

TAIWAN'S ECONOMIC SITUATION AND OUTLOOK

March 2012

Council for Economic Planning and Development
Executive Yuan

WELCOME TO C.E.P.D.

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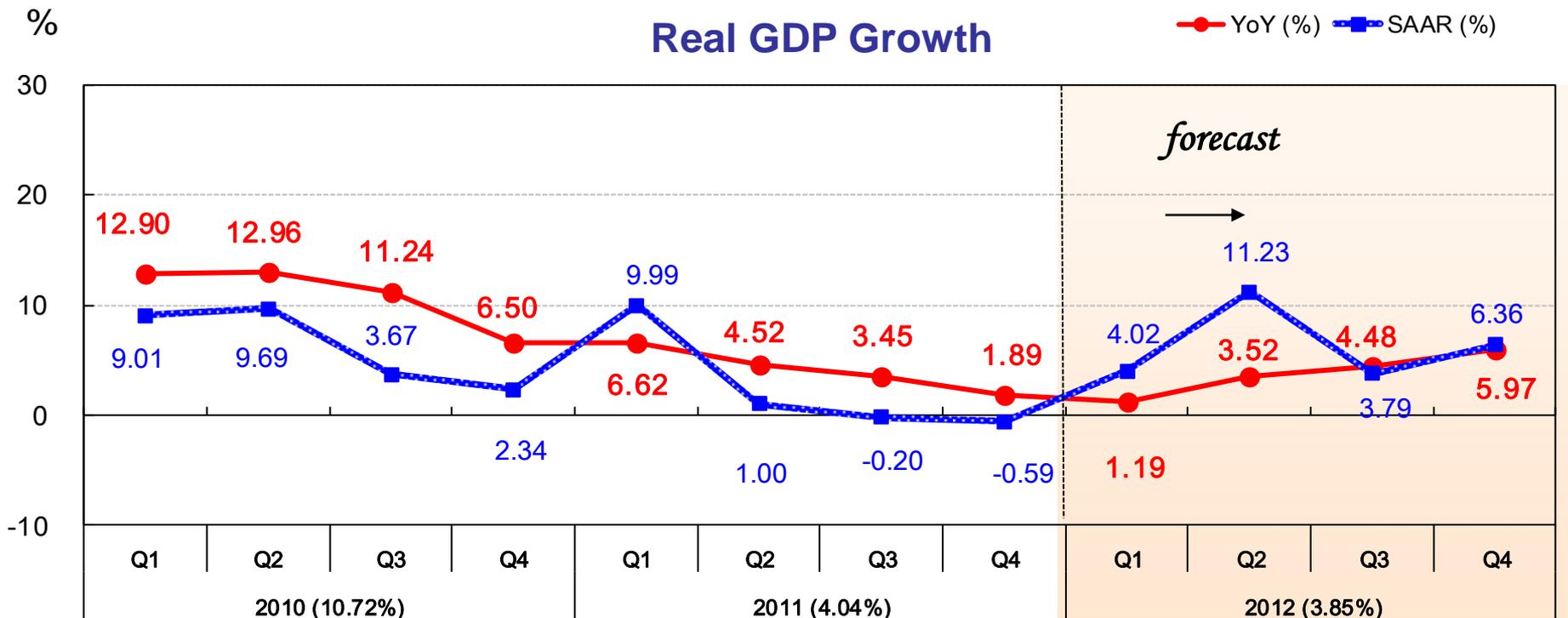
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I. CURRENT DOMESTIC SITUATION

Economic Growth

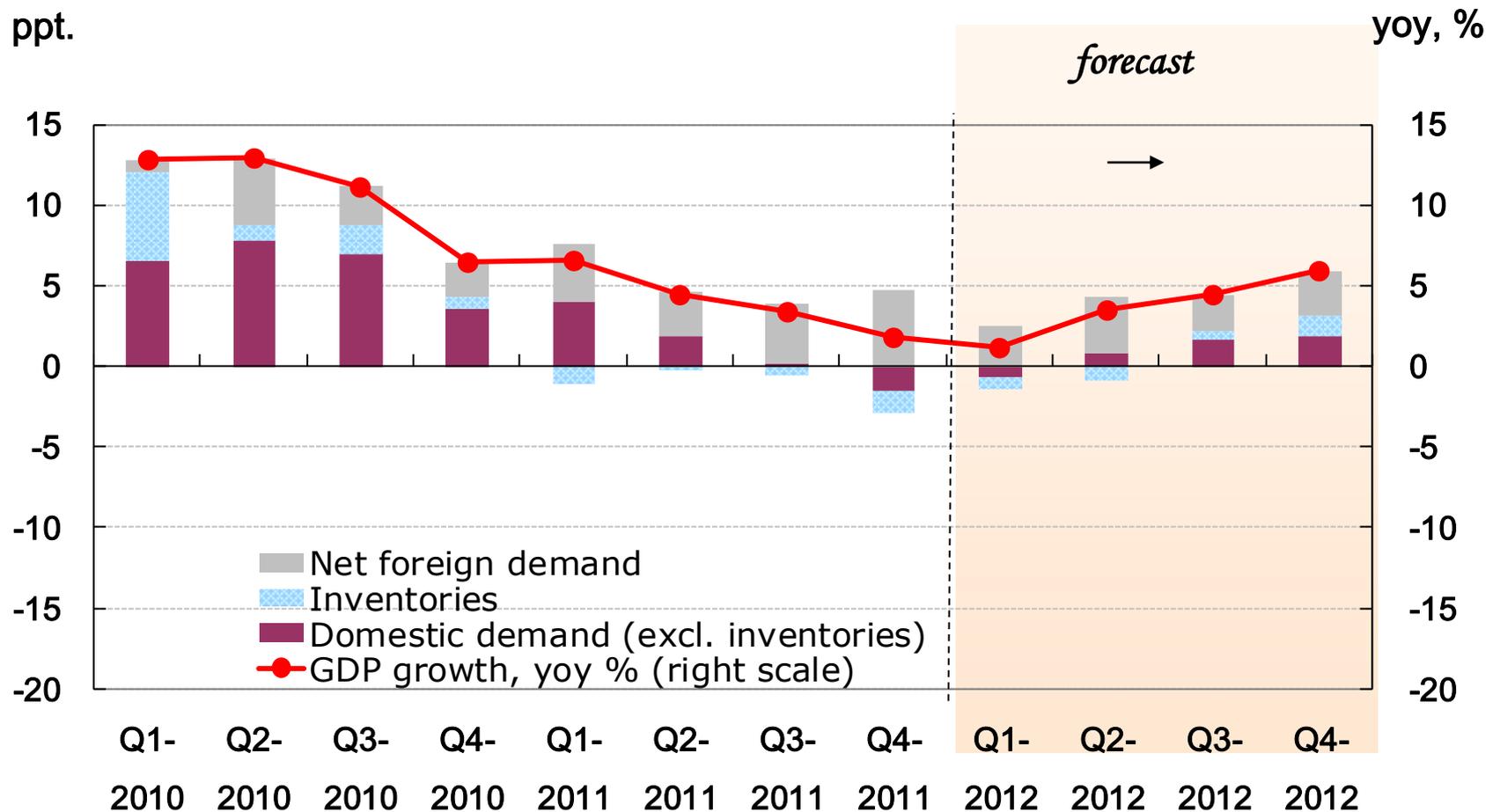
- ⇒ In Q4 2011, reduced global growth constrained Taiwan's trade performance, causing real growth of goods and services exports to decline to only 0.78%. With domestic demand declining by 3.46%, the quarter's year-on-year growth rate of real GDP is preliminarily estimated at 1.89%.
- ⇒ Expressed as a seasonally adjusted annual rate (SAAR), real GDP decreased 0.59% in Q4 2011, while the real GDP and SAAR for Q3 were revised to 3.45% and -0.2% from 3.42% and -0.6% respectively.
- ⇒ For 2011 as a whole, Taiwan's real GDP increased by 4.04%. Net exports contributed 3.72 percentage points to the change in real GDP.



Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), Feb. 2012.

I. CURRENT DOMESTIC SITUATION

Contributions to GDP Growth (in percentage points)

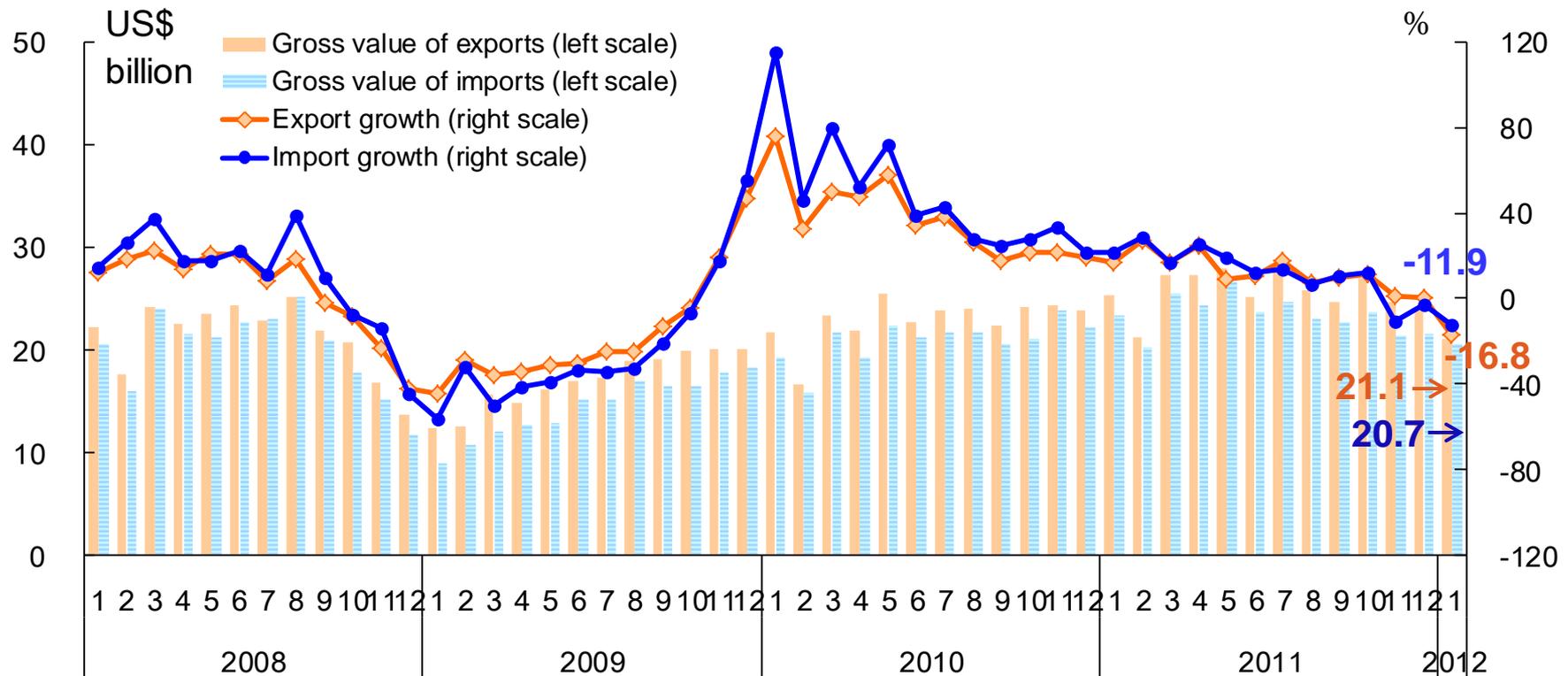


Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), Feb. 2012.

I. CURRENT DOMESTIC SITUATION

Foreign Trade

- ⇒ In January 2012, exports and imports declined by 16.8% and 11.9% year on year, mainly due to the timing of the Chinese New Year, which fell in January this year (compared with February last year).
- ⇒ The month's foreign trade yielded a balance of US\$0.42 billion in Taiwan's favor.



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.

I. CURRENT DOMESTIC SITUATION

Major trade partners

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

⇒ Japan has remained Taiwan's largest supplier of imports, despite a narrowing share.

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

	Exports					Imports				
	USA	Japan	Europe	China (incl. Hong Kong)	ASEAN 6*	USA	Japan	Middle East	China (incl. Hong Kong)	ASEAN 6*
2002	-2.7	-5.0	-5.9	29.4	7.4	-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	-3.0	0.5	10.4	23.6	10.5	-6.9	19.6	43.7	30.9	5.2
2004	8.3	11.1	14.7	28.8	33.0	28.2	33.6	34.6	47.7	16.2
2005	1.3	9.4	-0.8	12.2	13.8	-2.8	5.3	36.5	16.2	3.8
2006	11.2	7.9	10.5	14.8	13.8	7.1	0.5	30.1	20.1	10.4
2007	-0.9	-2.2	9.7	12.6	16.7	17.0	-0.8	11.7	11.9	1.7
2008	-4.0	10.2	4.6	-0.8	7.3	-0.7	1.2	39.9	10.2	8.0
2009	-23.5	-17.4	-24.6	-15.9	-21.5	-31.0	-22.1	-42.2	-22.3	-22.8
2010	33.6	24.3	30.1	37.1	37.2	39.8	43.3	39.4	47.1	45.6
2011	15.6	1.3	6.3	8.1	22.7	1.5	0.6	14.7	20.5	13.5
2011 Share	12.2	6.8	10.2	40.7	14.8	10.2	21.7	12.8	15.3	11.8
2012 Jan	-11.2	-16.3	-11.0	-25.9	-10.1	-25.0	-24.1	4.9	-17.8	-4.1

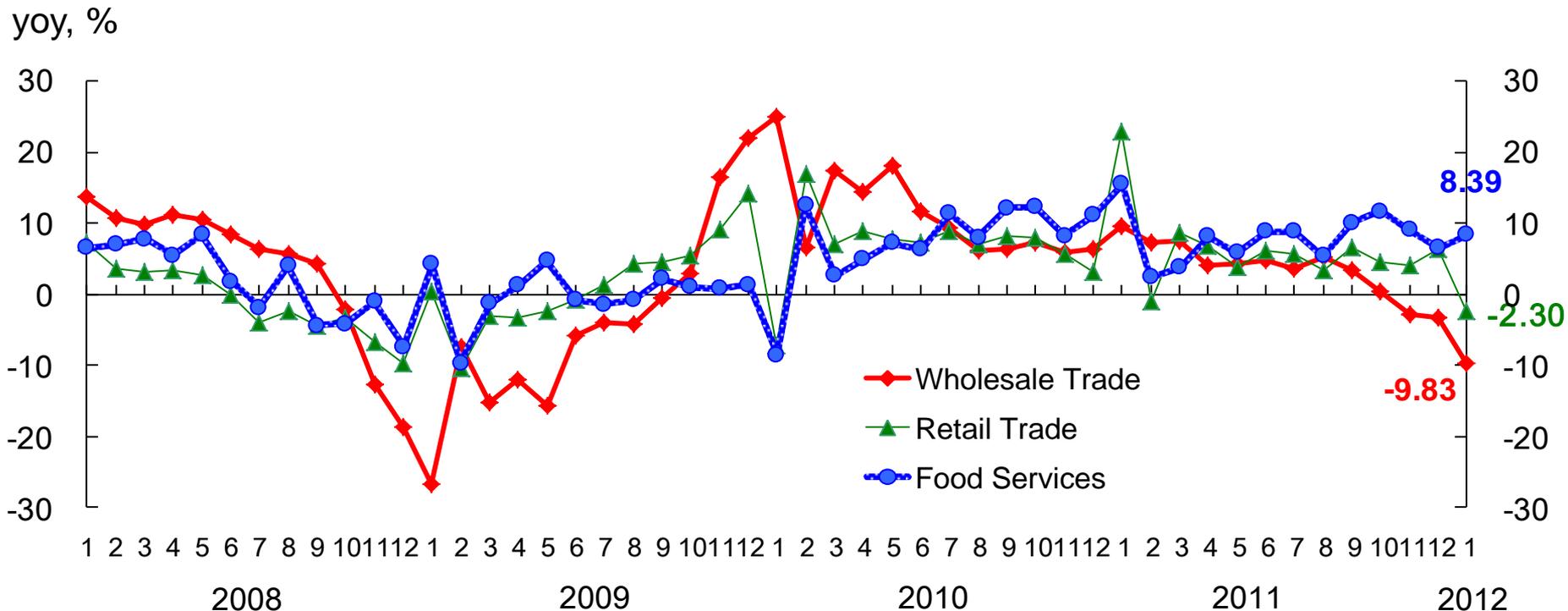
*ASEAN 6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Source: Ministry of Finance.

I. CURRENT DOMESTIC SITUATION

Domestic consumption

- ⇒ With the improving employment situation, private consumption grew by 0.98% from a year earlier in Q4 2011, while government consumption increased by 3.17%.
- ⇒ Sales of domestic trade and food services posted an annual decrease of 7.21% for January 2012, contributed largely by an 9.83% decrease in wholesale trade. Retail trade also decreased -2.30%, but food services increased 8.39%.

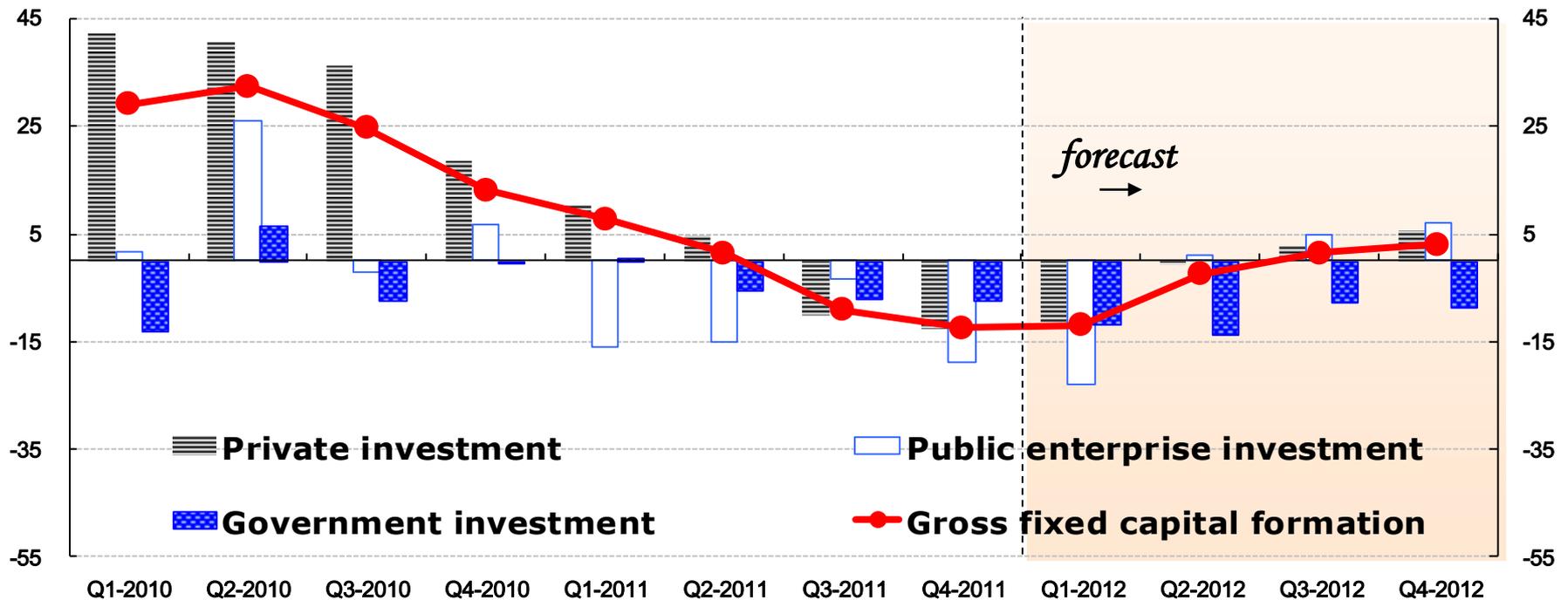


I. CURRENT DOMESTIC SITUATION

Domestic Investment

- ⇒ In Q4 2011, private investment and gross fixed capital formation fell 12.68% and 12.41% respectively. Gross fixed capital formation for Q3 was revised to -9.13% from -10.66%.
- ⇒ This big drop in private investment was caused by investment plans being put on hold due to the weak economy, with imports of capital equipment and investment in construction continuing to decline.

yoy, %



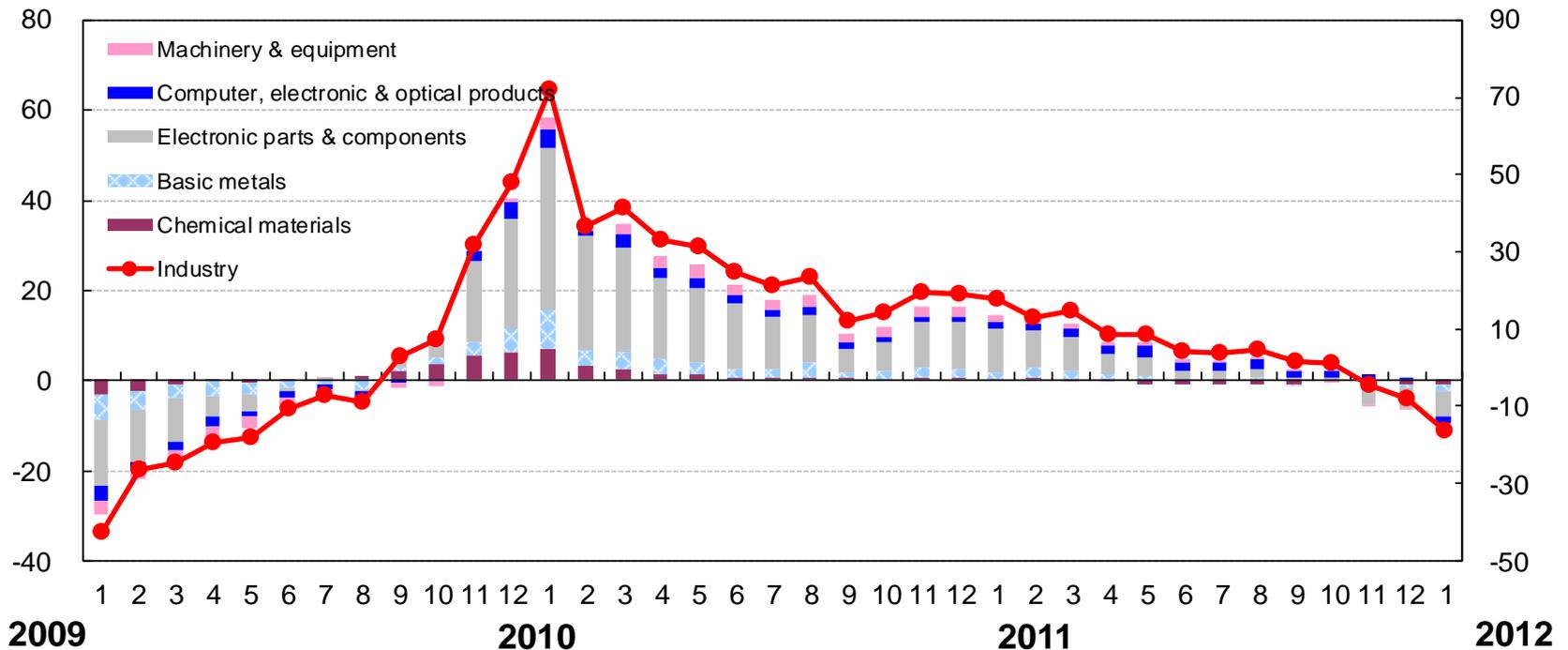
I. CURRENT DOMESTIC SITUATION

Industrial Production

- ⇒ The industrial production index showed a year-on-year decrease of 16.46% in January 2012. Manufacturing output decreased 16.92%, mining & quarrying 14.50%, building construction 11.90%, electricity & gas supply 3.72%, and water supply 1.40%.
- ⇒ Industrial production increased by 5.03% in 2011, with manufacturing output rising by 5.12%.

Growth of Industrial Production Index

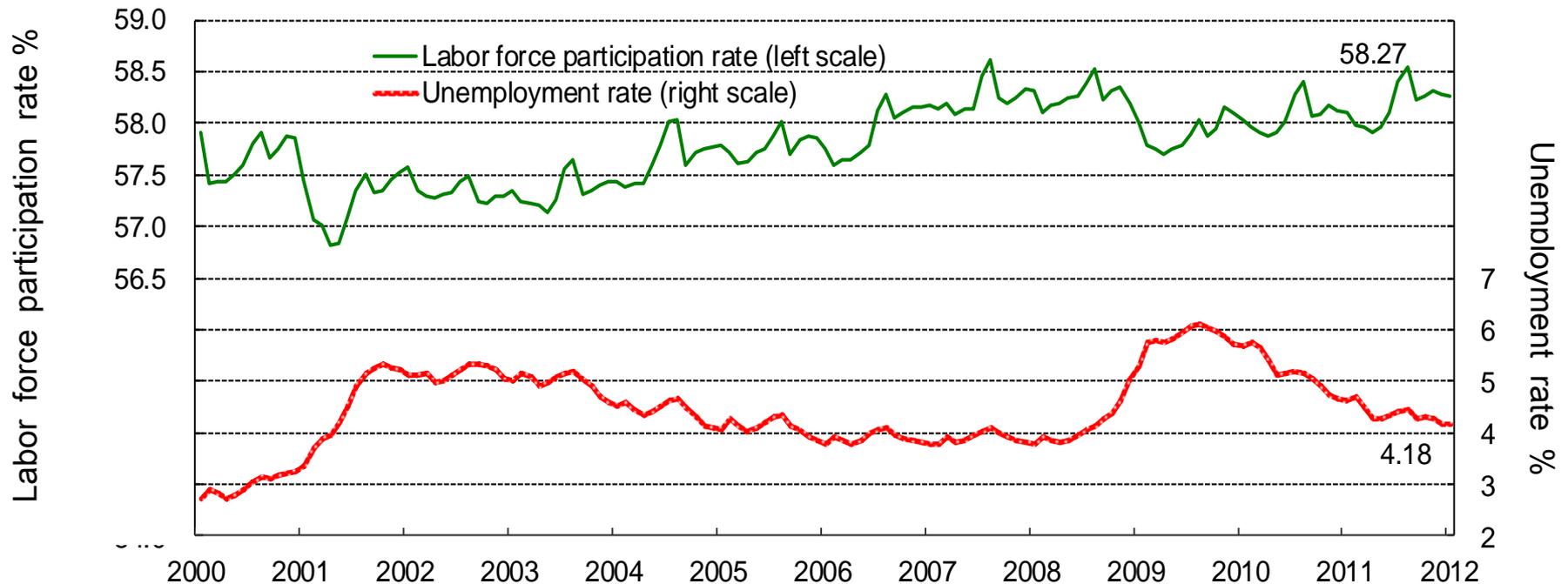
yoy %



I. CURRENT DOMESTIC SITUATION

Unemployment Rate and Labor Force Participation Rate

- ⇒ In January 2012, the unemployment rate stood at 4.18%, unchanged from the previous month, and 0.46 percentage points lower than a year earlier. The seasonally adjusted unemployment rate was 4.19%.
- ⇒ The labor force participation rate decreased by 0.01 of a percentage point from the previous month to 58.27%, up 0.16 of a percentage point from a year earlier.



Source: DGBAS, Feb. 2012.

I. CURRENT DOMESTIC SITUATION

Prices

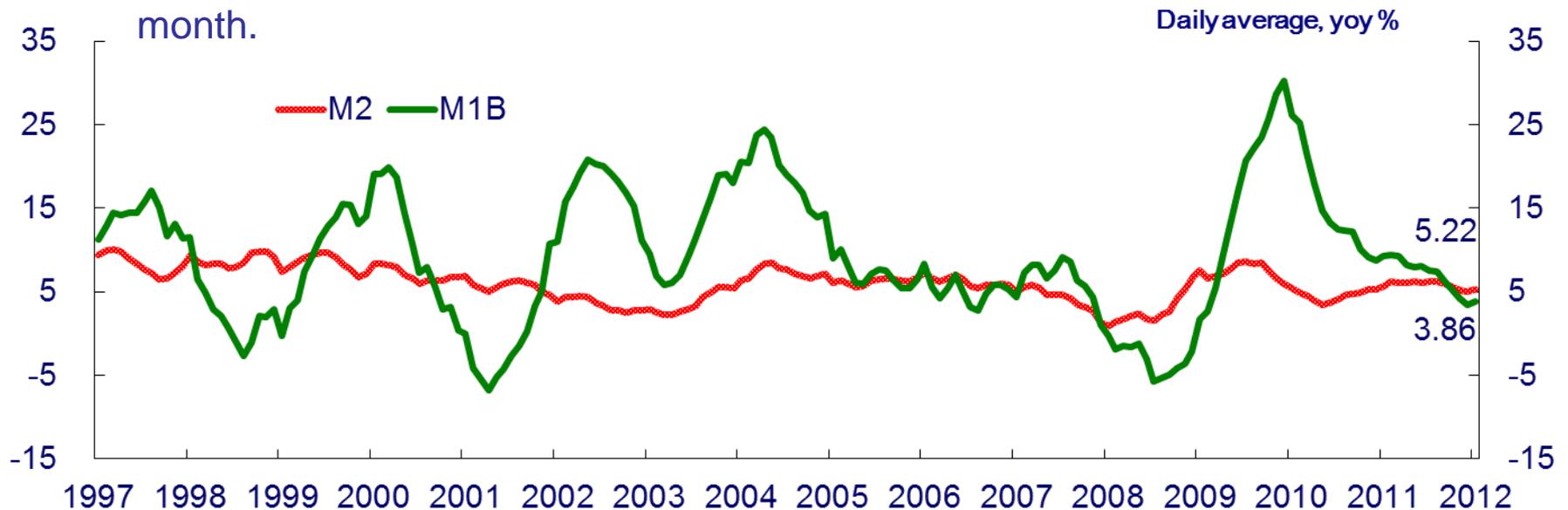
- ⇒ In February 2012, Taiwan's CPI increased by 0.25% from the same month last year. The most significant changes in CPI components were increases in the prices of food and clothing. These price rises were partially offset by declining prices of education & entertainment and housing. Core prices (excluding fresh food and energy prices) decreased 0.05%.
- ⇒ The WPI in February rose by 1.92% year on year, due mainly to the surging prices of fishery products, crude petroleum & natural gas, petroleum & coal products, and machinery & equipment. These price rises were partially offset by declining prices of basic metal.



I. CURRENT DOMESTIC SITUATION

Money Supply

- ⇒ Due mainly to the slowing growth in bank loans and investments, the annual growth rates of the monetary aggregates M1B and M2 trended down in the second half of 2011. In January 2012, the annual growth rates of M1B and M2 rose to 3.86% and 5.22%, respectively. This was mainly caused by a stronger demand for funds because of the Chinese New Year holidays and net foreign capital inflows.
- ⇒ In January 2012, the monthly growth rates of M1B and M2, measured on a daily average basis, were 2.33% and 1.43%, respectively, both up from the preceding month.



Note: The definition of M2 was changed in January 2012 to exclude structured products issued by banks.

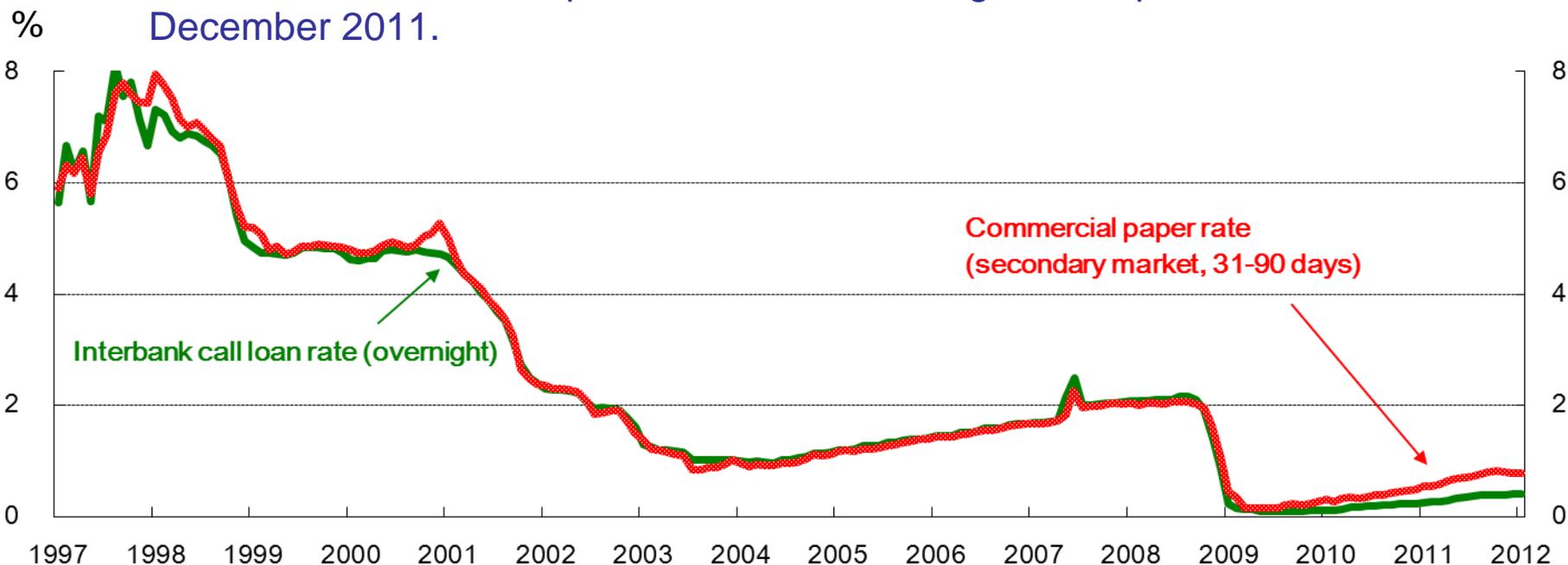
This historical data revision was retrospective to January 2001.

Source: Central Bank of China (Taiwan).

I. CURRENT DOMESTIC SITUATION

Short-term Interest Rates

- ⇒ With the five policy rate hikes by the CBC up to June last year, banks' overnight call-loan rates have risen steadily. In January 2012, the commercial paper rate stood at 0.79%, unchanged from the previous month, and the interbank rate rose to 0.403%.
- ⇒ To help Taiwan's economy maintain stable growth amid global economic uncertainties, and with the need to closely monitor price movements in 2012, the CBC decided to keep interest rates unchanged in September and December 2011.

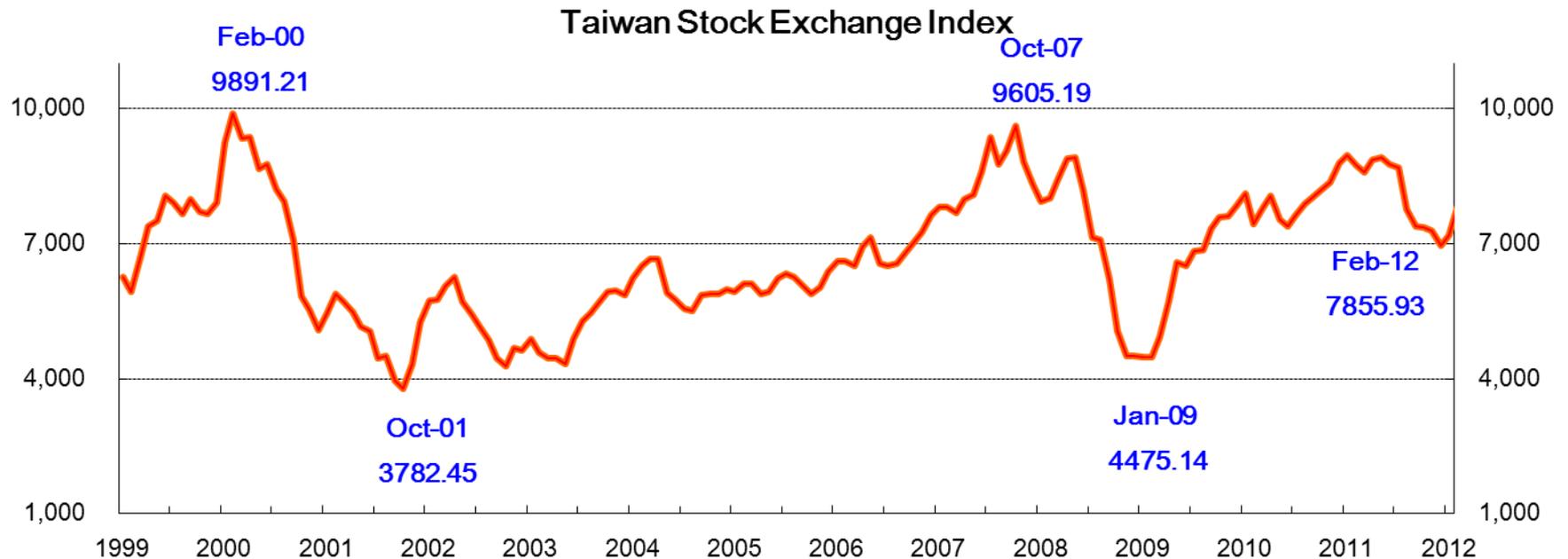


Source: Central Bank of China (Taiwan).

I. CURRENT DOMESTIC SITUATION

Stock Price

- ⇒ In the second half of 2011, consumer and investor confidence was dampened by the sovereign debt crises in euro countries and the failure of the US congressional “super committee” to reach a deficit deal. Under the impact of these factors, Taiwan’s stock exchange index fluctuated between 6,600-7,800.
- ⇒ In February 2012, thanks to an easing of financial stains in the eurozone, plus reviving growth momentum in the US, the average closing level of Taiwan’s stock exchange index rose to 7,856, up 9.46% from January.

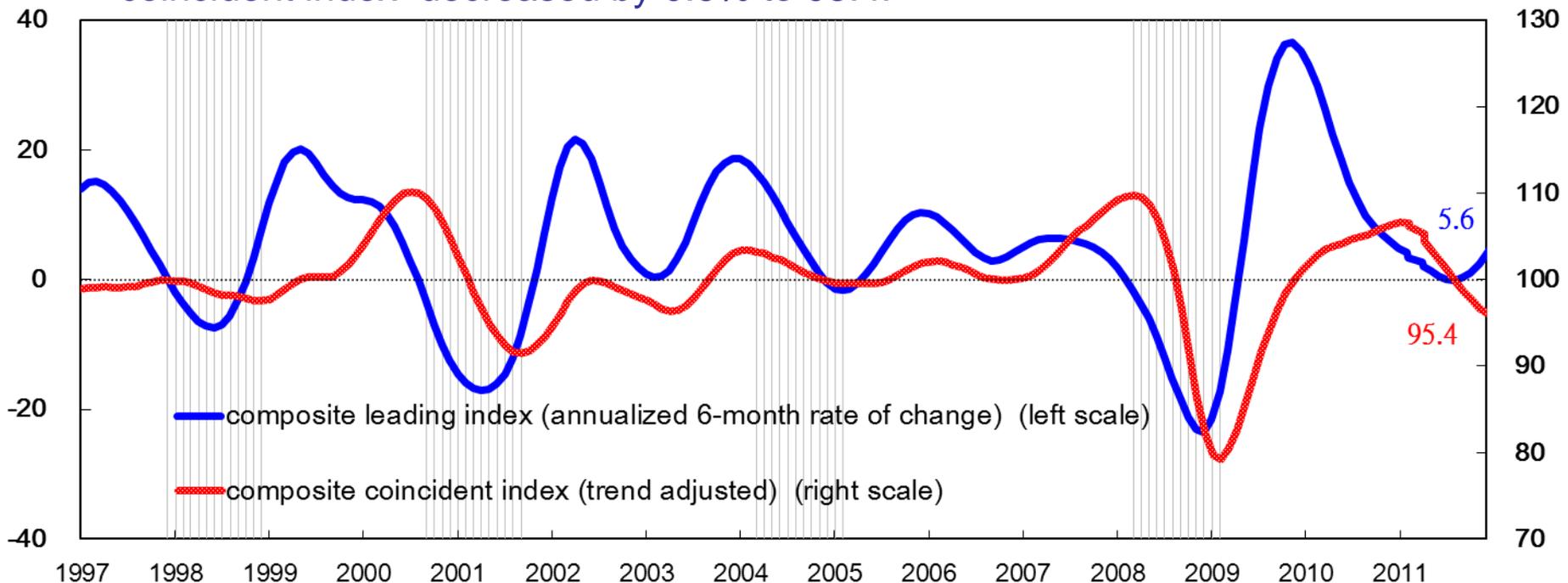


Source: Taiwan Stock Exchange.

I. CURRENT DOMESTIC SITUATION

Taiwan Business Indicators

⇒ In January 2012, although the Taiwan Business Indicators still pointed to many downside risks for the economy, the pace of decline in some components moderated. The annualized six-month rate of change of the leading index was 5.6%, up by 1.6 percentage points from December 2011, but the trend-adjusted coincident index decreased by 0.6% to 95.4.



Note: The shaded areas represent recessions.

Source: CEPD

I. CURRENT DOMESTIC SITUATION

Monitoring Indicators

⇒ Reflecting the downturn of Taiwan's economy, the monitoring indicators posted a total score of 13 in January 2012, and the overall monitoring indicator flashed the "blue" signal for the third consecutive month.

	2010	2011												2012	
		12	1	2	3	4	5	6	7	8	9	10	11		12
Total	Light														
	Score	34	34	34	31	29	27	25	23	20	21	19	16	14	13
Monetary Aggregates M1B															2.3
Direct and Indirect Finance															4.4
Stock Price Index															-20.0
Industrial Production Index															-4.8
Nonagricultural Employment															2.0
Customs-Cleared Exports															0.7
Imports of Machineries and Electrical Equipments															-4.5
Manufacturing Sales															-7.1 _p
Sales Index of Wholesale, Retail and Food Services															-8.8

● Booming ● Transitional ● Stable ● Transitional ● Sluggish

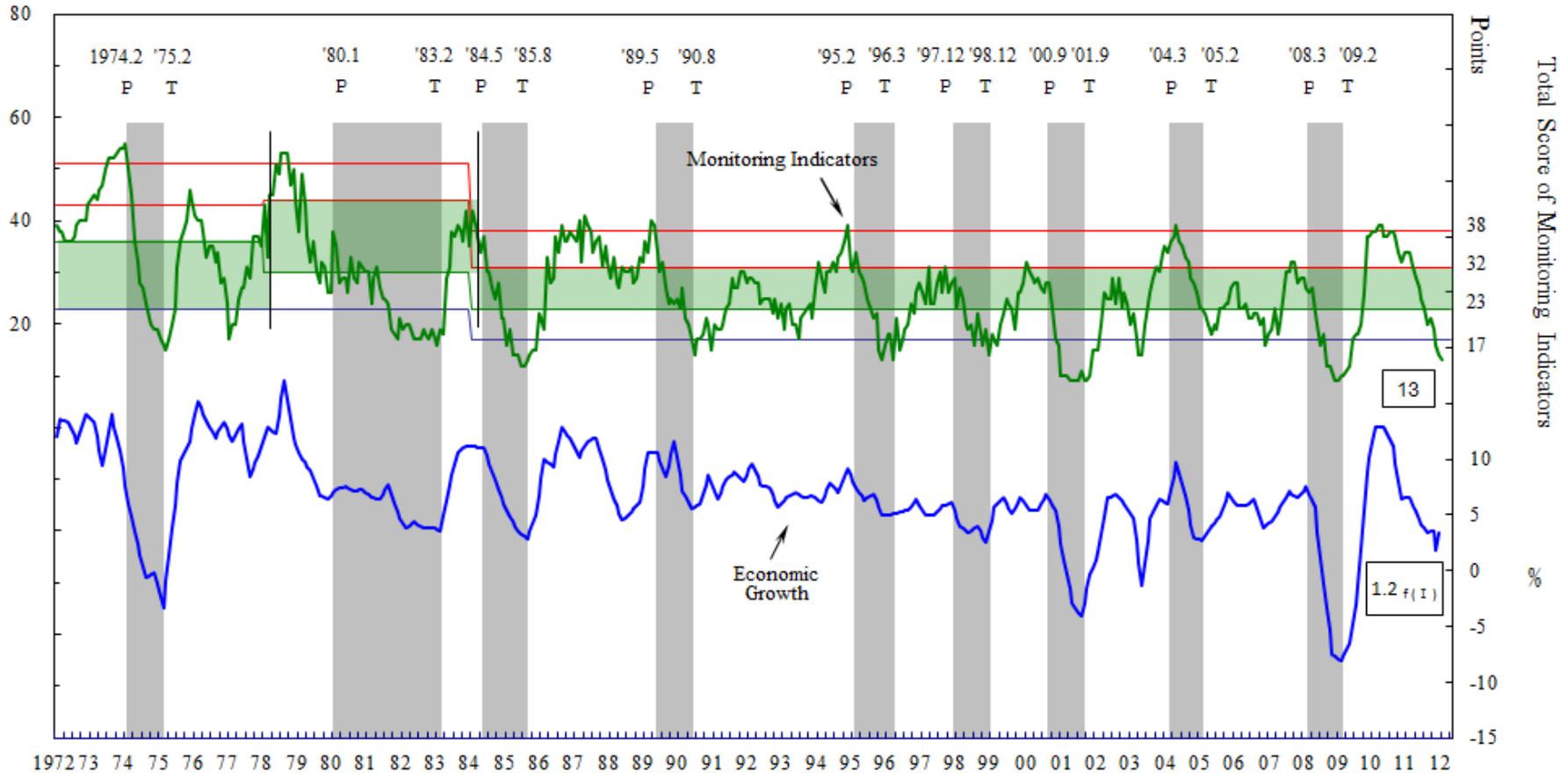
*Components are in terms of percentage changes over 1-year span. All components, except stock price index, have been seasonally adjusted.

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

I. CURRENT DOMESTIC SITUATION

Monitoring Indicators and Economic Growth

Monitoring Indicators & Economic Growth



Note: The shaded areas represent recessions.

Source: CEPD

II. PROSPECTS FOR 2012

⇒ **Taiwan's economic growth to gradually rally**

- Reflecting the slowdown of the global economy, Taiwan's real GDP shifted from the booming growth rate of 10.72% in 2010 to a moderate growth level of 4.04% in 2011.
- According to the preliminary estimate released by the DGBAS, Taiwan posted a year-on-year real GDP growth rate of 1.89% in the fourth quarter of 2011, and the GDP growth rate for the second half of last year was 2.65%.
- Mainly due to the still highly uncertain outlook for the global economy, the 2012 GDP growth forecast has been revised to 3.85% in the DGBAS's latest estimation, down 0.06 of a percentage point from January's forecast of 3.91%. However, Taiwan's real GDP growth is expected to improve quarter by quarter this year (from 1.19% in Q1 to 5.97% in Q4).
- Per capita GNP is projected to rise to US\$21,397 in 2012.

II. PROSPECTS FOR 2012

⇒ **Export growth expected to be limited**

- This year, the expansion of world trade is expected to turn down due to weak global economic growth, which may limit the export growth in Taiwan. Nevertheless, with the launch of innovative ICT products, the increasing benefit from the early harvest of the cross-strait Economic Cooperation Framework Agreement (ECFA), and the upgrade of industries in mainland China which will induce demand for our electrical and machinery equipment, exports are projected to increase by 4.38% in 2012.
- Over the whole of 2012, goods and services imports are projected to grow by 0.90% based on rising demand induced by export and investment.

⇒ **Private consumption set for moderate growth**

- Consumer confidence remains subdued because of the high uncertainties in the economic outlook. However, with the improving employment situation and the easing of unpaid leave in some enterprises, private consumption is projected to rise by 2.72% in 2012.

II. PROSPECTS FOR 2012

⇒ **Domestic investment likely to contract**

- Due to the reduction of external demand, high-investment industries (such as semiconductors, panels and DRAM) have been decelerating production capacity expansion in line with the recent decline of capacity utilization and poor profits. Over the whole of 2012, private investment is projected to decrease by 1.16%.
- On the other hand, there are some favorable factors for domestic investment, such as rising labor costs in mainland China inducing Taiwanese firms to increase domestic investment, Japanese firms planning to set up plants in Taiwan to disperse their operating risk after being hit by natural disasters at home and in Thailand, the growth of foreign visitors inducing tourism industry investment, and the government's "Invest in Taiwan" initiative yielding increasing effects.
- Based on the ongoing implementation of public infrastructure projects, government investment in 2012 is expected to reach NT\$433 billion. But government investment will still show a decline of 10.22% in 2012 because the peak of major public construction programs is past.

II. PROSPECTS FOR 2012

⇒ Inflation rising moderately

- Wholesale price inflation is expected to recede as flagging global economic growth puts downward pressure on raw material prices, though troubles in the Middle East are raising supply risks for crude oil. The WPI is forecast to rise 1.17% in 2012.
- While surging oil prices will exert inflationary pressure on domestic prices, active government price stabilization measures and stable housing rents should help ease the rise of inflation. The CPI is forecast to rise by 1.46% in the whole of 2012, slightly higher than last year's 1.42%.

Forecasts for Taiwan's Economy

	Real GDP (yoy, %)		Consumer Prices (yoy, %)	
	2011 _p	2012 _f	2011	2012 _f
DGBAS (2012.2)	4.04	3.85 [3.91]	1.42	1.46 [1.29]
TIER (2012.1)		3.96 [4.22]		1.46 [1.73]
CIER (2011.12)		4.07 [4.15]		1.48 [1.48]
Polaris (2011.12)		3.93 [4.51]		1.30 [1.56]
IEAS (2011.12)		3.81		1.16
Global Insight (2012.2)		3.8 [3.9]		1.2 [1.1]
EIU (2012.2)		2.8 [2.8]		1.4 [1.2]
UN (2012.1)		3.9 [4.9]		-
ADB (2011.12)		4.1 [4.7]		-

CIER: Chung-hua Institution for Economic Research, Taipei.

TIER: Taiwan Institute of Economic Research, Taipei.

IEAS: Institute of Economics, Academia Sinica

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

Polaris: Polaris Research Institute.

[] indicates the value of previous forecasts.

III. Conclusion

- In the first half of 2011, Taiwan's real GDP grew 5.54% yoy, mainly on the back of substantial growth in exports. Since the second half of 2011, Taiwan's export performance has been affected by the slowdown in western economies and the weakening of external demand. In the whole of 2011, Taiwan's real GDP posted a moderate growth of 4.04% .
- Owing to an easing of financial strains in the eurozone and the improving employment situation in the US, risks to the global economy are moderating. In 2012, Taiwan's real GDP is forecast to rise by 3.85%, with the quarterly growth rate improving gradually from 1.19% in Q1 to 5.97% in Q4.
- In order to actively respond to the impact of economic weakness in Europe on Taiwan's economy, the government has mapped out the "Economic Climate Response Program" featuring seven sets of strategies for stabilizing finance, holding down prices, increasing employment, promoting investment, helping industries, pepping up consumption, and boosting exports.
- Furthermore, the government will carry out the next wave of measures for reshaping Taiwan's economic structure, including strengthening technological innovation, bolstering cultural & creative enterprise, enhancing R&D and innovation, promoting the revitalization of traditional industries, and emphasizing the development of service industries, especially those that export services. At the same time, the government will promote the expansion of exports to emerging markets and diversification of export products. These initiatives should ensure that sound progress is kept up toward endowing Taiwan with a vigorous and sustainable new economy.

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				
2004	6.19	7.36	5.17	0.57	13.96	25.62	-20.60	-9.59	--	--	15.40	17.50
2005	4.70	1.83	2.90	0.19	2.66	1.53	14.77	2.82	--	--	7.78	3.16
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	10.72	9.78	3.67	0.58	23.99	33.84	8.00	-3.10	--	--	25.56	28.23
2011_p	4.04	0.37	2.95	1.86	-3.79	-2.35	-14.32	-5.41	--	--	4.51	-0.64
Q1	6.62	3.47	4.61	0.62	7.74	10.55	-15.97	0.69	--	--	11.20	7.55
Q2	4.52	2.18	3.04	0.85	1.41	4.76	-15.01	-5.38	--	--	4.94	1.78
Q3 _r	3.45	-0.35	3.24	2.43	-9.13	-9.94	-3.47	-7.11	--	--	2.10	-3.72
Q4 _p	1.89	-3.46	0.98	3.17	-12.41	-12.68	-18.93	-7.39	--	--	0.78	-7.23
2012_f	3.85	1.33	2.72	-0.23	-2.46	-1.16	0.31	-10.22	--	--	4.38	0.90
Q1 _f	1.19	-1.67	2.41	1.35	-12.04	-11.47	-22.92	-11.79	--	--	0.28	-4.03
Q2 _f	3.52	0.09	2.46	0.58	-2.49	-0.59	1.02	-13.55	--	--	3.48	-1.35
Q3 _f	4.48	2.78	2.84	-0.69	1.45	2.93	4.73	-7.67	--	--	5.71	3.59
Q4 _f	5.97	4.03	3.18	-1.72	2.99	5.64	7.08	-8.58	--	--	7.77	5.60

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), Feb. 2012.

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				
2004	6.19	7.34	3.27	0.08	3.12	4.01	-0.46	-0.43	0.88	-1.15	8.86	10.01
2005	4.70	1.85	1.81	0.03	0.64	0.28	0.25	0.11	-0.63	2.86	4.86	2.00
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	10.72	8.35	2.11	0.07	3.99	3.97	0.12	-0.10	2.17	2.37	16.73	14.36
2011_p	4.04	0.31	1.59	0.21	-0.71	-0.33	-0.21	-0.16	-0.78	3.72	3.35	-0.38
Q1	6.62	3.01	2.63	0.07	1.35	1.49	-0.16	0.02	-1.03	3.60	8.04	4.44
Q2	4.52	1.83	1.62	0.09	0.26	0.66	-0.23	-0.17	-0.14	2.69	3.76	1.07
Q3 _r	3.45	-0.30	1.73	0.27	-1.79	-1.54	-0.04	-0.21	-0.51	3.75	1.55	-2.19
Q4 _p	1.89	-2.88	0.51	0.37	-2.36	-1.68	-0.41	-0.26	-1.40	4.77	0.58	-4.18
2012_f	3.85	1.09	1.45	-0.03	-0.42	-0.15	0.00	-0.27	0.08	2.76	3.26	0.50
Q1 _f	1.19	-1.41	1.35	0.14	-2.11	-1.69	-0.19	-0.24	-0.78	2.60	0.21	-2.39
Q2 _f	3.52	0.07	1.29	0.06	-0.45	-0.08	0.01	-0.38	-0.83	3.44	2.66	-0.79
Q3 _f	4.48	2.27	1.52	-0.08	0.25	0.40	0.05	-0.20	0.59	2.21	4.18	1.97
Q4 _f	5.97	3.17	1.64	-0.21	0.49	0.64	0.12	-0.28	1.25	2.79	5.74	2.95

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), Feb. 2012.

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.