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# **TAIWAN'S ECONOMIC SITUATION AND OUTLOOK**

**August 2012**

Council for Economic Planning and Development  
Executive Yuan

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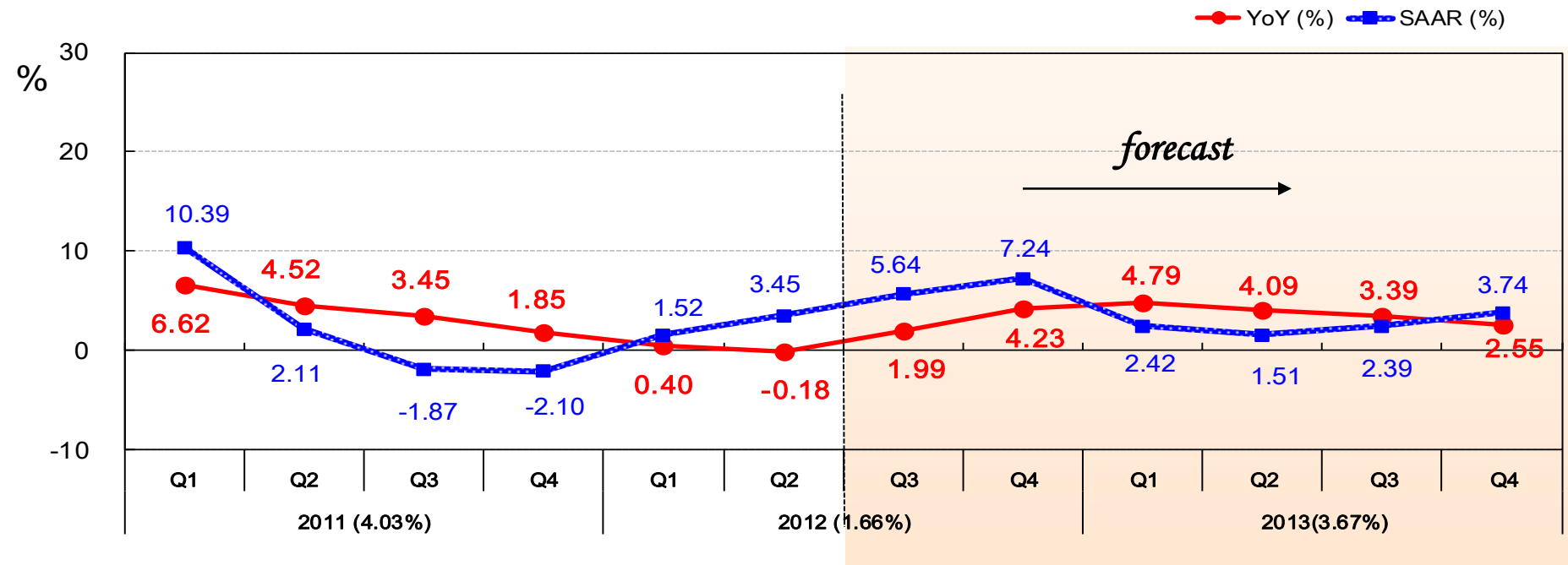
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# I. CURRENT DOMESTIC SITUATION

## *Economic Growth*

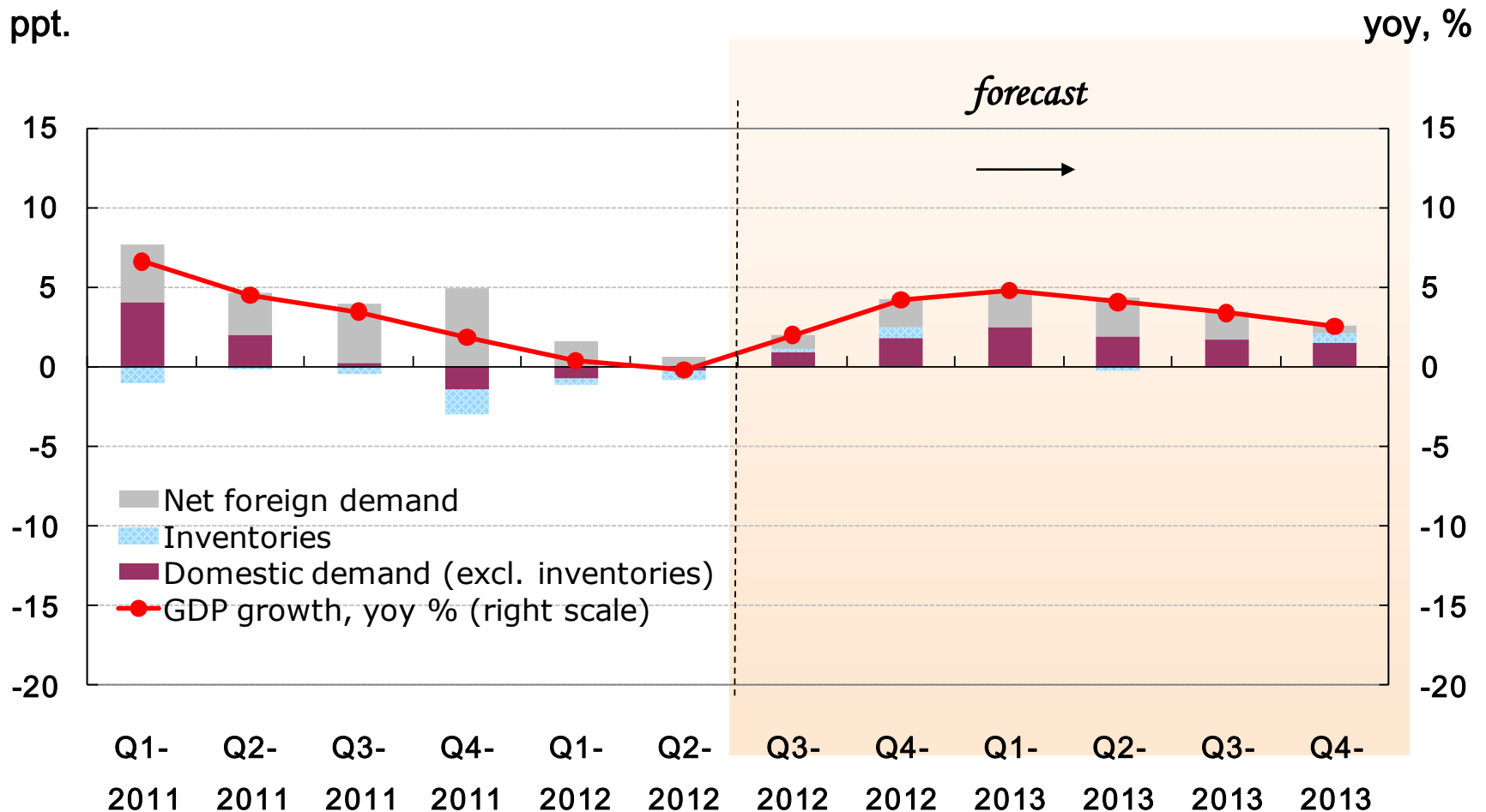
- ⇒ In Q2 2012, weakened external demand caused Taiwan's real exports of goods and services to shrink by 2.00%. With domestic demand also contracting slightly, GDP decreased by 0.18% from the same quarter of the previous year.
- ⇒ The seasonally adjusted annual rate (saar) of real GDP was 3.45% in Q2 2012.

## Real GDP Growth



# I. CURRENT DOMESTIC SITUATION

## Contributions to GDP Growth (in percentage points)

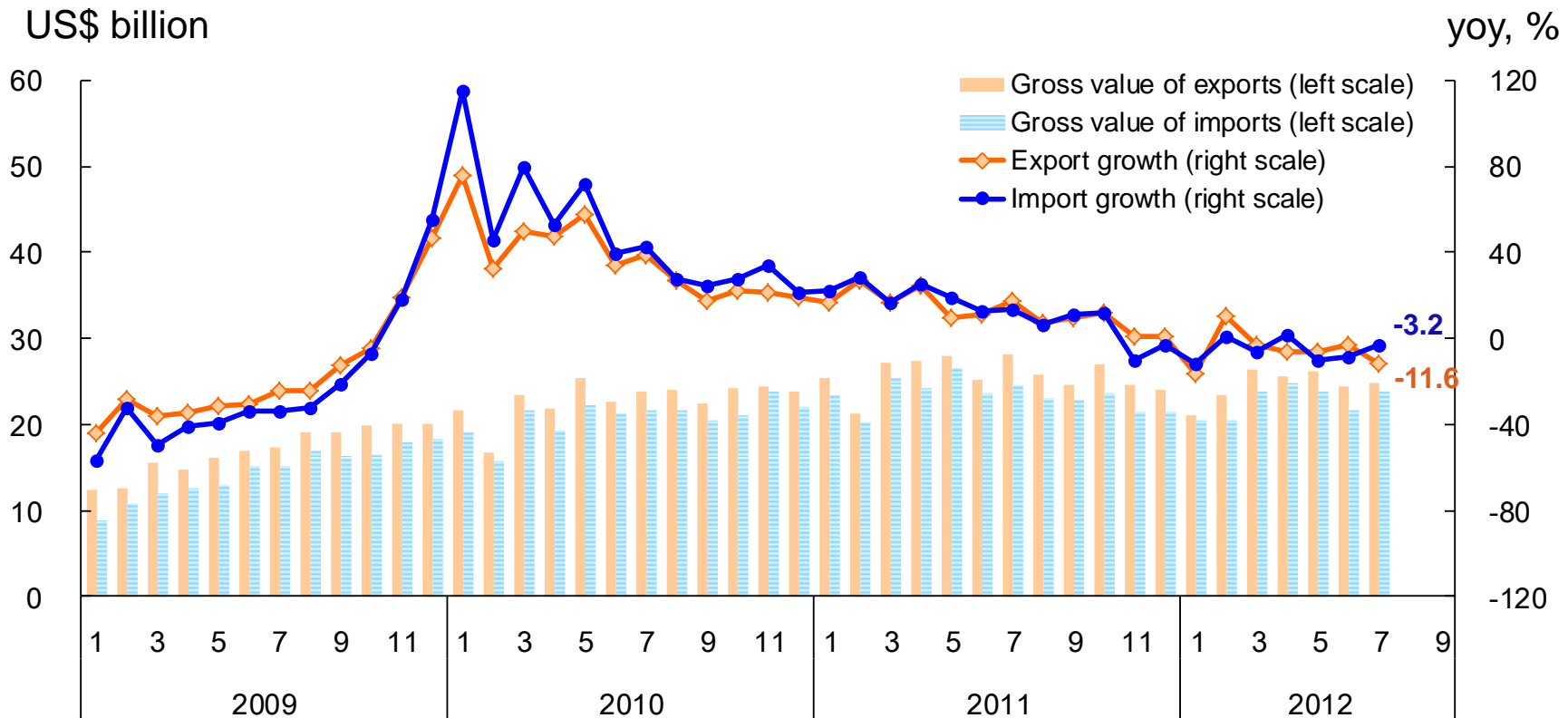


# I. CURRENT DOMESTIC SITUATION

## Foreign Trade

⇒ In July 2012, exports declined by 11.6% year on year, mainly due to decreased export of ICT and electronic products. Imports decreased 3.2%, with most of the decrease in mineral products.

⇒ The month's foreign trade yielded a balance of US\$0.9 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, August 2012

# 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
<b>2002 Share</b>	<b>20.2</b>	<b>9.1</b>	<b>13.9</b>	<b>32.1</b>	<b>11.9</b>	<b>16.1</b>	<b>24.2</b>	<b>6.4</b>	<b>8.7</b>	<b>14.7</b>
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
<b>2011 Share</b>	<b>12.2</b>	<b>6.8</b>	<b>10.2</b>	<b>40.7</b>	<b>14.8</b>	<b>10.2</b>	<b>21.7</b>	<b>12.8</b>	<b>15.3</b>	<b>11.8</b>
2012 Jan-Jul	-12.4	-3.6	-8.2	-9.1	4.4	-10.3	-10.4	15.5	-6.3	-3.2

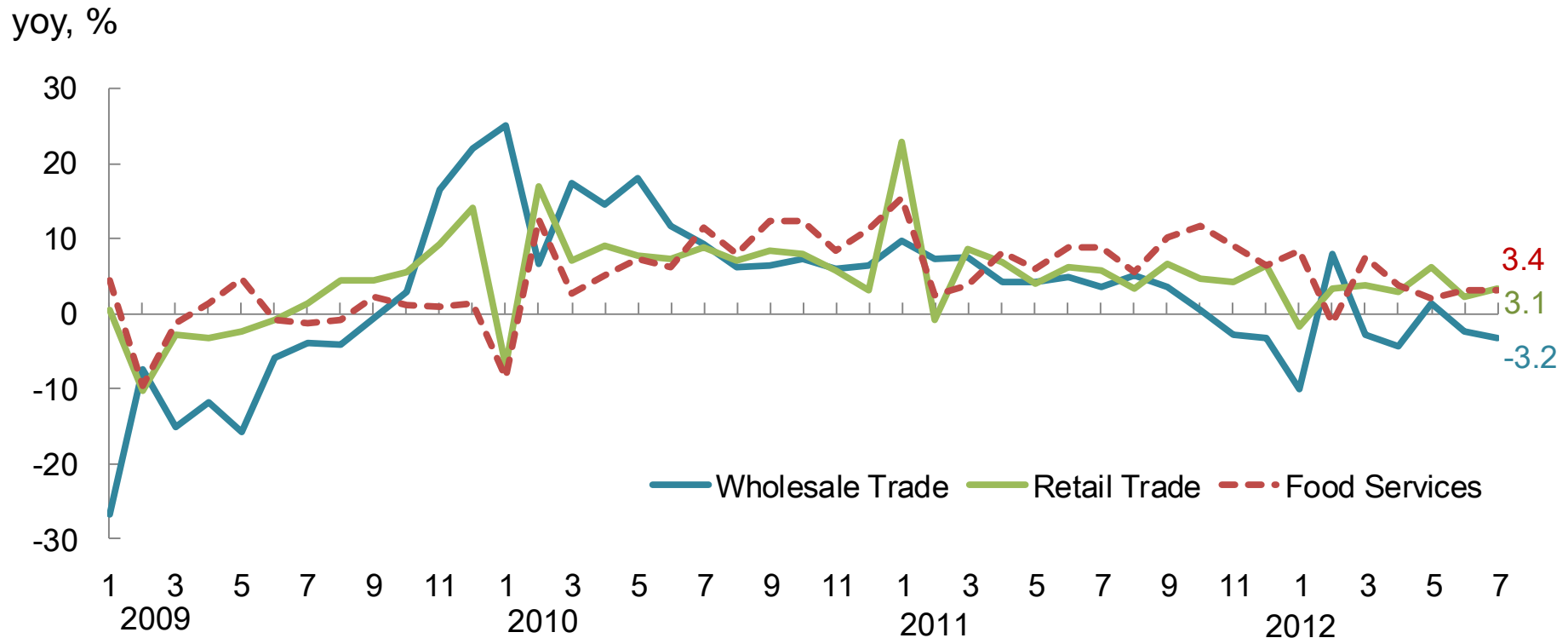
\*ASEAN 6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Source: Ministry of Finance.

# I. CURRENT DOMESTIC SITUATION

## *Domestic consumption*

- ⇒ In Q2 2012, with the improving employment situation, private consumption grew by 0.76% from a year earlier, while government consumption increased by 2.41%. But domestic consumption momentum was offset by a lull in stock market activity and a sell-off of financial assets.
- ⇒ Sales growth of trade and food services has slowed, with a decrease in wholesale trade partially offset by a rise in retail trade and food & beverage services.

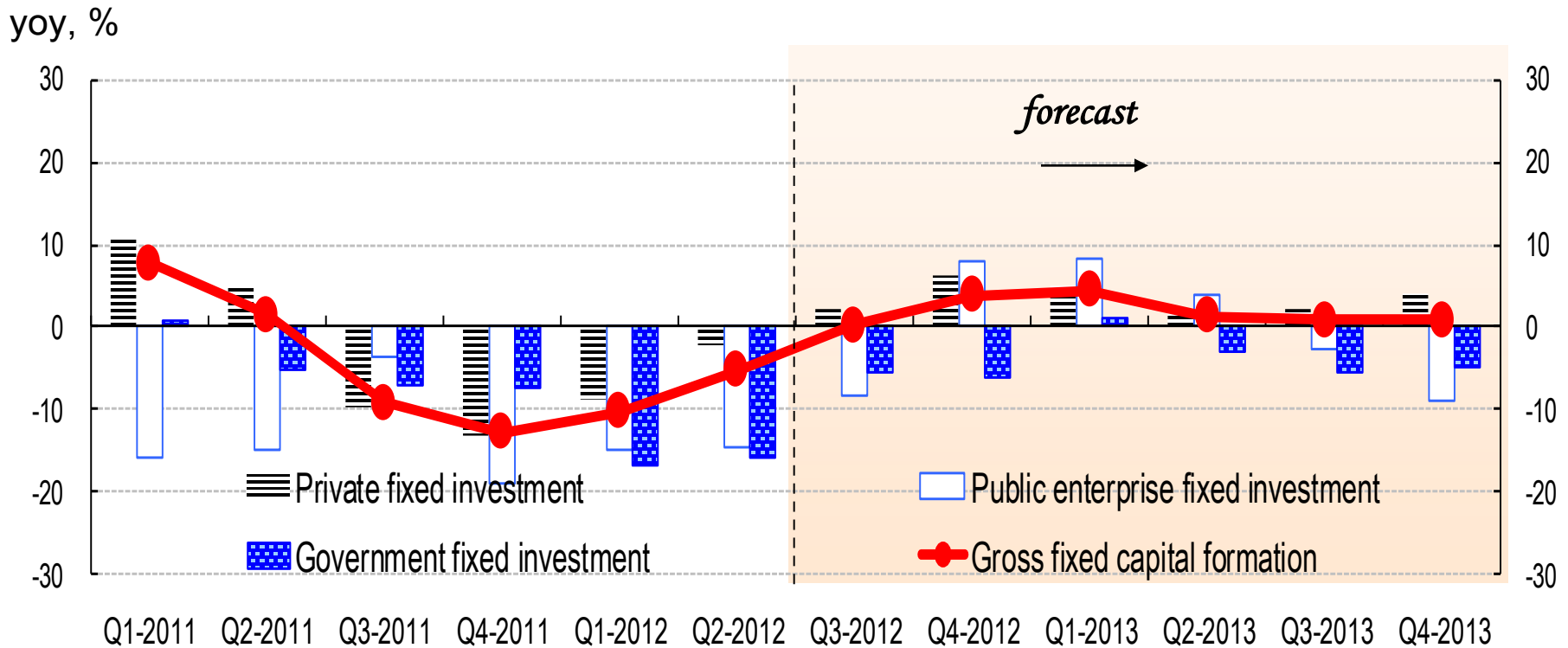


# I. CURRENT DOMESTIC SITUATION

## *Domestic Investment*

⇒ In Q2 2012, private fixed investment and gross fixed capital formation fell 2.21% and 5.24%, respectively. Gross fixed capital formation for Q1 2012 was revised to minus 10.24% from minus 10.54%.

⇒ This drop in private fixed investment was caused by investment plans being put on hold due to the weak economy, with imports of capital equipment continuing to decline.





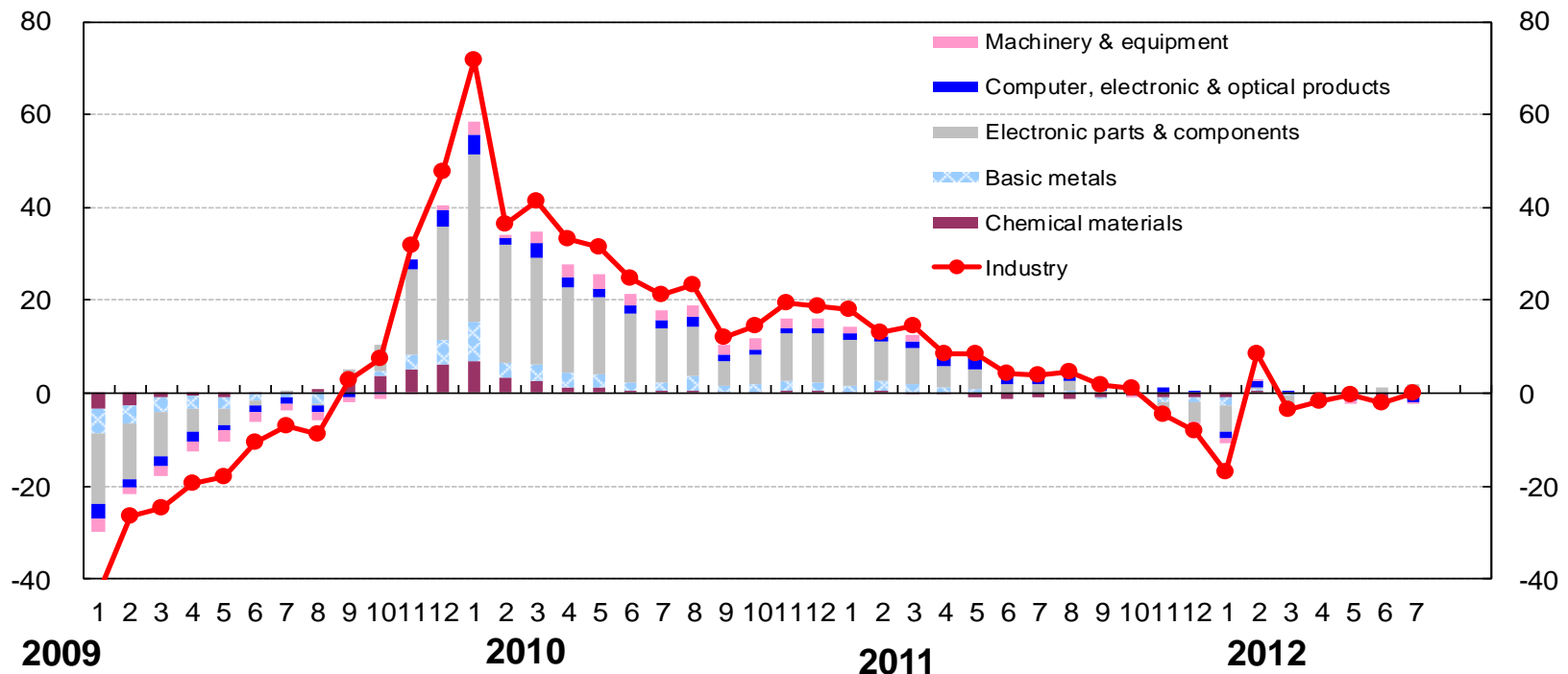
# I. CURRENT DOMESTIC SITUATION

## *Industrial Production*

- ⇒ The industrial production index showed a year-on-year decrease of 0.02% in July 2012. Manufacturing output decreased 0.28%, and water supply decreased 2.41%.
- ⇒ The industrial production index showed a rise from the previous month, mainly due to increasing production of electronic parts and components, spurred by the anticipation of Win8 and iPhone 5.

### Growth of Industrial Production Index

yoy %

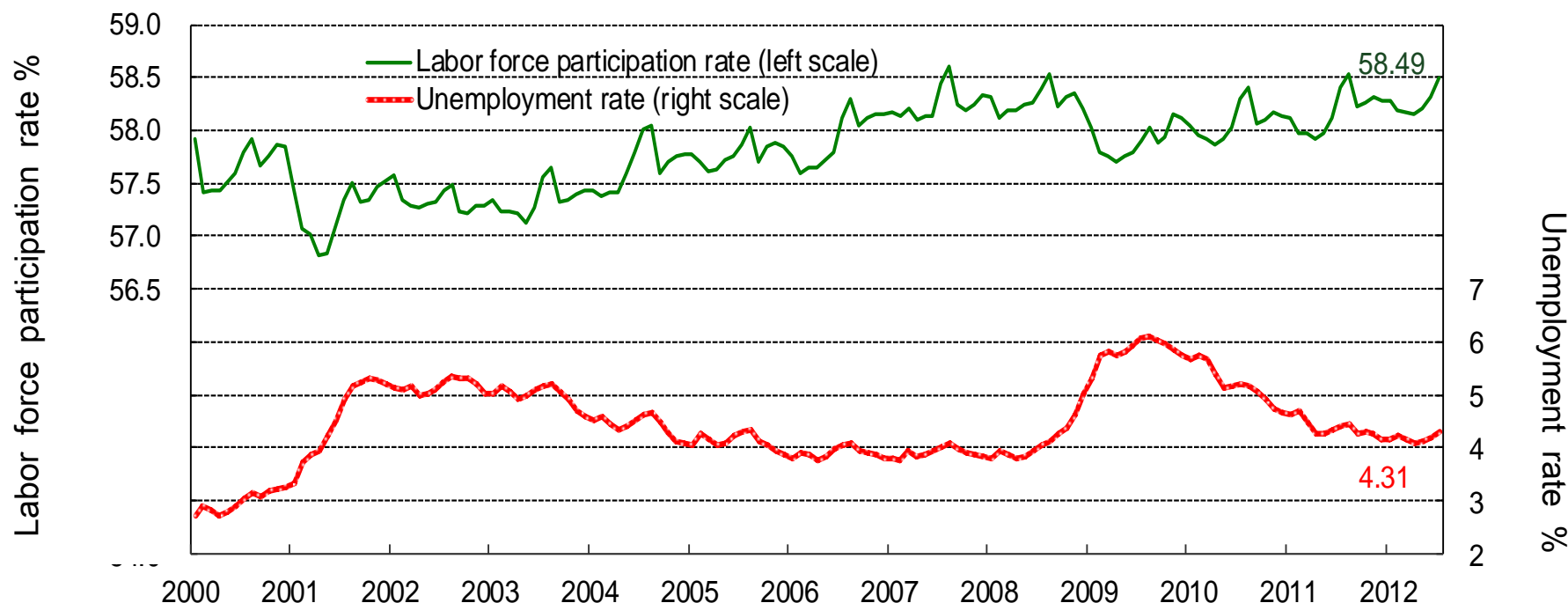


Source: Ministry of Economic Affairs, August 2012.

# I. CURRENT DOMESTIC SITUATION

## *Unemployment Rate and Labor Force Participation Rate*

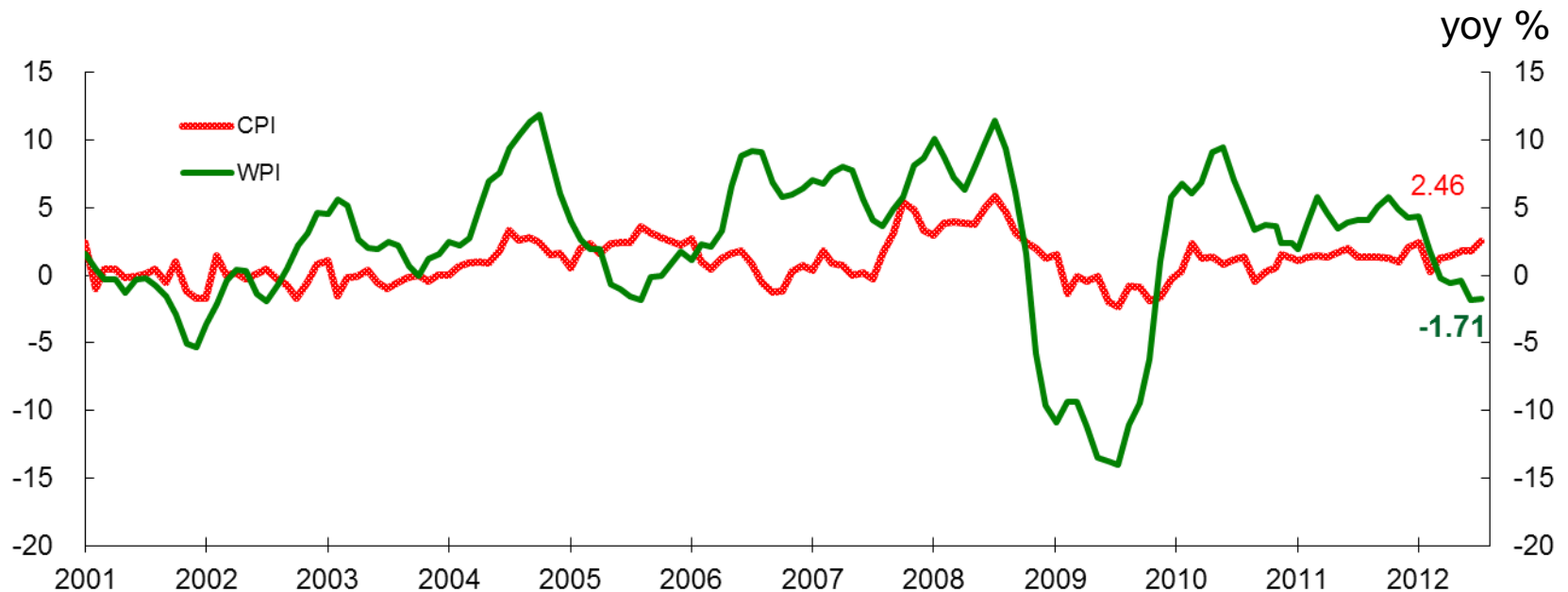
- ⇒ In July 2012, the unemployment rate stood at 4.31%, up 0.1 of a percentage point from the previous month, and 0.1 of a percentage point lower than a year earlier. The seasonally adjusted unemployment rate was 4.25%.
- ⇒ The labor force participation rate increased by 0.17 of a percentage point from the previous month to 58.49%, up 0.09 of a percentage point from a year earlier.



# I. CURRENT DOMESTIC SITUATION

## *Prices*

- ⇒ In July 2012, Taiwan's CPI increased by 2.46% from the same month last year. The most significant changes in CPI components were increases in the prices of vegetables and fruits. Core prices (excluding fresh food and energy prices) increased 0.96%.
- ⇒ The WPI in July fell by 1.71% year on year, due mainly to the decreasing prices of chemical materials and petroleum.

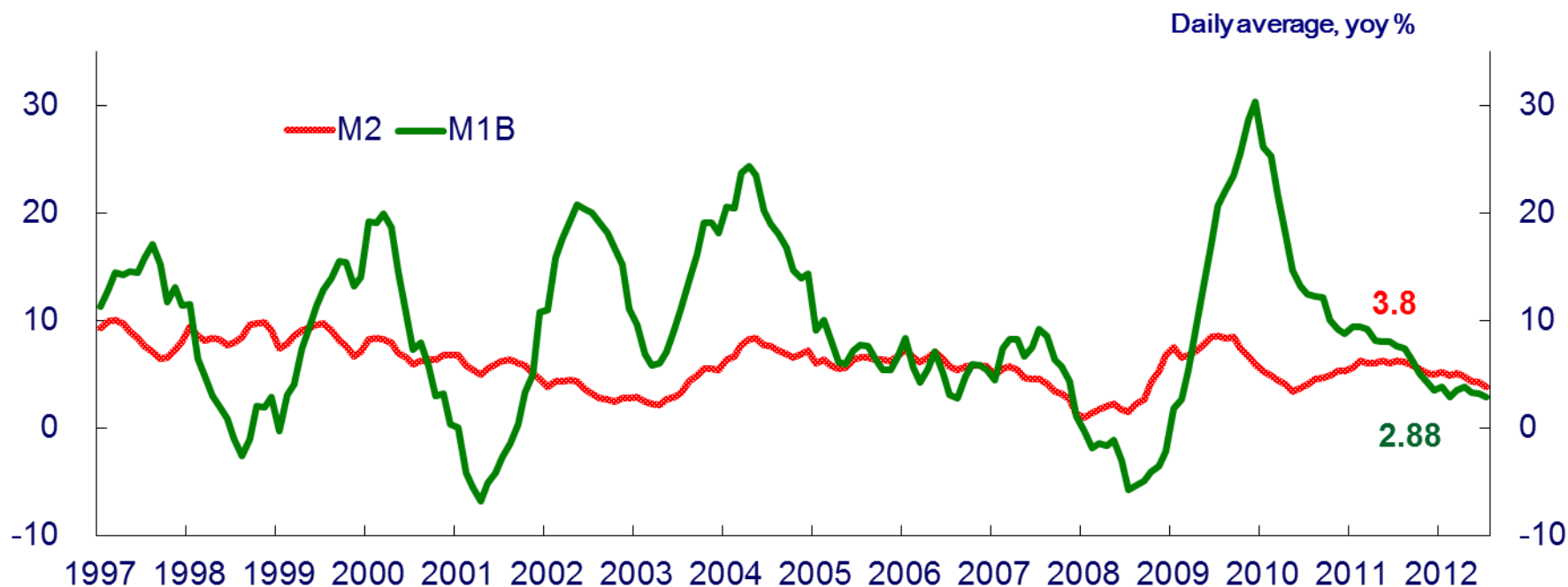


Source: DGBAS, August 2012.

# I. CURRENT DOMESTIC SITUATION

## *Money Supply*

- ⇒ In July 2012, the annual growth rates of M1B and M2 declined to 2.88% and 3.80%, respectively, mainly due to net foreign capital outflows.
- ⇒ In July 2012, the monthly growth rates of M1B and M2, measured on a daily average basis, were 0.21% and 0.23% respectively.



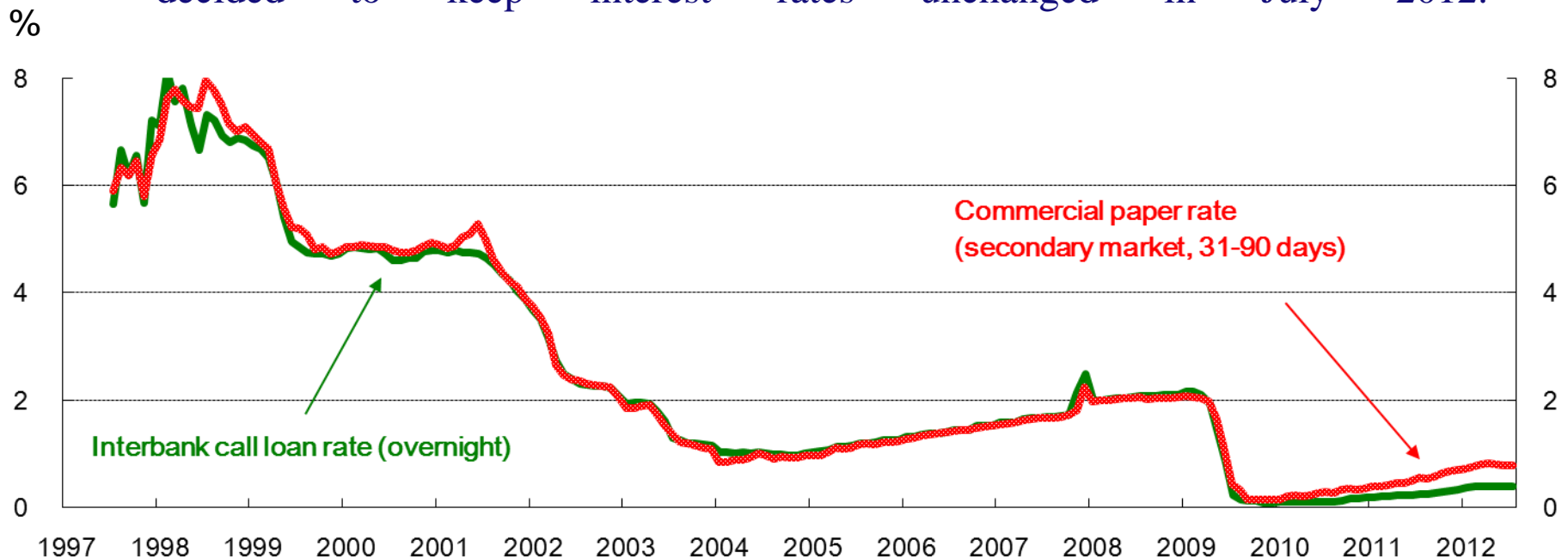
Note: The definition of M2 was changed in January 2012 to exclude structured products issued by banks. This historical data revision was retrospective to January 2001.

Source: Central Bank of China (Taiwan).

# I. CURRENT DOMESTIC SITUATION

## *Short-term Interest Rates*

- ⇒ In July 2012, interest rates remained at low levels, with the commercial paper rate at 0.8%, down from 0.82% in June, and the interbank rate at 0.445%, down from 0.513% in June.
- ⇒ To help Taiwan's economy maintain stable growth amid global economic uncertainties, and with the need to closely monitor price movements, the CBC decided to keep interest rates unchanged in July 2012.

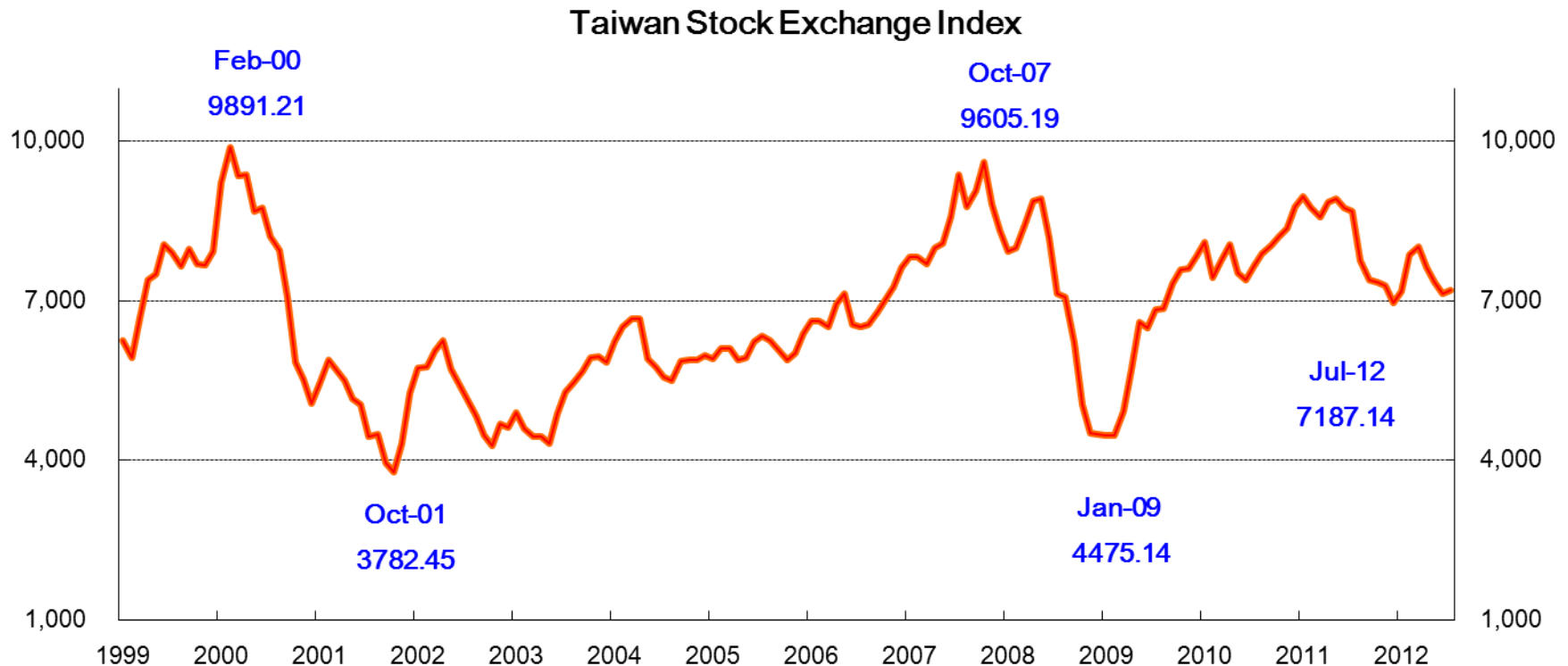


Source: Central Bank of China (Taiwan).

# I. CURRENT DOMESTIC SITUATION

## *Stock Price*

⇒ In July 2012, the average closing level of Taiwan's stock exchange index was 7,187, up 0.62% from June. The rise was mainly a reflection of surging share prices on major international stock exchanges.

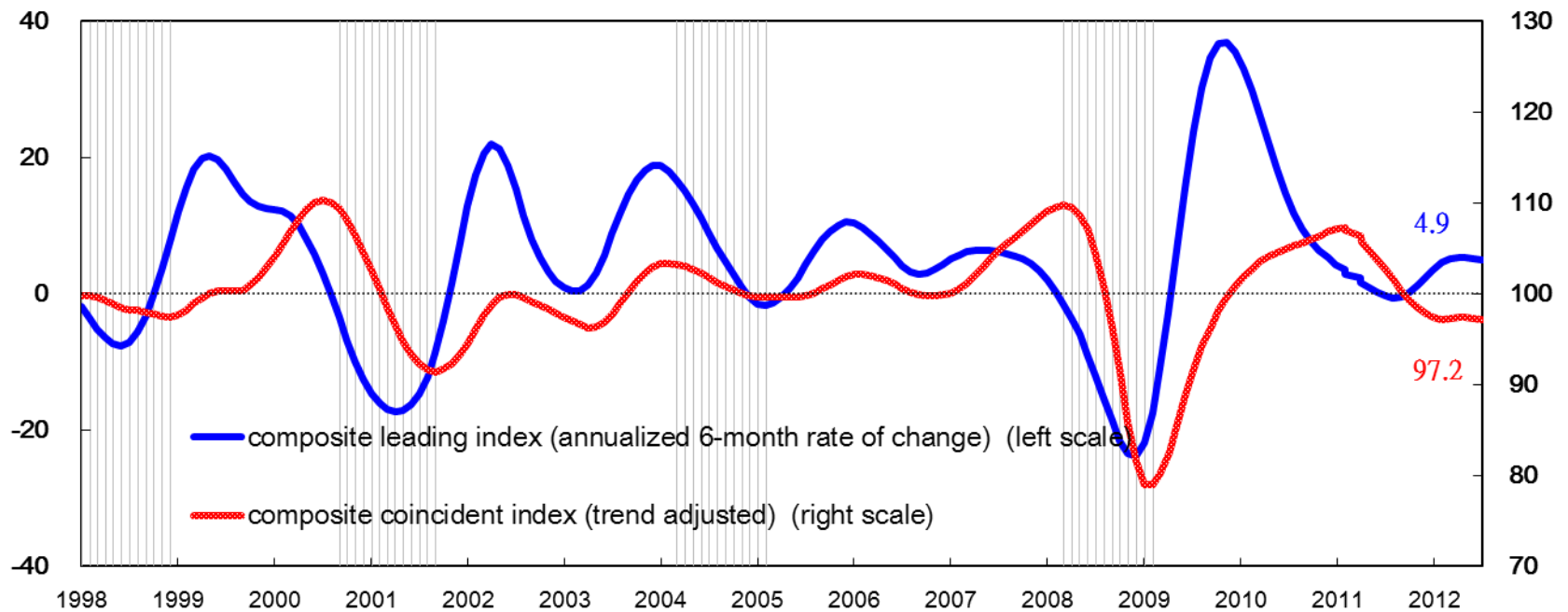


Source: Taiwan Stock Exchange.

# I. CURRENT DOMESTIC SITUATION

## *Taiwan Business Indicators*

⇒ In July 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 4.9%, down by 0.3 percentage points from June 2012, and the trend-adjusted coincident index decreased by 0.1% to 97.2.



Note: The shaded areas represent recessions.

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

# I. CURRENT DOMESTIC SITUATION

## Monitoring Indicators

- ⇒ Reflecting the downturn of Taiwan's economy, the monitoring indicators posted a total score of 16 in July 2012, and the overall monitoring indicator flashed the "blue" signal for the ninth consecutive month.

		2011						2012							
		6	7	8	9	10	11	12	1	2	3	4	5	6	7
Total	Light														
	Score	25	23	20	21	19	16	14	13	15	14	14	15	15	16
Monetary Aggregates M1B															2.9
Direct and Indirect Finance															4.9
Stock Price Index															-17.2
Industrial Production Index															0.3
Nonagricultural Employment															1.25
Customs-Cleared Exports															-7.9
Imports of Machineries and Electrical Equipments															-2.4
Manufacturing Sales															-5.6 <sub>p</sub>
Sales Index of Wholesale, Retail and Food Services															-1.4

Booming
 Transitional
 Stable
 Transitional
 Sluggish

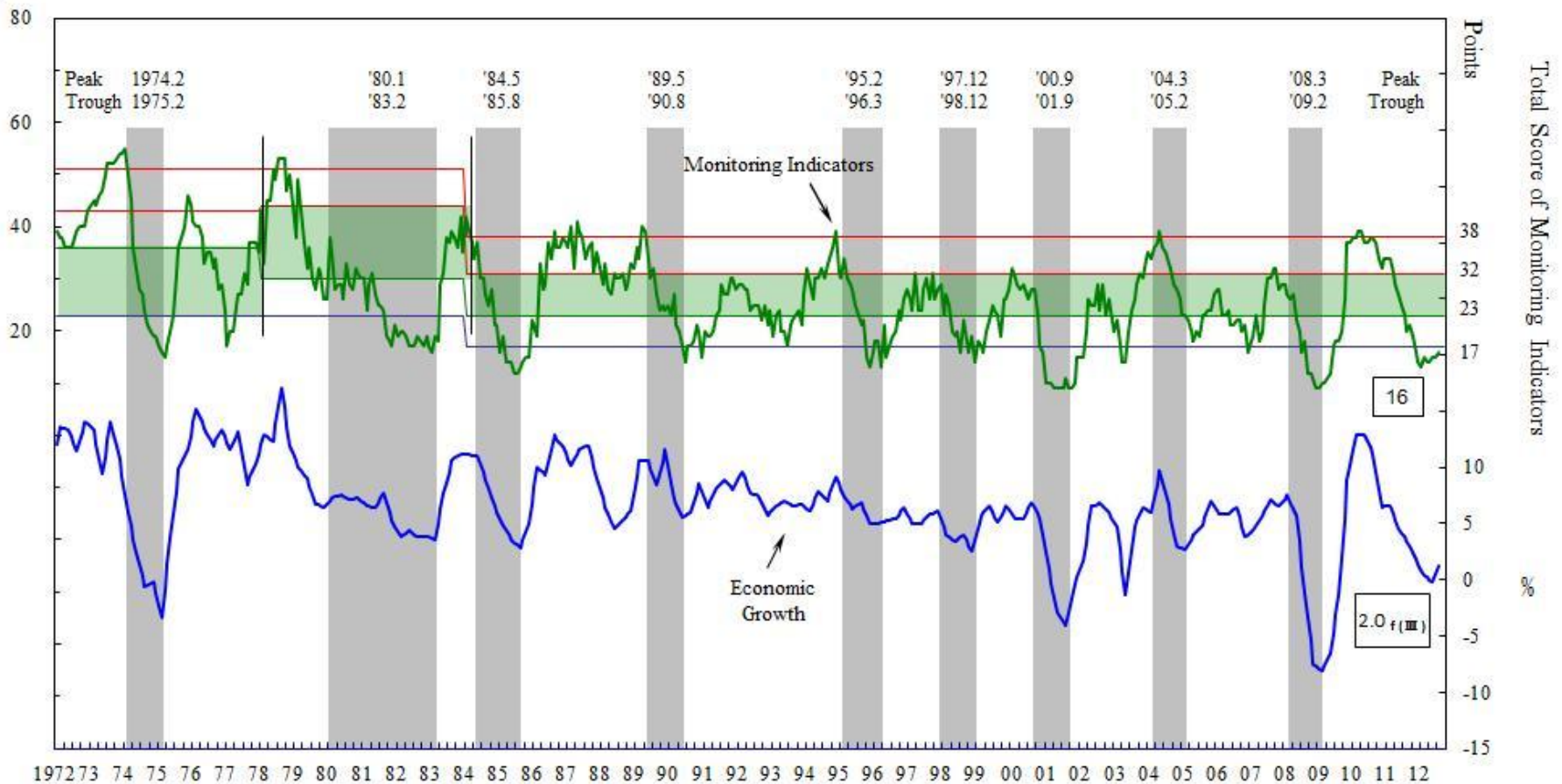
\*Components are in terms of percentage changes over 1-year span. All components, except stock price index, have been seasonally adjusted.

Source: CEPD.



# I. CURRENT DOMESTIC SITUATION

## Monitoring Indicators and Economic Growth



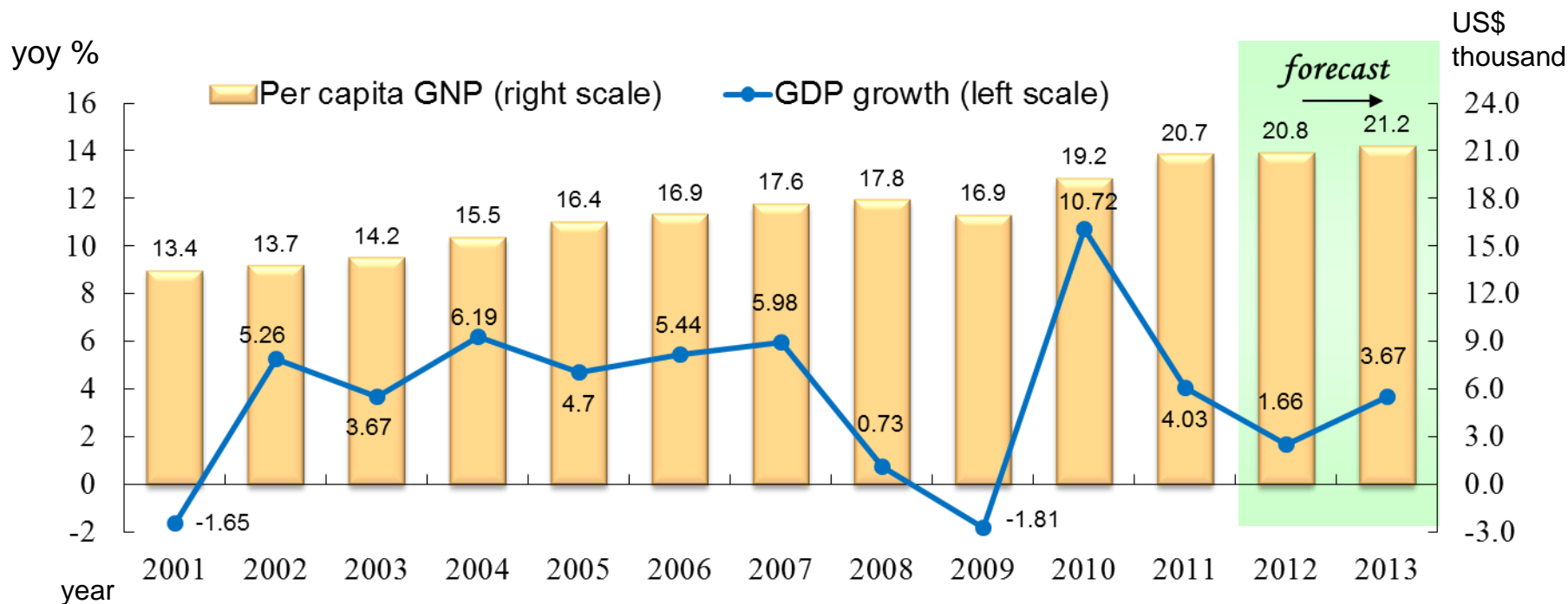
Note: The shaded areas represent recessions.

Source: CEPD.

## II. PROSPECTS FOR 2012 and 2013

### ⇒ Taiwan's economic recovery expected to be weak

- Mainly due to the still highly uncertain outlook for the global economy, the 2012 GDP growth forecast has been revised to 1.66% in the DGBAS's latest estimation, down 1.37 of a percentage point from May's forecast of 3.03%. In 2013, Taiwan's real GDP is forecast to rise by 3.67%.
- Per capita GNP is projected to increase to US\$20,799 in 2012 and US\$21,225 in 2013.

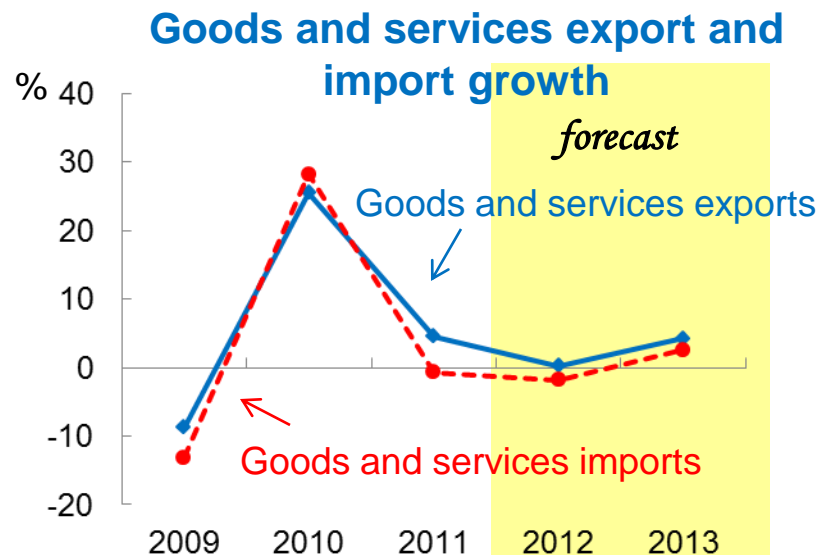


Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), August 17, 2012.

## II. PROSPECTS FOR 2012 and 2013

### ⇒ Export growth expected to be limited

- The weak growth of world trade, together with the gradual localization of supply chains in mainland China and the greater competitive stress on high-tech companies from large foreign enterprises, may limit Taiwan's export growth momentum.
- However, with world trade projected by the IMF to rise by 5.1% next year (versus 3.8% in 2012), the launch of innovative ICT products, and the increasing benefit from the Early Harvest Program of the cross-strait Economic Cooperation Framework Agreement (ECFA), this combination of positive factors should induce stronger demand for exports from Taiwan.
- Goods and services exports are projected to increase in real terms by 0.29% in 2012 and 4.27% in 2013.
- Goods and services imports are projected to shrink by 1.77% in 2012 and then grow by 2.59% in 2013 on the back of rising demand induced by export and investment.



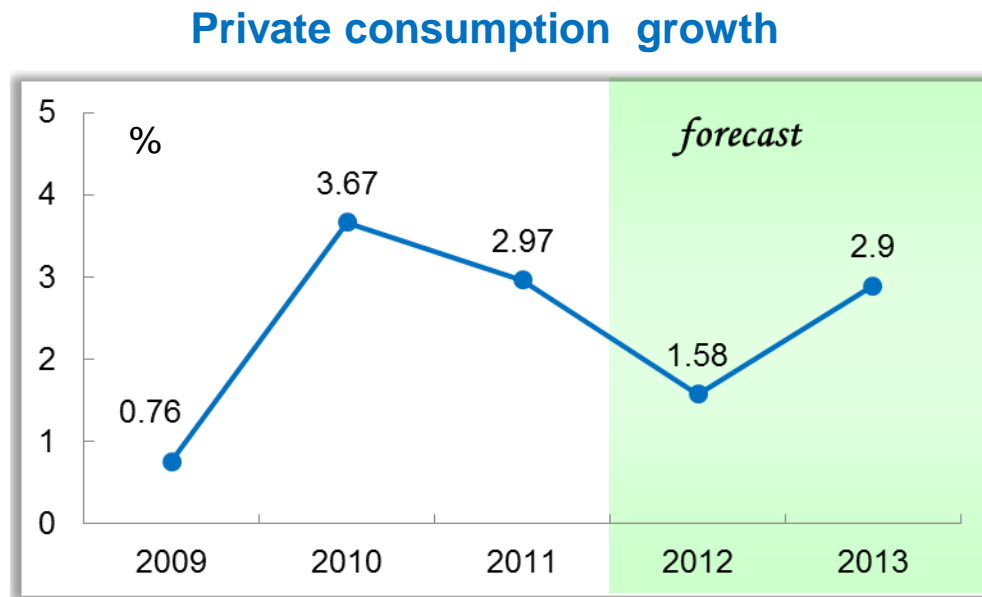
Source: DGBAS, August 17, 2012.

## II. PROSPECTS FOR 2012 and 2013

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### ⇒ Private consumption set for moderate growth

— The downswing in business earnings owing to the slowdown of the global economy, the weakness in equity markets, and the stagnation of real wages have weighed on consumer confidence. However, with the stable employment situation, private consumption is projected to rise by 1.58% in 2012 and 2.90% in 2013.

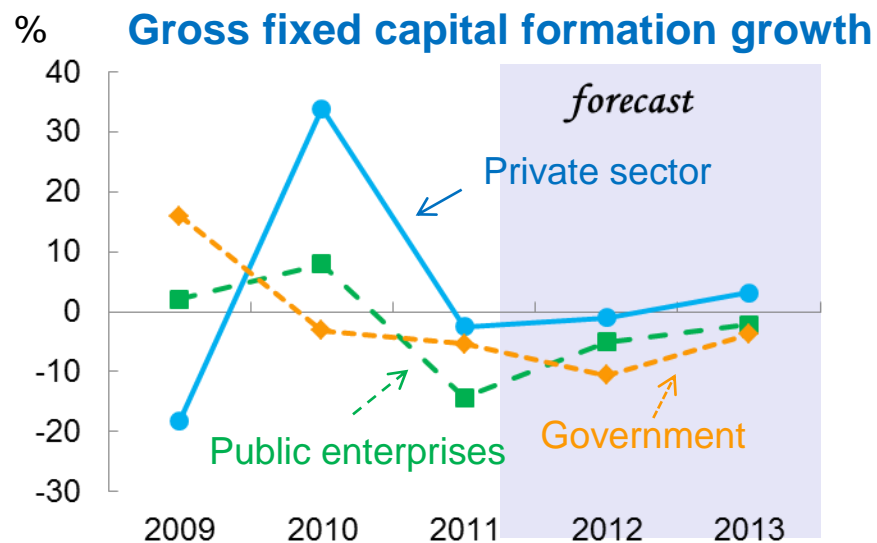


Source: DGBAS, August 17, 2012.

## II. PROSPECTS FOR 2012 and 2013

### ⇒ Domestic investment likely to contract

- In the second half of 2012, investment in the DRAM and opto-electronic industries is expected to remain slow. Meanwhile, businesses are still taking a cautious attitude to investment due to the high uncertainty of the global economic outlook.
- Nevertheless, there are some favorable factors for domestic investment, such as plans by semiconductor manufacturers with technical advantages to increase investment in advanced technologies, the growth of foreign visitors inducing tourism industry investment, and the government's efforts to rapidly improve the investment environment.
- Private fixed investment is projected to decrease by 1.03% in 2012 but to increase by 3.18% in 2013.
- Government fixed investment in 2012 is expected to reach NT\$429.1 billion, but still show a decline of 10.64% year on year due to the high base effect.

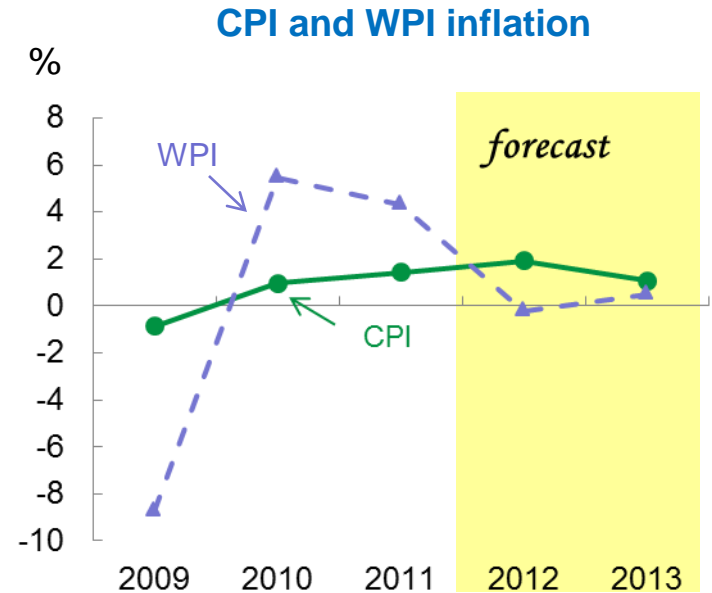


Source: DGBAS, August 17, 2012.

## II. PROSPECTS FOR 2012 and 2013

### ⇒ Inflation rising moderately

- Oil prices have picked up recently due to a combination of supply shortage and renewed geopolitical concerns. Simultaneously, prices of some agricultural commodities have soared due to weather-related damage to crops. However, prices of raw materials such as base metals have remained dampened due to the weakness of global demand. The WPI is forecast to decrease by 0.21% in 2012 and to rise by 0.5% in 2013.



Source: DGBAS, August 17, 2012.

- Elevated prices of international agricultural commodities, higher petrol and electricity prices resulting from government reform of state-owned enterprise pricing policies, and fluctuations in vegetable and fruit supplies due to typhoons have put upward pressure on domestic prices. However, the government's close attention to price changes and stable housing rents should help ease inflationary pressure. The CPI is forecast to rise by 1.93% in 2012 and 1.08% in 2013.

# Forecasts for Taiwan's Economy

	Real GDP (yoy, %)		Consumer Prices (yoy, %)	
	2012 <sub>f</sub>	2013 <sub>f</sub>	2012 <sub>f</sub>	2013 <sub>f</sub>
<b>DGBAS (2012.8)</b>	<b>1.66 [2.08]</b>	<b>3.67</b>	<b>1.93 [1.90]</b>	<b>1.08</b>
<b>TIER (2012.7)</b>	<b>2.41 [3.48]</b>	<b>-</b>	<b>1.84 [1.98]</b>	<b>-</b>
<b>CIER (2012.7)</b>	<b>2.36 [3.55]</b>	<b>4.29[4.01]</b>	<b>1.87 [1.93]</b>	<b>1.87 [1.89]</b>
<b>Polaris (2012.6)</b>	<b>2.50 [3.88]</b>	<b>-</b>	<b>1.90 [1.57]</b>	<b>-</b>
<b>IEAS (2012.7)</b>	<b>1.94 [3.81]</b>	<b>-</b>	<b>1.80 [1.16]</b>	<b>-</b>
<b>Global Insight (2012.8)</b>	<b>1.5 [3.1]</b>	<b>3.7 [4.0]</b>	<b>1.4 [1.7]</b>	<b>1.9 [1.9]</b>
<b>EIU (2012.8)</b>	<b>1.9 [2.8]</b>	<b>4.9 [4.8]</b>	<b>2.0 [2.0]</b>	<b>2.2 [2.2]</b>
<b>World Bank (2012.6)</b>	<b>2.6</b>	<b>4.4</b>	<b>-</b>	<b>-</b>
<b>IMF (2012.4)</b>	<b>3.6</b>	<b>4.7</b>	<b>1.3</b>	<b>1.8</b>
<b>ADB (2012.4)</b>	<b>3.4</b>	<b>4.6</b>	<b>1.5</b>	<b>1.6</b>

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

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- As the global economy languishes under the impact of the debt crisis in Europe and slowing growth in the US and mainland China, it is hard to see it recovering significantly in the near future, which will put a drag on Taiwan's export performance. Taiwan's real GDP is forecast to rise by 1.66% in 2012 and 3.67% in 2013.
- In order to bolster Taiwan's economy under these adverse external conditions, the government has strengthened the seven sets of strategies in the "Economic Climate Response Program", and will accelerate the implementation of the program.
- In addition, the government will map out mid-term and long-term strategies for sustained development, focusing on the five areas of industry, export, manpower, investment, and the government, with the aim of reshaping Taiwan's economic structure and adjusting regulations to adapt to the rapid transformation of the global economy. 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				
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	4.03	0.31	2.97	1.86	-3.89	-2.47	-14.32	-5.40	--	--	4.53	-0.68
<b>2012<sub>f</sub></b>	<b>1.66</b>	<b>0.54</b>	<b>1.58</b>	<b>0.75</b>	<b>-2.81</b>	<b>-1.03</b>	<b>-5.03</b>	<b>-10.64</b>	--	--	<b>0.29</b>	<b>-1.77</b>
Q1 <sub>r</sub>	0.40	-1.41	1.44	2.74	-10.24	-9.03	-14.88	-17.01	--	--	-3.32	-6.86
Q2 <sub>p</sub>	-0.18	-0.99	0.76	2.41	-5.24	-2.21	-14.49	-16.11	--	--	-2.00	-3.70
Q3 <sub>f</sub>	1.99	1.36	1.60	0.01	0.31	2.19	-8.36	-5.77	--	--	2.38	1.58
Q4 <sub>f</sub>	4.23	3.16	2.47	-1.49	3.85	6.10	7.86	-6.24	--	--	3.88	2.13
<b>2013<sub>f</sub></b>	<b>3.67</b>	<b>2.39</b>	<b>2.90</b>	<b>-0.14</b>	<b>1.81</b>	<b>3.18</b>	<b>-2.15</b>	<b>-3.79</b>	--	--	<b>4.27</b>	<b>2.59</b>
Q1 <sub>f</sub>	4.79	2.89	2.83	0.95	4.54	4.83	8.20	0.84	--	--	5.46	2.80
Q2 <sub>f</sub>	4.09	1.98	3.14	-0.36	1.36	1.94	3.97	-3.23	--	--	5.24	2.57
Q3 <sub>f</sub>	3.39	1.99	2.93	-0.20	0.79	2.18	-2.56	-5.66	--	--	3.88	1.96
Q4 <sub>f</sub>	2.55	2.71	2.70	-0.75	0.91	3.93	-8.81	-5.13	--	--	2.73	3.04

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), Aug. 17, 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				
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	4.03	0.26	1.60	0.21	-0.73	-0.35	-0.21	-0.16	-0.82	3.77	3.36	-0.40
<b>2012<sub>r</sub></b>	<b>1.66</b>	<b>0.44</b>	<b>0.84</b>	<b>0.08</b>	<b>-0.48</b>	<b>-0.14</b>	<b>-0.06</b>	<b>-0.28</b>	<b>0.00</b>	<b>1.21</b>	<b>0.22</b>	<b>-0.99</b>
Q1 <sub>r</sub>	0.40	-1.19	0.81	0.27	-1.80	-1.33	-0.12	-0.35	-0.47	1.59	-2.49	-4.07
Q2 <sub>p</sub>	-0.18	-0.82	0.40	0.25	-0.94	-0.31	-0.18	-0.45	-0.53	0.64	-1.53	-2.17
Q3 <sub>f</sub>	1.99	1.11	0.85	0.00	0.05	0.30	-0.09	-0.15	0.20	0.88	1.74	0.86
Q4 <sub>f</sub>	4.23	2.49	1.28	-0.18	0.63	0.69	0.14	-0.20	0.76	1.75	2.87	1.12
<b>2013<sub>f</sub></b>	<b>3.67</b>	<b>1.93</b>	<b>1.55</b>	<b>-0.01</b>	<b>0.30</b>	<b>0.41</b>	<b>-0.02</b>	<b>-0.09</b>	<b>0.10</b>	<b>1.74</b>	<b>3.14</b>	<b>1.41</b>
Q1 <sub>f</sub>	4.79	2.40	1.60	0.10	0.71	0.64	0.06	0.01	-0.02	2.39	3.94	1.54
Q2 <sub>f</sub>	4.09	1.61	1.67	-0.04	0.23	0.26	0.04	-0.08	-0.25	2.48	3.93	1.45
Q3 <sub>f</sub>	3.39	1.62	1.56	-0.02	0.13	0.30	-0.03	-0.14	-0.05	1.78	2.85	1.07
Q4 <sub>f</sub>	2.55	2.11	1.37	-0.08	0.15	0.45	-0.16	-0.15	0.67	0.45	2.01	1.57

P = preliminary; f = forecast; r = revised. Source: Directorate-General of Budget, Accounting, and Statistics (DGBAS), Aug. 17, 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](mailto:bci@cepd.gov.tw).