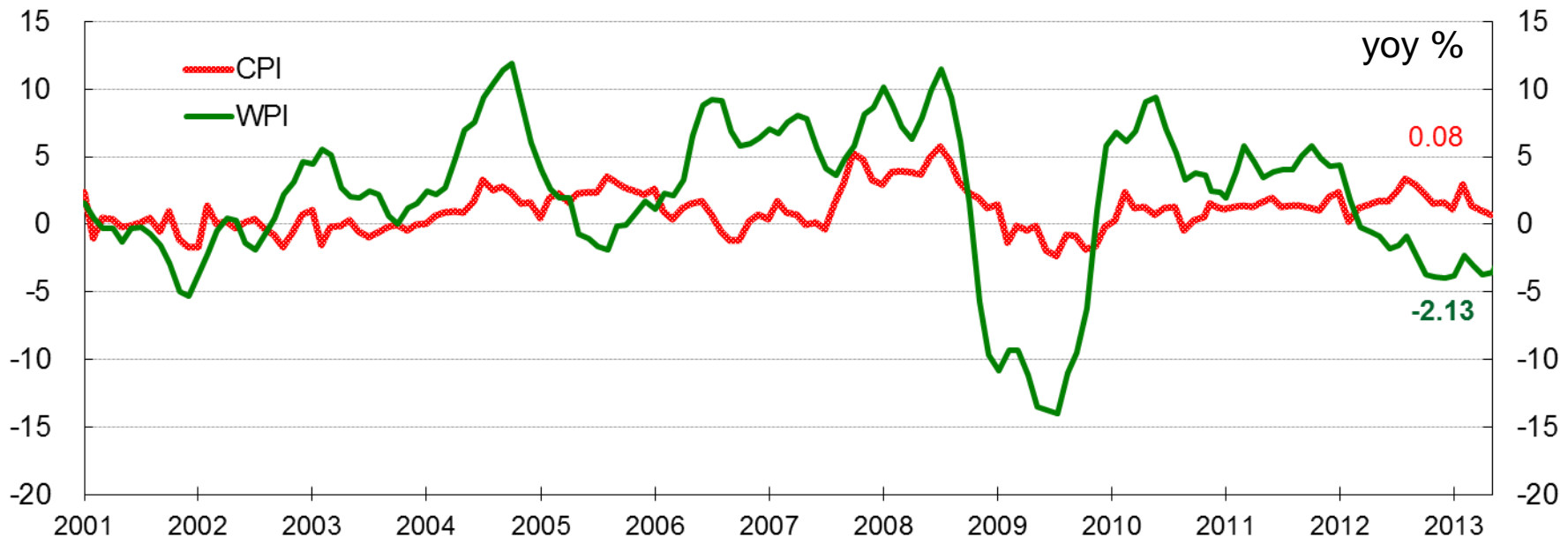


Source: DGBAS, August 2013.

II. CURRENT DOMESTIC SITUATION

Prices

- ⇒ In July 2013, Taiwan's CPI increased by 0.08% from the same month last year (with the CPI measured from a baseline of 100 in 2011), the lowest reading since August 2010. The increase was mainly due to upward movement in the prices of fuels & lubricants and meat. Core prices (excluding fruits, vegetables and energy prices) increased 0.51%.
- ⇒ In the same month, the WPI fell by 2.13% year on year, mainly because of drops in the prices of basic metals, machinery & equipment, and electronic parts & components.



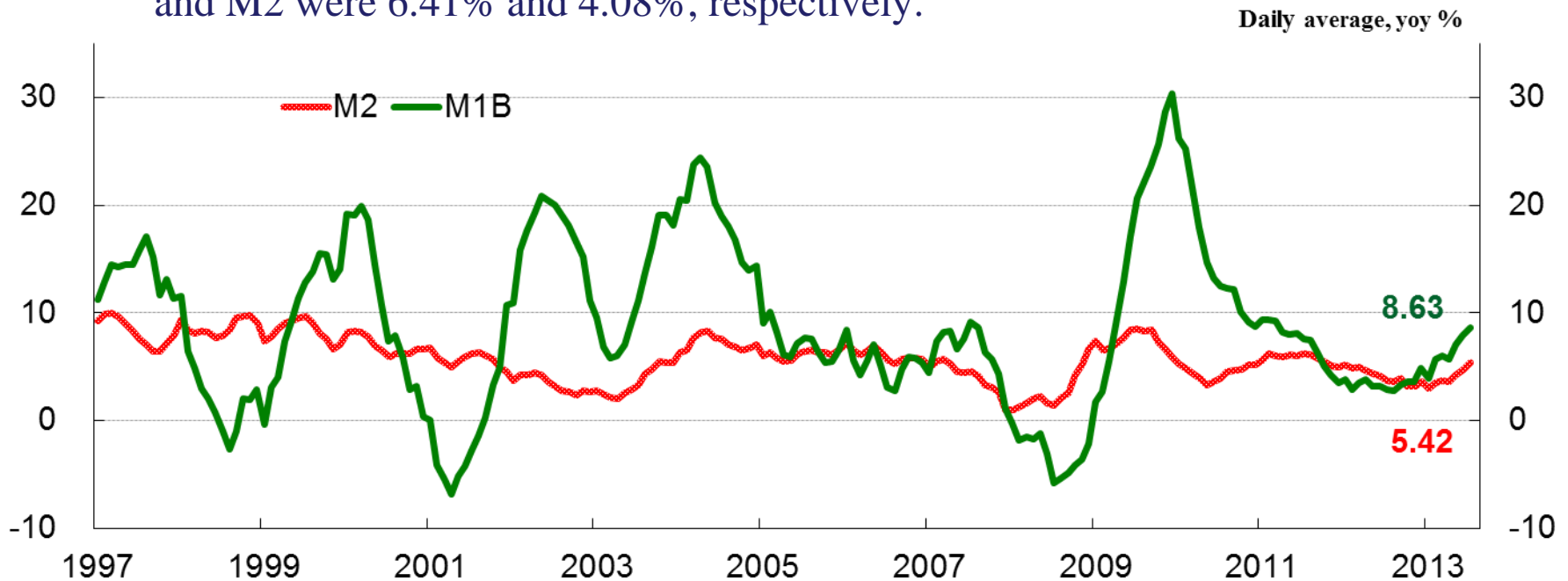
Note: The 2011-base revisions of the CPI and WPI have been completed.

Source: DGBAS, August 2013

II. CURRENT DOMESTIC SITUATION

Money Supply

- ⇒ In July 2013, the annual growth rate of M1B and M2, measured on a daily average basis, rose to 8.63% and 5.42%, respectively. The increases were mainly because of net foreign capital inflows.
- ⇒ For the first seven months of this year, the average annual growth rates of M1B and M2 were 6.41% and 4.08%, respectively.



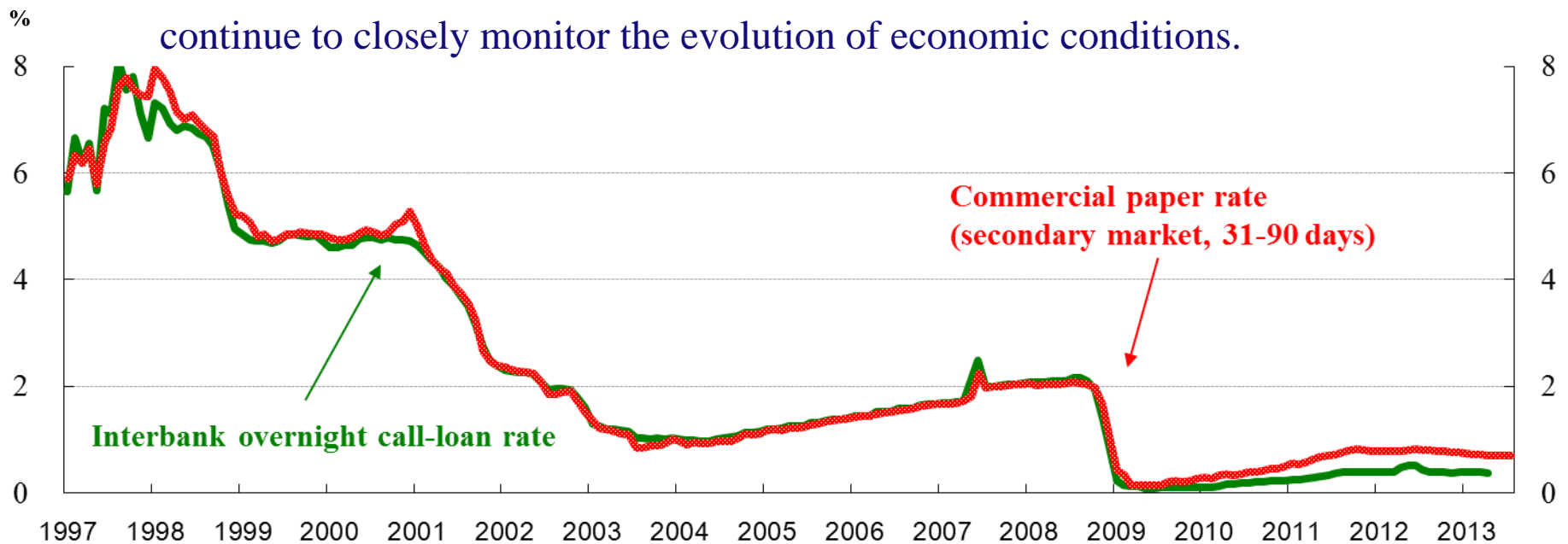
Source: Central Bank of China (Taiwan), August 2013.

II. CURRENT DOMESTIC SITUATION

Short-term Interest Rates

⇒ In July 2013, interest rates remained at low levels, with the commercial paper and the interbank overnight call-loan rate remaining at 0.70% and 0.386%, respectively.

⇒ Since global economic uncertainties remain and Taiwan's economy is experiencing a mild recovery along with muted inflationary pressures, the CBC decided to keep policy rates unchanged in June 2013. In the future, the CBC will continue to closely monitor the evolution of economic conditions.

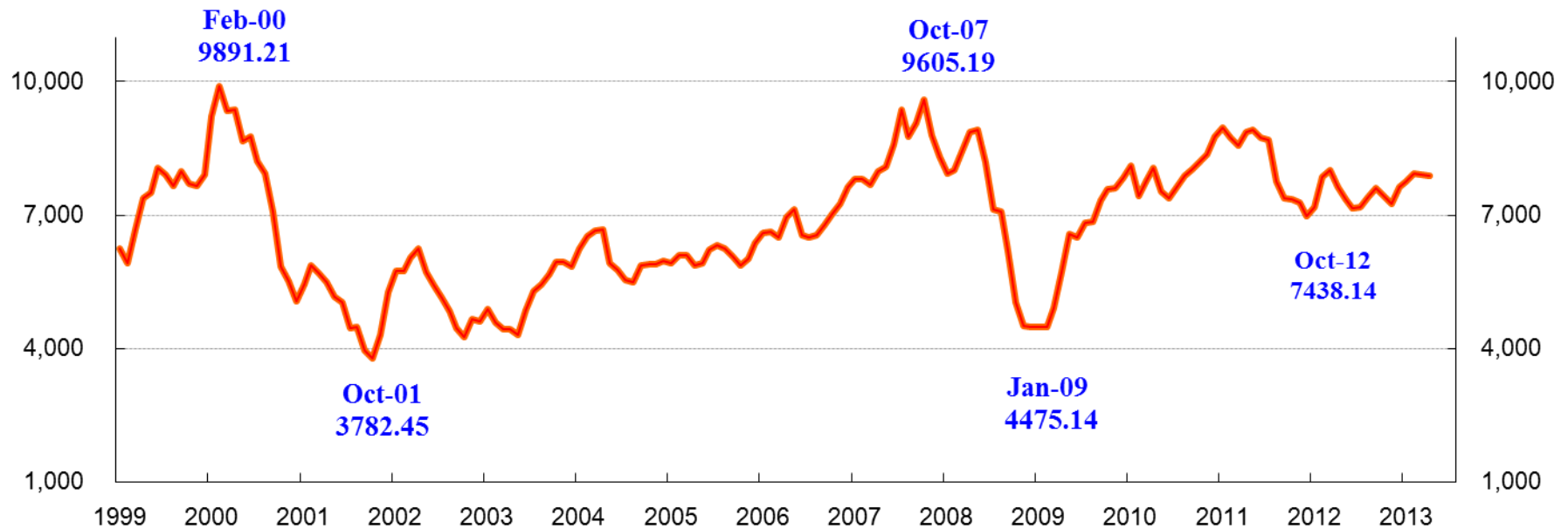


Source: Central Bank of China (Taiwan), August 2013.

II. CURRENT DOMESTIC SITUATION

Stock Index

⇒ TAIEX average closing price for the month of July was 8,101, up by 1.42% from June 2013.

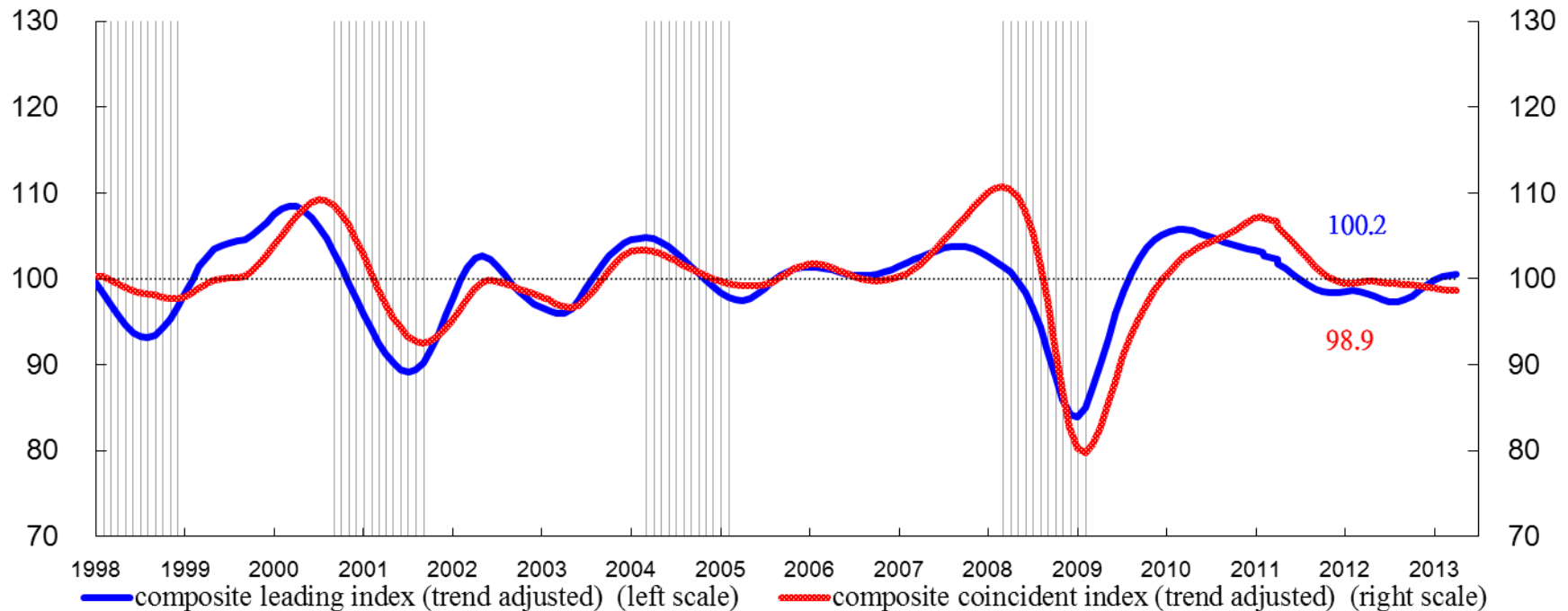


Source: Taiwan Stock Exchange, August 2013.

II. CURRENT DOMESTIC SITUATION

Taiwan Business Indicators

- ⇒ In July 2013, the Taiwan Business Indicators showed the economic recovery to be still on a slower track.
- ⇒ The composite leading (trend-adjusted) index decreased by 0.1% to 100.2, and the composite coincident (trend-adjusted) index increased by 0.01% to 98.9.



Note: The shaded areas represent recessions.

Source: Council for Economic Planning and Development (CEPD), August 2013.

II. CURRENT DOMESTIC SITUATION

Monitoring Indicators

⇒ The total score of the monitoring indicators in July 2013 dropped by three points to 20, changing the overall light signal from “green” to “yellow-blue”.

	Month	2012						2013						Score	Signal	Score	Signal
		7	8	9	10	11	12	1	2	3	4	5	6				
Total	Light													New Series beginning in July 2013*		20	
	Score	16	15	20	19	21	22	19	20	18	17	19	23				
Monetary Aggregates M1B														8.0	Monetary Aggregates M1B		8.6
Direct and Indirect Finance														4.5	—————	—————	
Stock Price Index														11.8	Stock Price Index		12.7
Industrial Production Index														1.5	Industrial Production Index		0.6
Nonagricultural Employment														1.0	Nonagricultural Employment		1.0
Customs-Cleared Exports														7.6	Customs-Cleared Exports		2.5
Imports of Machinery and Electrical Equipments														8.6	Imports of Machineries and Electrical Equipments		-8.2
Manufacturing Sales														2.5 _r	Index of producer's shipment for manufacturing		-1.5 _p
Sales Index of Trade and Food Services														1.2 _r	Sales of Trade and Food Services		-0.7
—————		—————											The TIER Manufacturing Sector Composite Indicator		98.4		

● Booming ● Transitional ● stable ● Transitional ● sluggish

Notes : 1. Individual Components and check points are in terms of percentage changes over 1-year span, except that the TIER Manufacturing Sector Composite Indicator is points (2006=100).

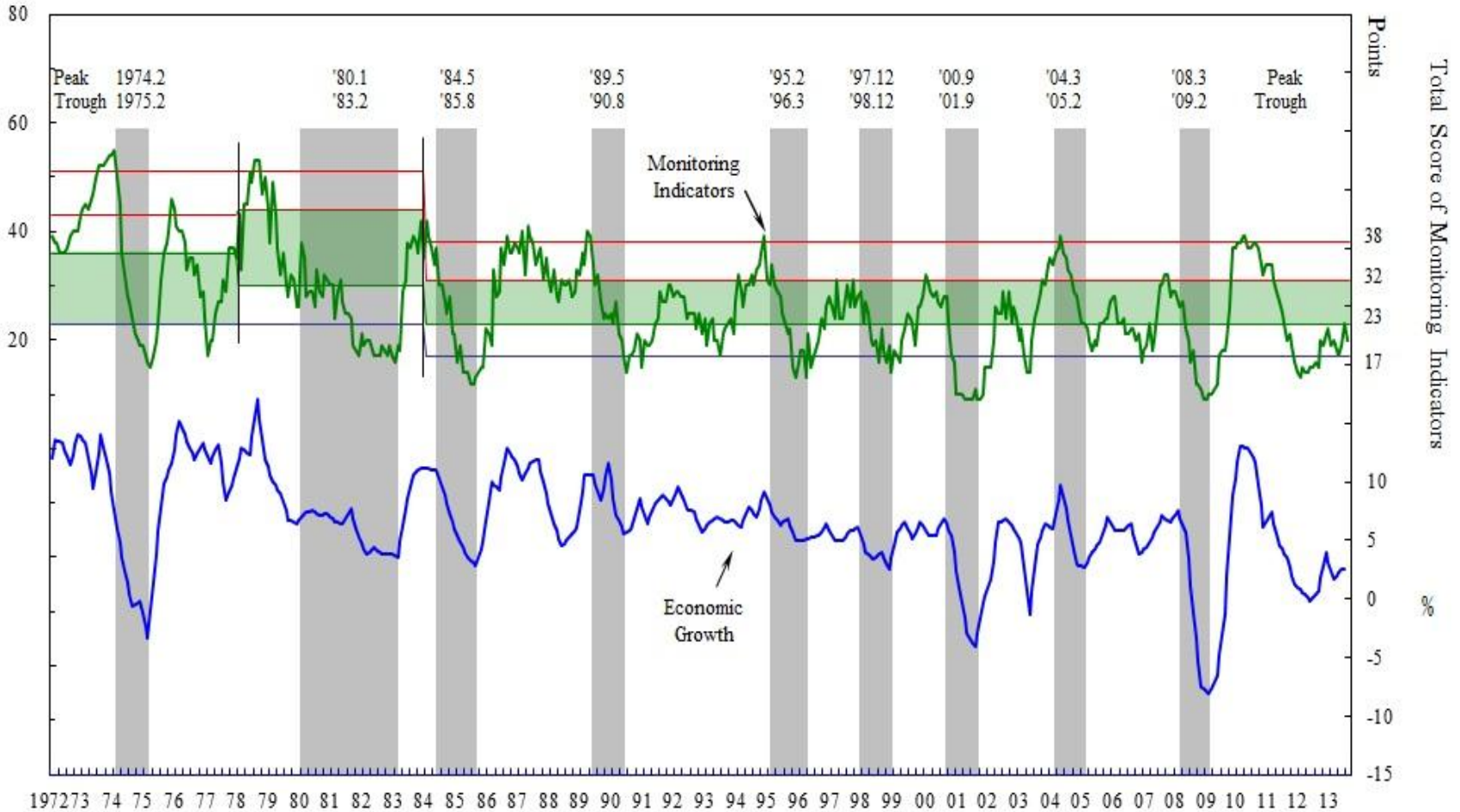
2. All components, except stock price index, have been seasonally adjusted.

3. p = Preliminarily estimated, r = Revised.

Source: CEPD, August 2013.

II. CURRENT DOMESTIC SITUATION

Monitoring Indicators and Economic Growth



Note: The shaded areas represent recessions.

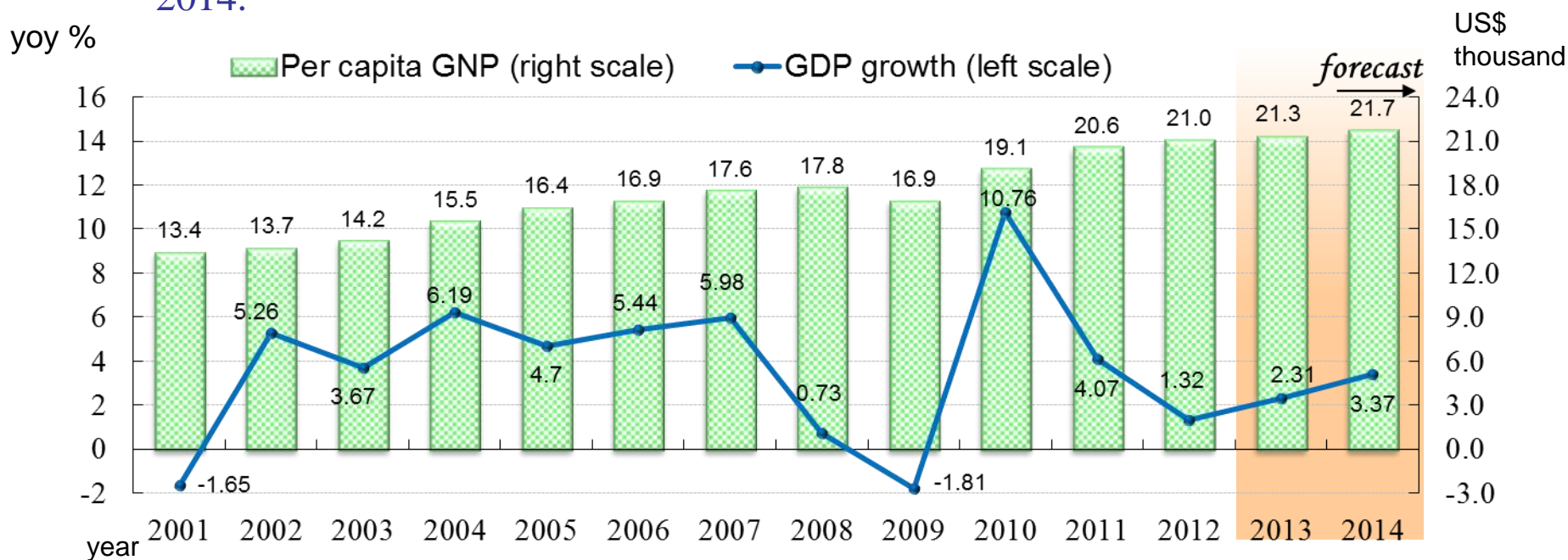
Source: CEPD, August 2013.

III. PROSPECTS FOR 2013 and 2014

Taiwan's Economy Expected to Recover Gradually

⇒ Mainly due to the weaker global economic outlook in the second half of 2013, the 2013 real GDP growth forecast has been revised to 2.31% in the DGBAS's latest estimation, down 0.09 of a percentage point from May's forecast of 2.40%. As the global economy is expected to improve next year, Taiwan's real GDP is projected to rise by 3.37% in 2014.

⇒ Per capita GNP is projected to increase to US\$21,254 in 2013 and US\$21,714 in 2014.

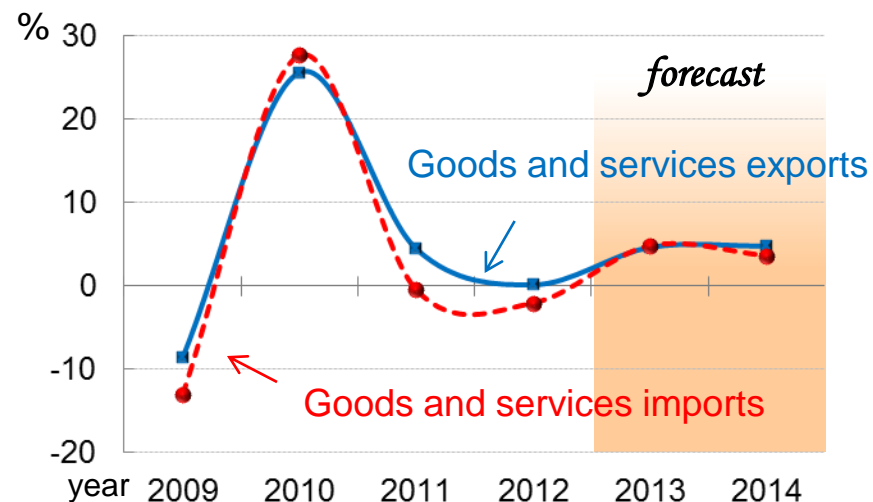


Source: DGBAS, August 2013.

III. PROSPECTS FOR 2013 and 2014

Export Growth Momentum Limited by Weaker Global Economy

- ⇒ With most developed and emerging countries' economies weaker than previously expected plus the gradual localization of supply chains in some industries and excess production capacity in mainland China, domestic enterprises have faced greater competitive stress, which has limited Taiwan's export performance in 2013.
- ⇒ The IMF has forecast that world trade will grow by 5.4% in 2014, higher than 3.1% in 2013, as the global outlook for 2014 is brighter. In addition, the increasing demand for advanced semiconductor wafers induced by mobile communication products also represents a favorable factor for the export sector. However, mainland China's active development of supply chain localization may still have an impact on Taiwan's exports of the products concerned.
- ⇒ Goods and services exports are projected to increase in real terms by 4.61% in 2013 and 4.77% in 2014.
- ⇒ Goods and services imports are projected to grow by 4.82% in 2013 and 3.63% in 2014, on the back of rising demand induced by export and investment.

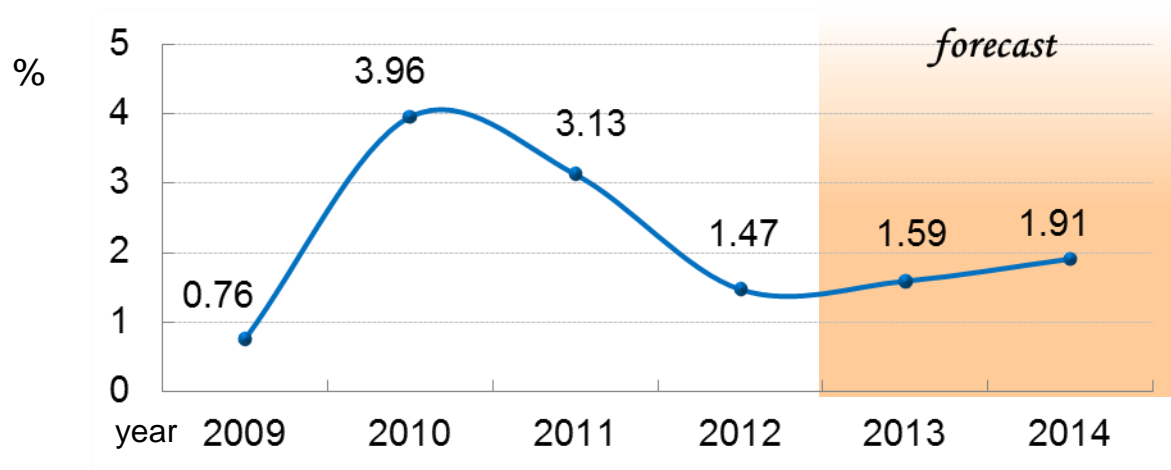


Source: DGBAS, Aug. 2013.

III. PROSPECTS FOR 2013 and 2014

Flat Growth Forecast for Private Consumption

⇒ Despite the continuously improving employment situation, real wages are still stagnant. While equity markets that drive wealth effects have fluctuated at a relatively high level (the average stock price index in July 2013 was 12.7% higher than in July 2012), total trading value has exhibited depressed growth (the average trading value from January to July 2013 was down 5.2% compared with the same period last year). However, the subdued rate of inflation offers some support to local consumers. Under these conditions, private consumption is projected to rise by 1.59% in 2013, higher than 1.47% in 2012 but stuck in a state of flat growth. In 2014, private consumption is forecast to grow by 1.91%.

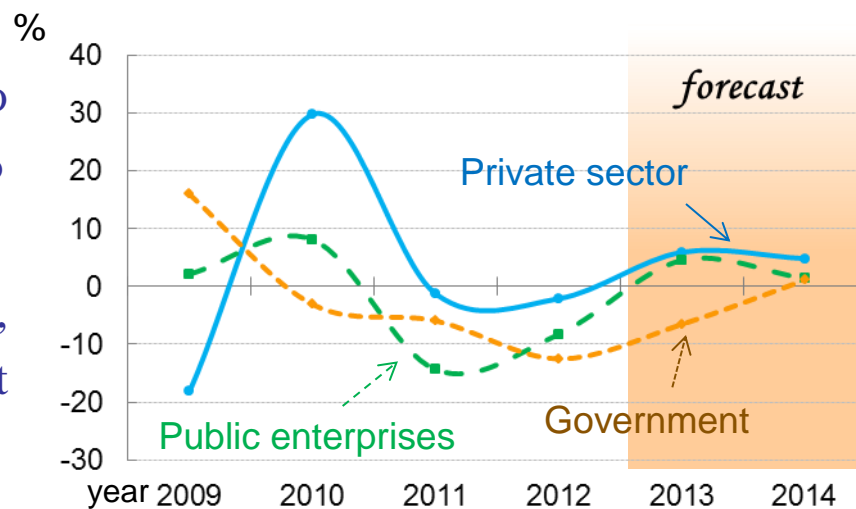


Source: DGBAS, August 2013.

III. PROSPECTS FOR 2013 and 2014

Domestic Investment Posting Moderate Growth

- ⇒ In 2013, semiconductor manufacturers with advantaged technology have accelerated the expansion of investment in leading-edge production facilities, while other industries have been relatively cautious. Private fixed investment is projected to increase by 5.91% in the year, down 1.3 percentage points from May's forecast.
- ⇒ In 2014, semiconductor manufacturers are expected to continue to invest in advanced technologies. In addition, the government's launch of the first phase of the plan for establishing Free Economic Pilot Zones, plus its ongoing efforts to lure overseas Taiwanese businesses to invest back in Taiwan, should help boost domestic investment, but will take time to ferment. Private fixed investment is projected to increase by 4.82% in the year.
- ⇒ Government fixed investment is projected to decline by 6.55% in 2013 but rise by 1.12% in 2014.
- ⇒ Total fixed investment by the private sector, government and public enterprises is forecast to rise by 4.03% in 2013 and 4.10% in 2014.

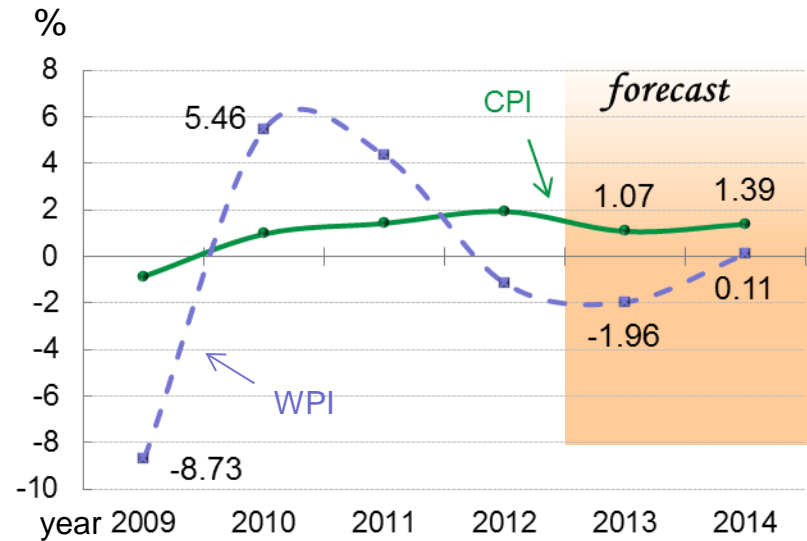


Source: DGBAS, August 2013.

III. PROSPECTS FOR 2013 and 2014

Inflation Expected to be Stable

⇒ Oil prices have recently fluctuated in high territory but are expected to fall in the future with a stronger oil supply. At the same time, weak prices of basic metals and grains, plus depressed prices of machinery mainly due to depreciation of the yen, have subdued the WPI growth rate. Consequently, the WPI is forecast to decrease by 1.96% in 2013 but increase by 0.11% in 2014.



Source: DGBAS, August 2013.

⇒ The weakness of commodity prices is helping to stabilize domestic prices, aided by the stability of fruit and vegetable prices and the downward drift of import prices. Under these conditions, the CPI is forecast to rise by only 1.07% in 2013. In 2014, CPI inflation is projected to rise to 1.39%, owing to the lower base of food prices in 2013.

Forecasts for Taiwan's Economy

	Real GDP (yoy, %)		Consumer Prices (yoy, %)	
	2013 _f	2014 _f	2013 _f	2014 _f
DGBAS (2013.8)	2.31 [2.40]	3.37	1.07 [1.23]	1.39
TIER (2013.7)	2.52 [3.71]	-	1.14 [1.51]	-
CIER (2013.7)	2.28 [3.63]	3.31 [4.07]	1.32 [1.60]	1.53 [1.77]
Yuanta-Polaris (2013.6)	2.47 [3.65]	-	1.26 [1.53]	-
TRI (2013.6)	2.14 [3.57]	-	1.33 [1.37]	-
IEAS (2012.7)	2.35[3.05]	-	1.24 [1.40]	-
Global Insight (2013.9)	2.8 [2.8]	4.0 [4.0]	0.8 [0.8]	1.3 [1.1]
EIU (2013.9)	2.3 [2.3]	3.3 [3.0]	1.1 [1.3]	2.2 [1.7]
World Bank (2012.12)	4.0 [4.4]	-	-	-
IMF (2013.4)	3.0 [3.9]	3.9	2.0 [2.0]	2.0 [2.0]
ADB (2013.4)	3.5 [3.8]	3.9	1.6 [1.8]	1.8

DGBAS = Directorate-General of Budget, Accounting and Statistics, ROC (Taiwan); TIER = Taiwan Institute of Economic Research, Taipei; CIER = Chung-Hua Institution for Economic Research, Taipei; IEAS = Institute of Economics, Academia Sinica; Yuanta-Polaris = Yuanta-Polaris Research Institute; TRI = Taiwan Research Institute ;EIU = Economist Intelligence Unit; IMF = International Monetary Fund; ADB = Asian Development Bank.

[] indicates the value of previous forecasts.

P = preliminary; f = forecast

IV. CONCLUSION

- The outlook for the global economy is still uncertain as the growth momentum of many emerging markets, including mainland China, falters. Nevertheless, with the US and Japan economies improving, plus the Eurozone's long recession ending, the global economy is expected to recover gradually, representing a favorable factor for Taiwan's export.
- In the internal sector, private investment recovered in the first half of 2013 mainly due to semiconductor manufacturers continuing to invest in advanced technologies, while other industries were relatively cautious. Private consumption posted flat growth amid stagnation of real wages, a pepped up domestic stock market, and stable CPI inflation. A sustained improvement of private consumption is expected in the second half of this year under the stimulus of smart mobile device launches and Mid-Autumn Festival spending.
- In order to ease the impact of weakness in the global economy, the government will actively promote export to emerging markets. For the internal sector, the government will accelerate the implementation of the project to strengthen promotion of investment in Taiwan by overseas Taiwanese businesses and the development of Free Economic Pilot Zones. These and other government initiatives should ensure that Taiwan's economy gradually improves.

STATISTICAL ANNEX TABLES

I. Real GDP Growth (change from a year ago)

	Economic growth	Domestic demand								Net foreign demand		
		Total	Consumption		Gross fixed capital formation				Increase in inventory	Total	Exports of goods & services	Less: Imports of goods & services
			Private	Gov't	Subtotal	Private sector	Public enterprises	Gov't				
2006	5.44	0.97	1.49	-0.71	0.07	3.31	-8.61	-11.21	--	--	11.41	4.57
2007	5.98	1.42	2.08	2.09	0.55	1.36	1.57	-4.46	--	--	9.55	2.98
2008	0.73	-2.35	-0.93	0.83	-12.36	-15.58	-1.98	1.18	--	--	0.87	-3.71
2009	-1.81	-3.71	0.76	4.01	-11.25	-18.15	2.14	15.94	--	--	-8.68	-13.10
2010	10.76	9.45	3.96	0.44	21.12	29.76	8.11	-3.10	--	--	25.63	27.70
2011	4.07	0.58	3.13	2.25	-3.10	-1.26	-14.39	-5.93	--	--	4.45	-0.47
2012	1.32	0.09	1.47	0.46	-4.19	-2.11	-8.27	-12.51	--	--	0.11	-2.08
2013_f	2.31	1.90	1.59	0.12	4.03	5.91	4.52	-6.55	--	--	4.61	4.82
Q1 _r	1.62	1.95	0.30	1.26	6.31	7.35	18.46	-6.76	--	--	5.03	6.66
Q2 _p	2.49	0.50	1.69	-0.18	3.80	6.47	0.82	-9.31	--	--	5.16	3.15
Q3 _f	2.47	2.20	2.44	-0.22	2.41	4.52	-3.97	-6.97	--	--	3.66	3.67
Q4 _r	2.61	2.89	1.90	-0.21	3.88	5.42	6.43	-3.95	--	--	4.65	5.94
2014_f	3.37	2.23	1.91	0.15	4.10	4.82	1.38	1.12	--	--	4.77	3.63
Q1 _f	3.17	1.75	2.27	0.21	3.04	3.93	-13.57	3.76	--	--	4.65	3.04
Q2 _f	3.38	2.80	1.79	0.17	4.00	3.73	11.01	2.14	--	--	4.55	4.13
Q3 _f	3.34	2.36	1.62	0.08	5.46	6.03	9.51	-0.01	--	--	4.42	3.38
Q4 _f	3.55	2.01	1.97	0.14	3.79	5.53	-2.18	-0.14	--	--	5.42	3.93

P = preliminary; f = forecast; r = revised. Source: DGBAS, Aug. 2013.

STATISTICAL ANNEX TABLES

II. Contributions to GDP Growth (in percentage points)

	Economic growth	Domestic demand								Net foreign demand		
		Total	Consumption		Gross fixed capital formation				Increase in inventory	Total	Exports of goods & services	Less: Imports of goods & services
			Private	Gov't	Subtotal	Private sector	Public enterprises	Gov't				
2006	5.44	0.95	0.92	-0.09	0.02	0.59	-0.16	-0.42	0.10	4.49	7.34	2.85
2007	5.98	1.34	1.23	0.25	0.12	0.24	0.02	-0.14	-0.27	4.65	6.49	1.85
2008	0.73	-2.11	-0.53	0.10	-2.61	-2.62	-0.03	0.03	0.94	2.84	0.61	-2.23
2009	-1.81	-3.24	0.43	0.46	-2.07	-2.56	0.03	0.45	-2.05	1.42	-6.11	-7.53
2010	10.76	8.07	2.28	0.05	3.51	3.49	0.12	-0.10	2.23	2.69	16.78	14.09
2011	4.07	0.49	1.69	0.25	-0.56	-0.17	-0.22	-0.17	-0.89	3.58	3.30	-0.28
2012	1.32	0.07	0.79	0.05	-0.71	-0.28	-0.10	-0.33	-0.06	1.25	0.08	-1.17
2013_f	2.31	1.53	0.85	0.01	0.65	0.75	0.05	-0.15	0.02	0.78	3.39	2.61
Q1 _r	1.62	1.60	0.17	0.13	0.96	0.95	0.13	-0.11	0.34	0.02	3.61	3.59
Q2 _p	2.49	0.41	0.91	-0.02	0.62	0.83	0.01	-0.22	-1.11	2.08	3.85	1.77
Q3 _f	2.47	1.78	1.30	-0.02	0.40	0.60	-0.04	-0.16	0.10	0.69	2.71	2.02
Q4 _r	2.61	2.25	0.97	-0.02	0.62	0.62	0.11	-0.11	0.69	0.36	3.43	3.07
2014_f	3.37	1.79	1.02	0.02	0.67	0.63	0.02	0.02	0.09	1.58	3.59	2.01
Q1 _f	3.17	1.44	1.26	0.02	0.49	0.54	-0.11	0.06	-0.33	1.73	3.45	1.72
Q2 _f	3.38	2.24	0.95	0.02	0.66	0.50	0.12	0.04	0.60	1.14	3.48	2.34
Q3 _f	3.34	1.91	0.86	0.01	0.90	0.82	0.09	0.00	0.13	1.43	3.31	1.88
Q4 _f	3.55	1.57	1.00	0.02	0.61	0.65	-0.04	0.00	-0.05	1.98	4.08	2.10

P = preliminary; f = forecast; r = revised. Source: DGBAS, Aug. 2013.

Thank you

This summary is prepared by the Department of Economic Research of the Council for Economic Planning and Development (CEPD). Quarterly updates can be found on the CEPD's website at <http://www.cepd.gov.tw/encontent>. For inquiries send an e-mail to bci@cepd.gov.tw.