



TAIWAN'S ECONOMIC SITUATION AND OUTLOOK

June 2016

National Development Council



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I. PREFACE

- *Taiwan's Economic Situation and Outlook* offers domestic and foreign readers a summary of the current economic situation in Taiwan, including economic growth, foreign trade, domestic demand, industrial production, employment, and prices aspects, in addition to the country's prospects for 2016.
- According to DGBAS's latest estimation in May, Taiwan's real GDP growth in 2016 is forecast to be 1.06%, down 0.41 percentage points on February's forecast, mainly due to weaker than expected foreign demand and investment. On a quarterly basis, real GDP is expected to return to positive growth starting from 2016/Q2, and to gain a faster pace quarter by quarter.



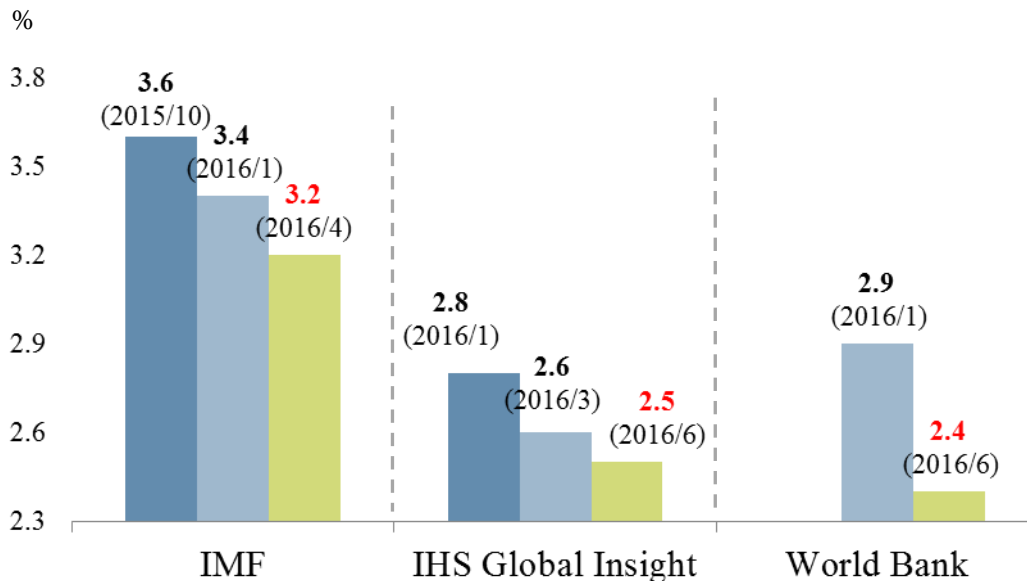
II. Global Economic Situation and Outlook



Global Economy “Too Slow for Too Long”

- According to the IMF’s World Economic Outlook report released in April, global economic growth has been too slow for too long. Global Insight has cut its forecast for world real GDP growth rate to 2.5%, the fifth consecutive year lower than 3% and even lower than in 2015.

World Economic Outlook Projections for 2016



Note : The values in parentheses represent the release month.
 Source : 1. IMF, World Economic Outlook, Apr. 12, 2016
 2. IHS Global Insight Inc., World Overview, Jun. 15, 2016
 3. Global Economic Prospects, World Bank, Jun. 7, 2016.

Forecast for Real GDP Growth Rate from Global Insight unit : %

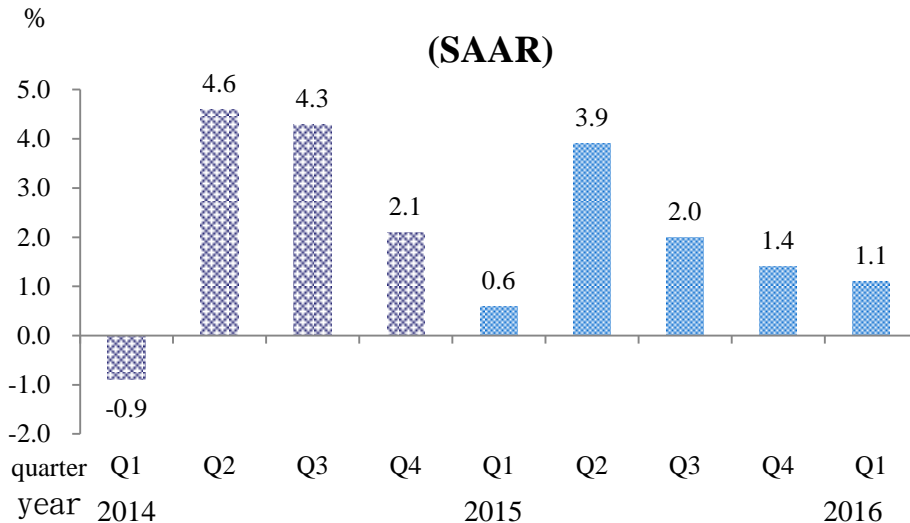
	2015	2016 _f
World	2.6	2.5 (2.5)
<i>Advanced Economies</i>	<i>1.9</i>	<i>1.7 (1.6)</i>
United States	2.4	1.9 (1.7)
Eurozone	1.6	1.7 (1.7)
Japan	0.6	0.5 (0.4)
<i>Emerging Markets</i>	<i>3.8</i>	<i>3.9 (3.9)</i>
Mainland China	6.9	6.5 (6.5)

Note : The values in parentheses represent the previous forecast.
 Source : IHS Global Insight Inc., World Overview, Jun. 15, 2016

Growth Momentum In the US Softened

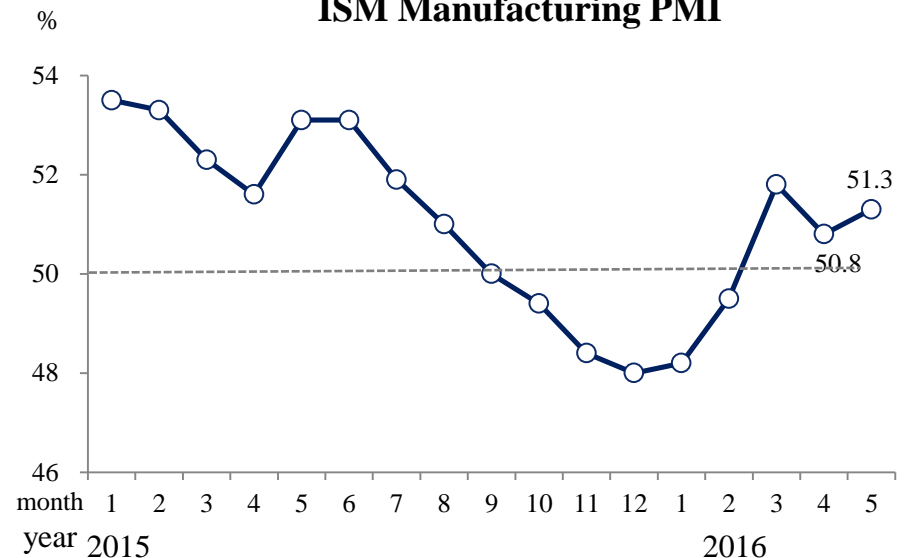
- US real GDP increased at an annual rate of 1.1% in the first quarter of 2016, held back by contracting business investment. Moreover, the pace of improvement in the labor market slowed. Both figures reflected the slowing of economic growth momentum. However, ISM manufacturing PMI rose to 51.3% in May 2016.
- To support further improvement in the labor market and a return to 2% inflation, the Federal Reserve maintained the federal funds rate in June 2016.

**Real GDP Growth Rate
(SAAR)**



Source : U.S. Department of Commerce, Jun. 28, 2016

ISM Manufacturing PMI



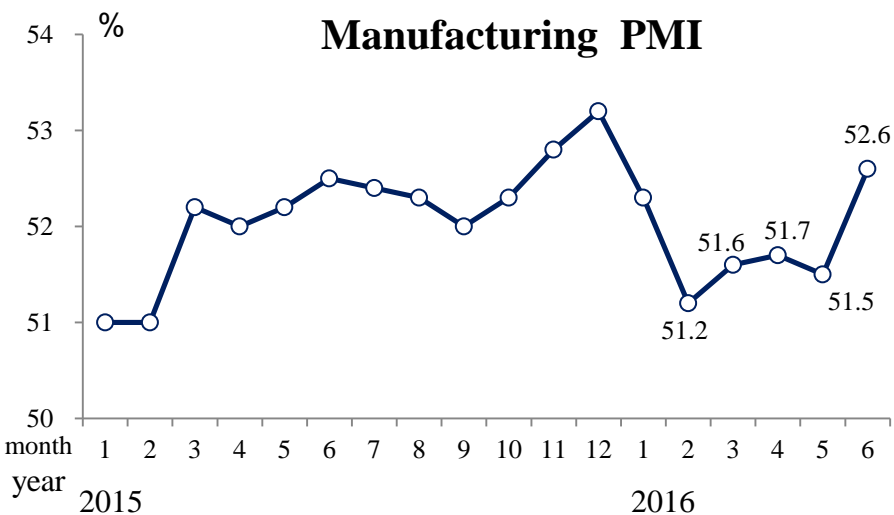
Note : PMI is between 0%~100%. If higher than 50%, it means manufacturing is in the expansion phase. If lower than 50%, it means it is in the contraction phase.

Source : ISM, Jun. 1, 2016



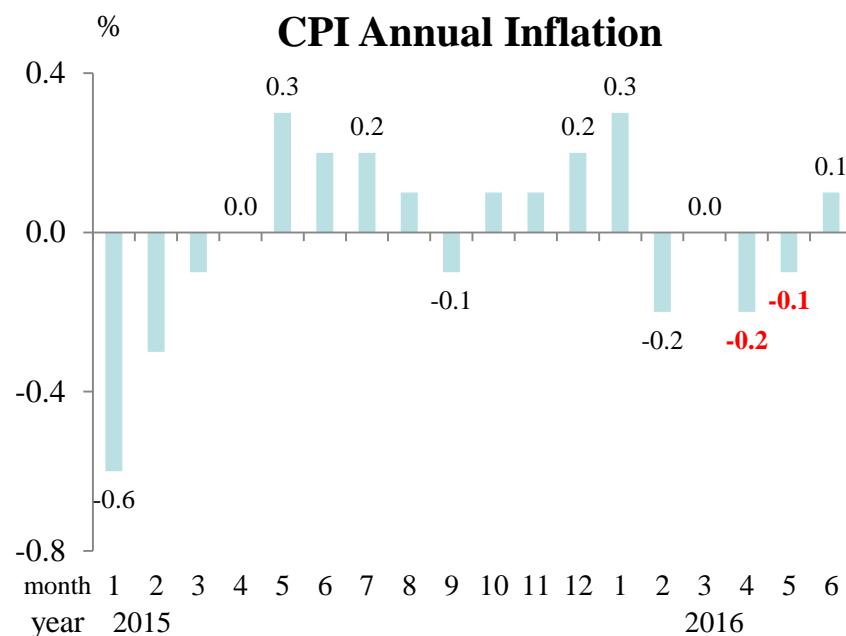
Eurozone Facing Headwinds From Brexit Shocks

- Eurozone real GDP increased by 0.6% quarter on quarter in the first quarter of 2016, higher than 0.4% in the previous quarter, mainly due to a new round of ECB monetary stimulus, weak euro, and mild weather spurring construction activity. In addition, manufacturing PMI rose to 52.6% in June 2016, still in expansion phase.
- Inflation in Eurozone left negative territory in June 2016, which easy deflation concerns. However, uncertainty over the effects of Brexit could weigh on economy and sparked concerns that damaging deflation could return to Eurozone.



Note : PMI is between 0%~100%. If higher than 50%, it means manufacturing is in the expansion phase. If lower than 50%, it means it is in the contraction phase.

Source : Markit, Jun. 23, 2016



Source : EuroStat, Jun. 30, 2016

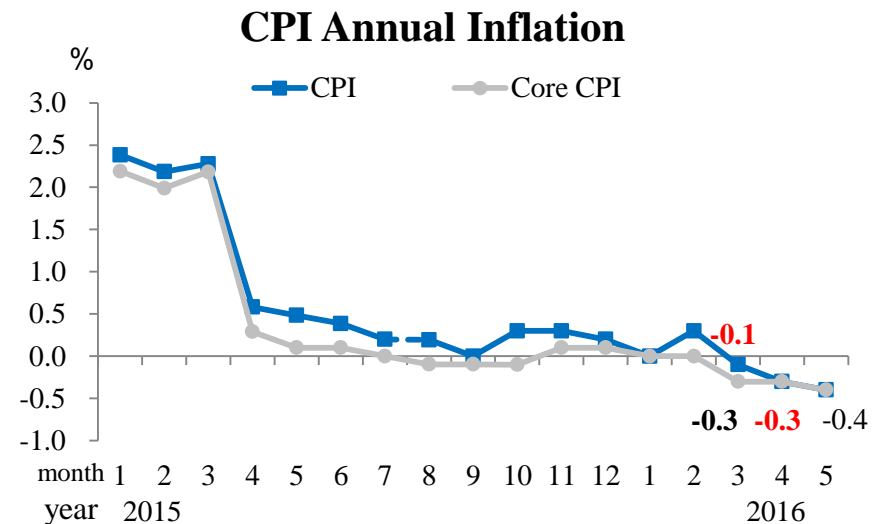
Japan's Economy Remained Weak

- Japan's real GDP increased at an annual rate of 1.9% in the first quarter, retracing the previous quarter's decline (-1.8%). However, exports contracted further to 11.3% in May, while production and private capital expenditure remained weak. Manufacturing PMI was 48.1 in June 2016, contracted for the fourth consecutive months.
- CPI annual inflation rate was -0.4% in May, staying negative for the third consecutive month. Taking weak private consumption into consideration, Prime Minister Shinzo Abe announced a delay in the second-stage hike in the consumption tax, from April 2017 to October 2019.



Note : PMI is between 0%~100%. If higher than 50%, it means manufacturing is in the expansion phase. If lower than 50%, it means it is in the contraction phase.

Source : Markit, Jul. 1, 2016

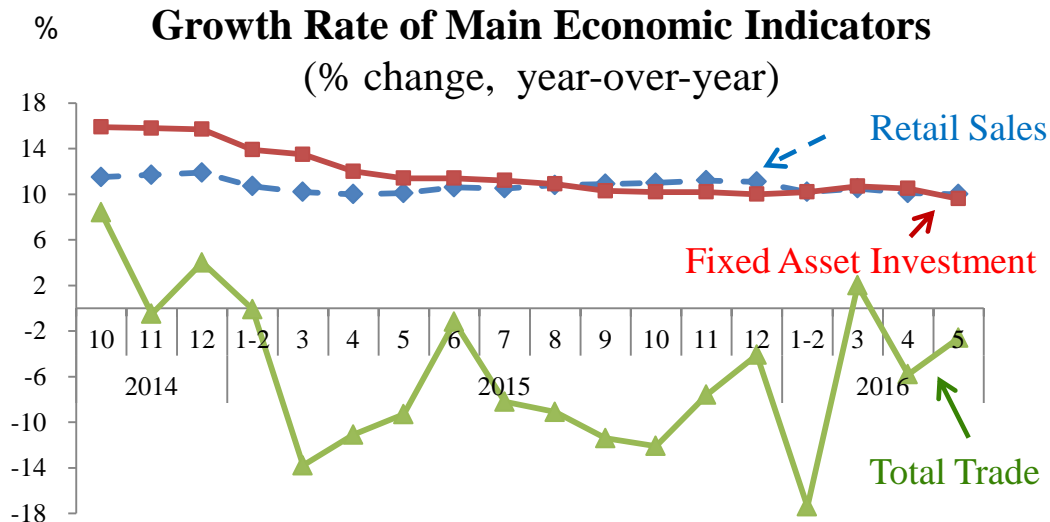


Note : Core CPI less fresh food.

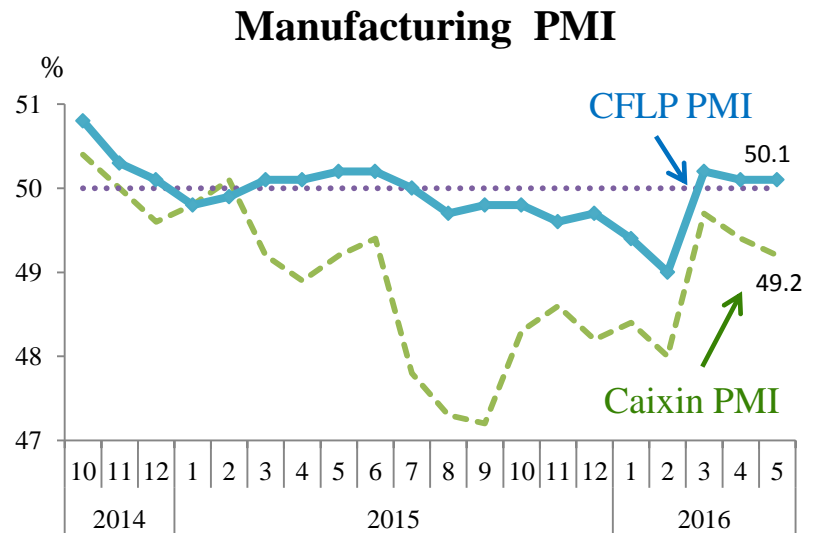
Source : Statistics Bureau of Ministry of Internal Affairs and Communications, Jul. 1, 2016

Mainland China's Economy Showed Signs of Stabilization

- Mainland China's real industrial production and retail sales grew by 6.0% and 10.0% year-on-year respectively in May 2016, and imports marked the slowest rate of decline since October 2014, all showing signs of economic stabilization.
- However, private investment growth weakened to 5.7% year on year in the first quarter. To stabilize private investment, the NDRC released seven guideline in May 2016, including ensuring a fair business environment and avoiding discrimination, improving the public-private partnership (PPP) model, and loosening market access to encourage private investment.



Source : National Bureau of Statistics in Mainland China, Jun. 13, 2016



Source : CFLP, Caixin, Jun. 1, 2016

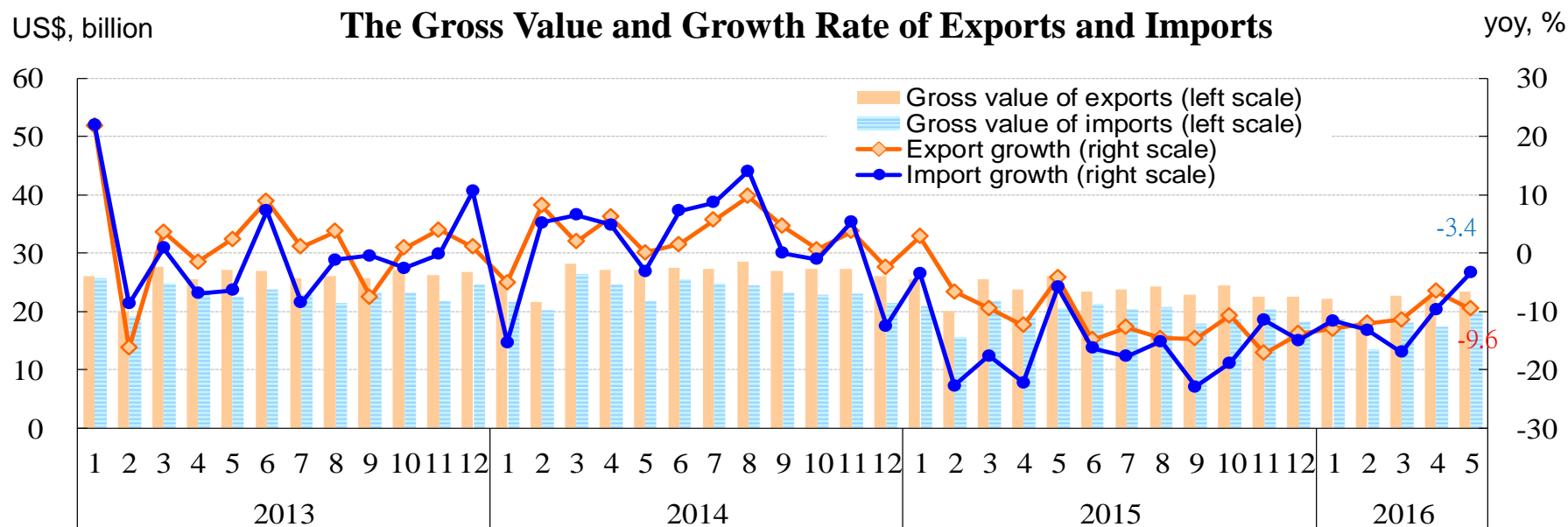


III. Current Domestic Economic Situation



Foreign Trade Momentum Curbed

- Total exports contracted by 9.6% year-on-year in May 2016, mainly due to the weak demand for global consumer electronic products, coupled with the crowding out effect from the expanding supply chain in Mainland China.
- Imports fell by 3.4% on a year earlier, with mineral products the main contributors to the decrease.
- Exports for the January through May 2016 period were down 10.5% on the same period a year ago.



Note: Since FY2016, the general trade system are applied for compilation of external trade statistics and the historical data has been revised to FY2001.

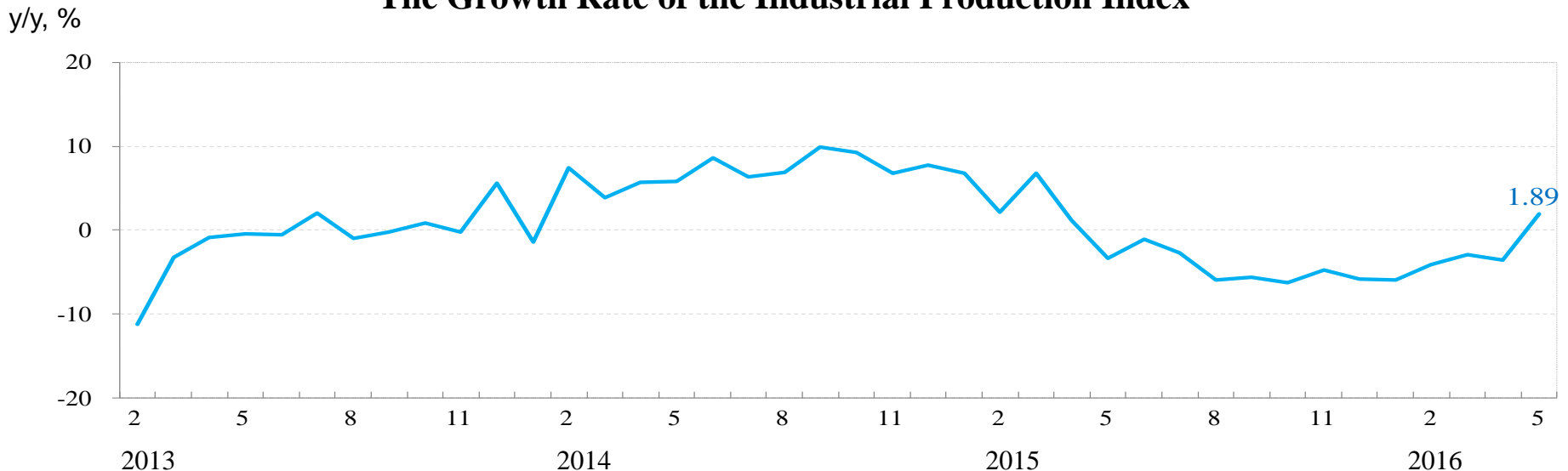
Source: Ministry of Finance, Jun. 2016



Industrial Production Improved

- The Industrial Production Index (IPI) posted an annual increase of 1.89% in May 2016, ending its 12-month losing streak which started in May 2015, mainly due to the back of an increase in orders placed to Taiwanese communications chip-makers.
- Manufacturing output, which makes up more than 90% of the IPI, rose by 1.93% year-on-year in May. The increase in manufacturing output came largely from increased production of electronic parts and components, basic metal, and computers, electronic and optical products.

The Growth Rate of the Industrial Production Index



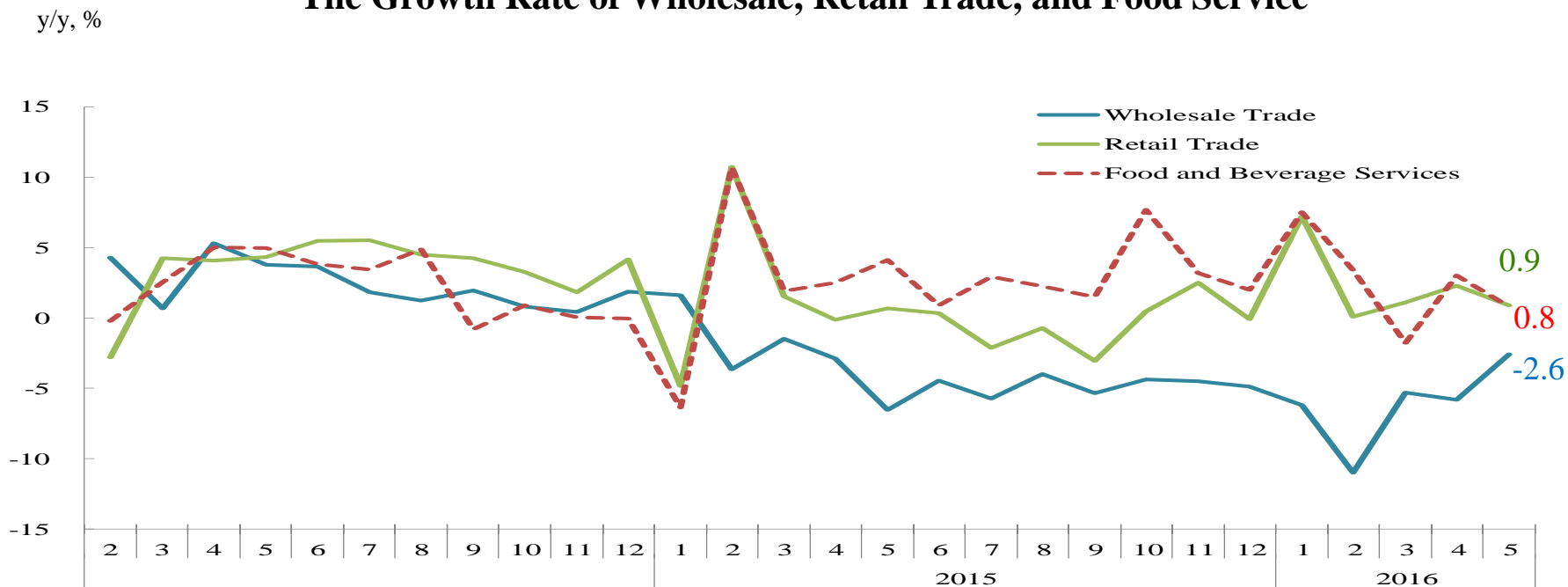
Source: Ministry of Economic Affairs, Jun. 2016



Retail Trade Steadfast

- In May 2016, wholesale trade decreased by 2.6%, as global conditions remained weak.
- Retail trade rose by 0.9%, driven mostly by the increased automobiles and general merchandise store sales.
- Food and beverage services increased by 0.8% in May 2016.

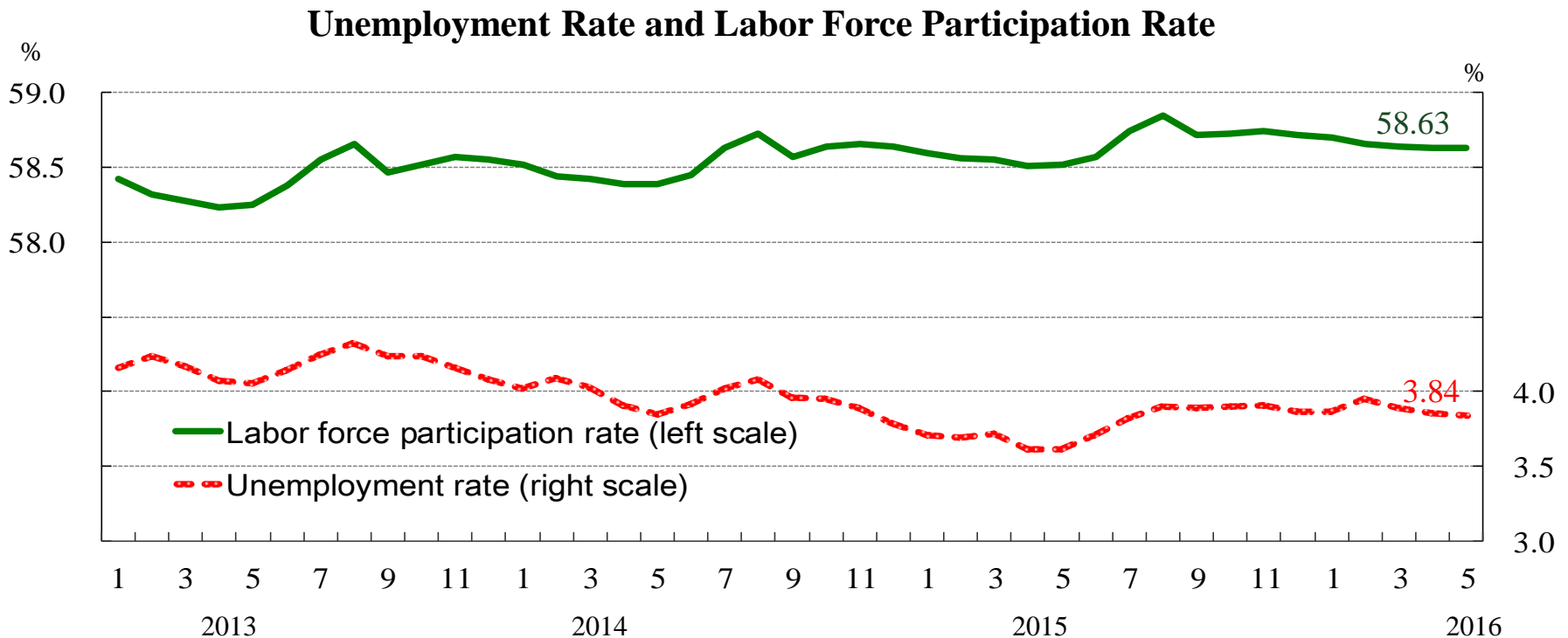
The Growth Rate of Wholesale, Retail Trade, and Food Service





Employment Remains Steady

- The unemployment rate fell from 3.86% in April to 3.84% in May 2016. The seasonally adjusted unemployment rate decreased by 0.01 percentage point to 3.96%.
- The labor force participation rate held steady at 58.63%, up 0.11 percentage points compared with a year earlier.

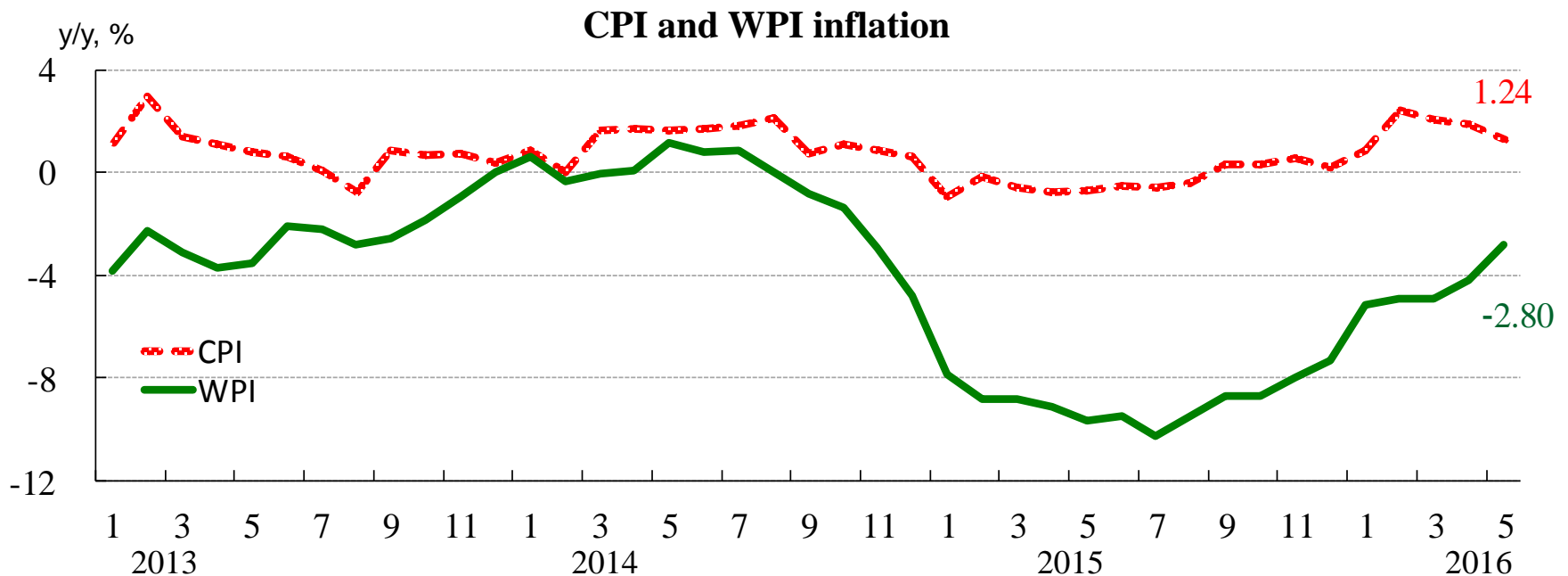


Source: DGBAS, Jun. 2016



Prices Slightly Up

- Taiwan's CPI in May 2016 moved up 1.24% compared with the same month last year, mainly due to the 31.18% increase in the fruit index. In addition, prices of vegetable increased by 20.02% as a result of the effects of the continuous rain and the cold front at the beginning of this year. Core prices (excluding fruit, vegetable and energy prices) increased by 0.91%.
- The WPI decreased by 2.80% year-on-year, since prices of petroleum and coal products dropped 22.94%, and prices of chemical materials fell 10.90%.



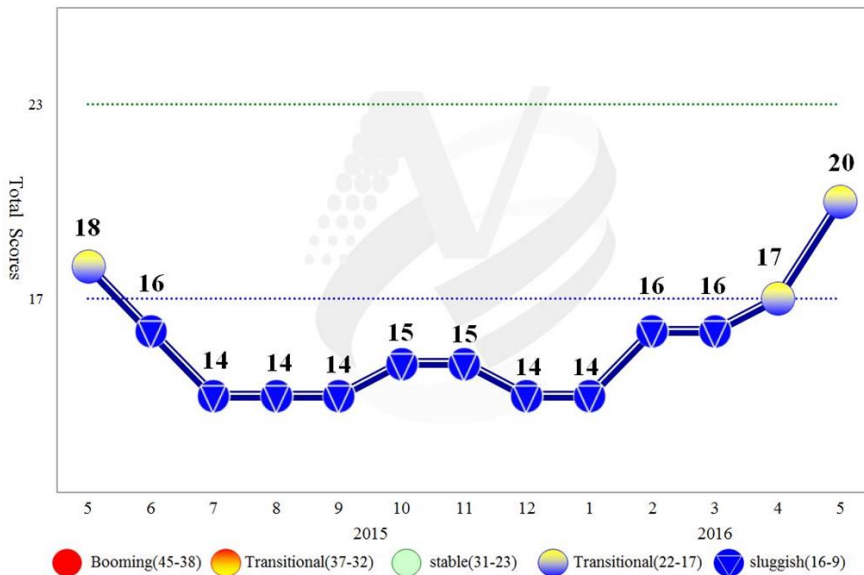
Source: DGBAS, Jun. 2016



Monitoring Indicators Flashing “Yellow-Blue” Signal

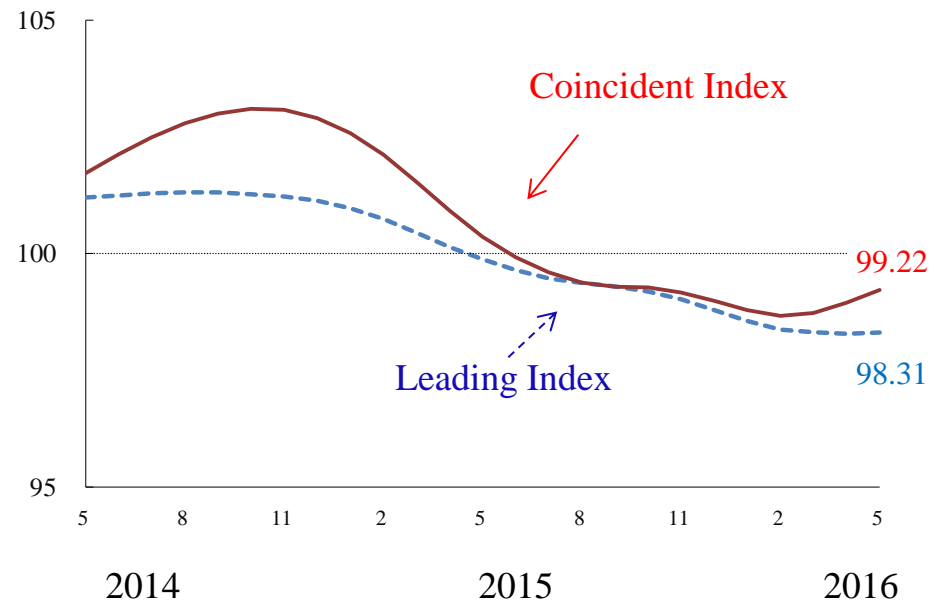
- In May 2016, the trend-adjusted leading index increased by 0.03% to 98.31, and the trend-adjusted coincident index was up by 0.28% to 99.22.
- The total scores of the monitoring indicators in May 2016 increased by three points to 20, flashing the “yellow-blue” signal for the second consecutive month.
- Taiwan Business Indicators showed some scattered signs of economic improvement.

Monitoring Indicators



Source: NDC, Jun. 2016

Trend-adjusted Leading and Coincident Index





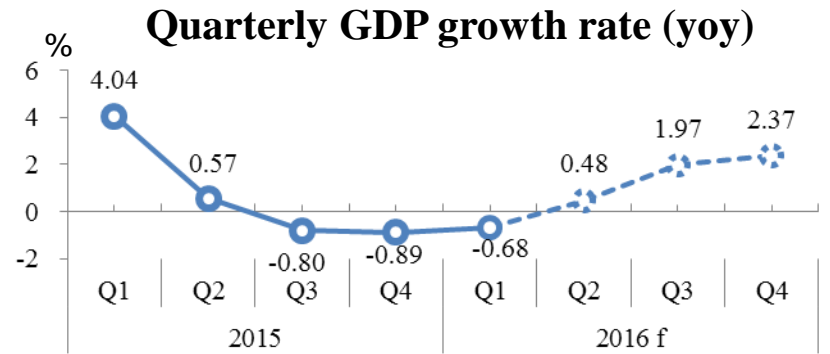
IV. PROSPECTS FOR 2016



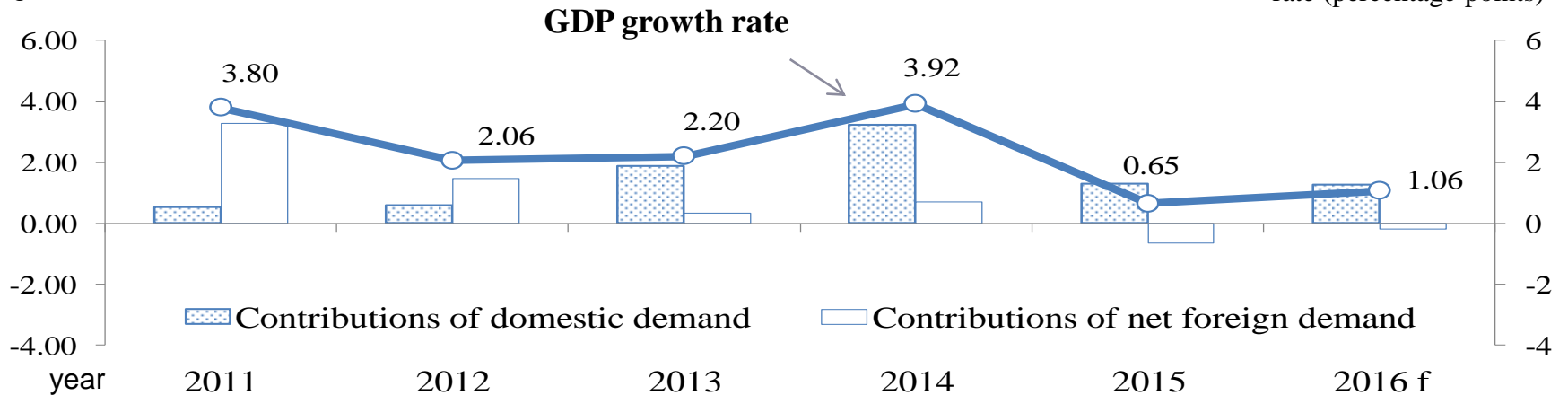
Economy Will Gradually Improve Quarter by Quarter

- According to the DGBAS's latest estimation in May 2016, GDP growth rate in 2016 is forecast to be 1.06%, down 0.41 percentage points on February 2016's forecast, mainly due to weak growth momentum in exports.
- On a quarterly basis, while 2016/Q1 was still negative growth, -0.68%, it will improve to positive growth starting from 2016/Q2, and gain a faster pace quarter by quarter.

Economic Outlook



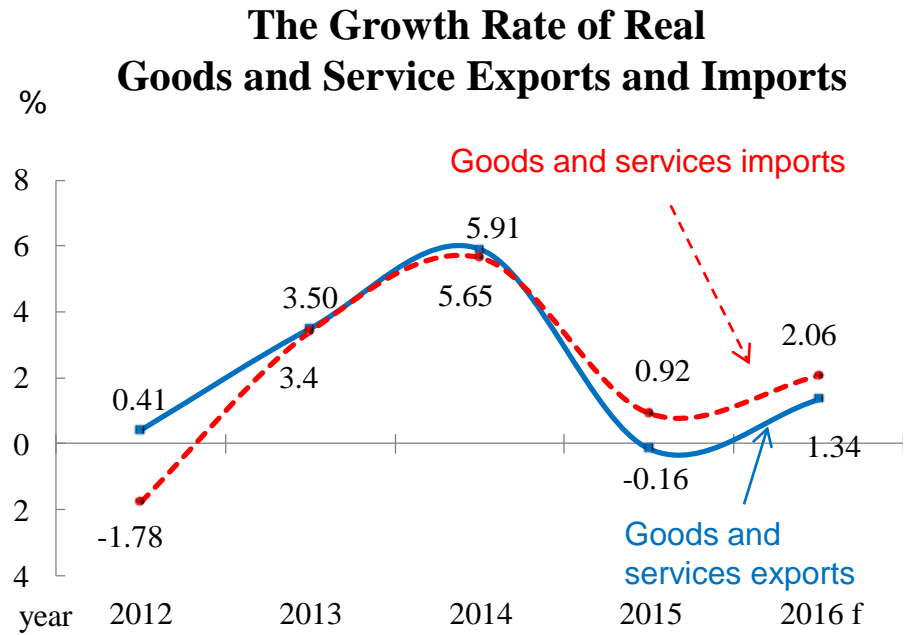
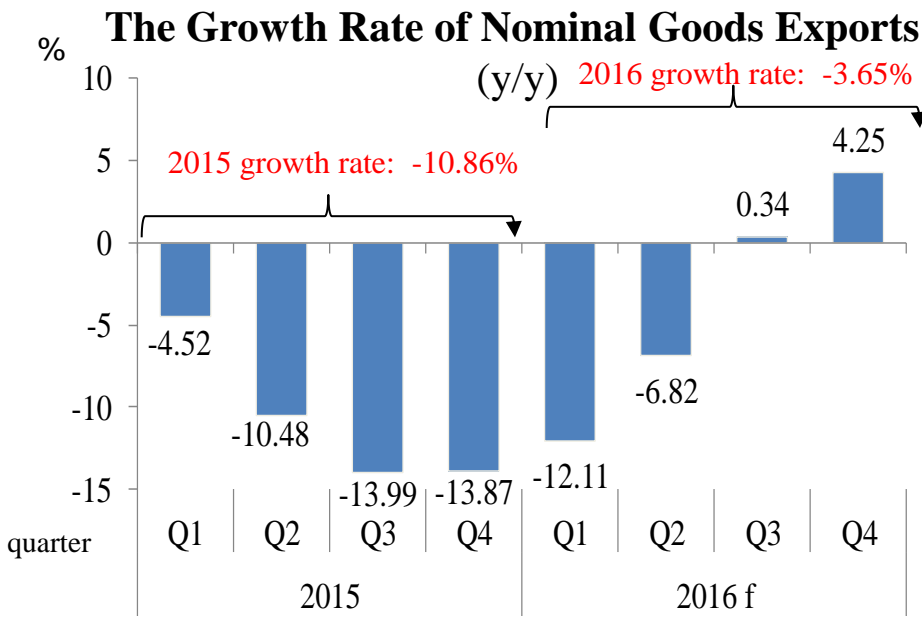
GDP growth rate (%)





Exports Expected to Recover But Lack Momentum

- Taiwan's nominal goods exports are expected to decline by 3.65% in 2016, reflecting that the growth momentum remains weak, mainly due to the cyclical factors including tepid global recovery and sliding demand for global consumer electronic products, and structural factors like high product and market concentration of Taiwan's exports and crowding-out effects from the expanding local supply chain in Mainland China. However, the DGBAS forecast that the goods exports will return to positive growth in 2016/Q3.
- Real goods and services exports are projected to grow by 1.34% in 2016, higher than -0.16% in 2015.

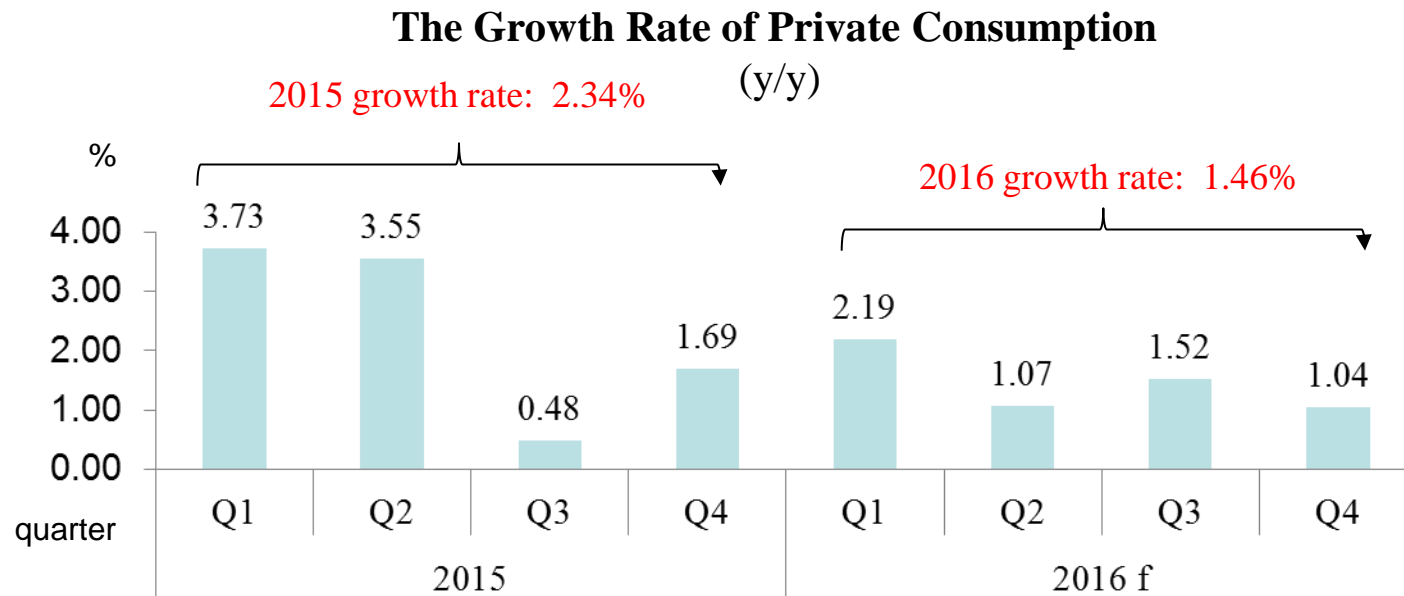


Source: DGBAS, May 2016



Private Consumption Growth Expected to Slow

- The government has extended the implementation period of some measures of the consumption-boosting program to the end of June 2016. In addition, with rising numbers of people traveling abroad and increasing sales of clothing and electrical household appliance driven by strong cold front, private consumption has been boosted in 2016/Q1.
- However, the poor economic performance, reluctance to give pay-rises and low wage-growth may weaken private consumption growth momentum.
- Overall, private consumption is projected to rise by 1.46% on a modest path in 2016, which is the lowest level since 2010.

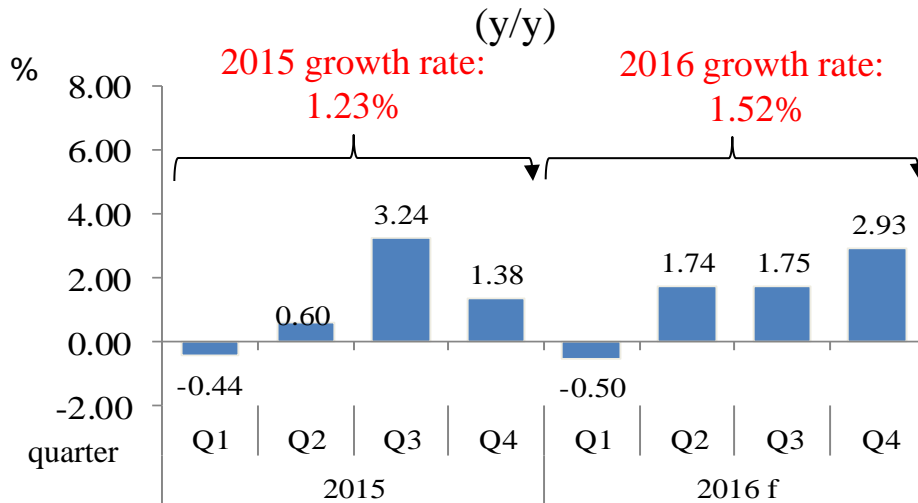


Source: DGBAS, May 2016

Domestic Investment Momentum Expected to Maintain

- Semiconductor manufacturers continuing to invest in advanced production capacity to keep the lead in manufacturing and exploit opportunities in the Internet-of-things and intelligent applications, together with airline companies increasing the purchase of aircraft, will both help boost private investment. However, tepid construction investment affected by the slowdown in the housing market will be a restraining factor. Taking into account the above factors, private fixed investment is projected to increase by 1.09% in 2016, lower than 2.75% in 2015.
- With the government's expansionary fiscal policy, government fixed investment is expected to rise by 4.24% in 2016. Public enterprises fixed investment is forecast to grow by 1.71% in 2016.

The Growth Rate of Fixed Investment



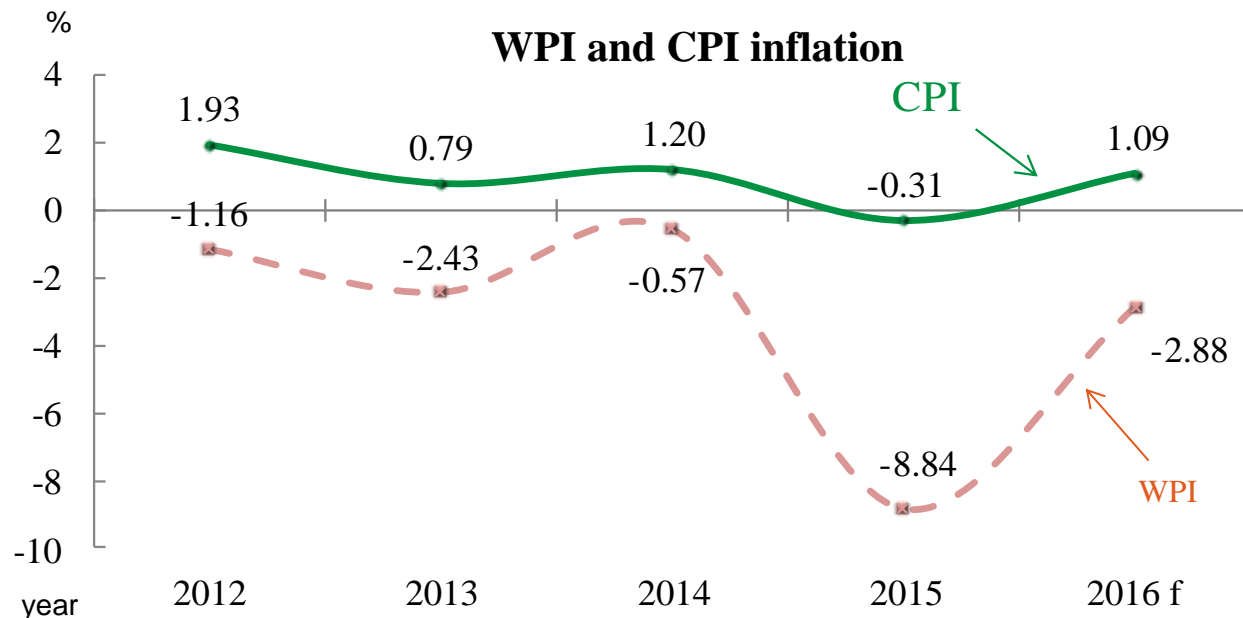
The Growth Rate of Each Component of Fixed Investment %

	Private Enterprises	Government	Public Enterprises
2015	2.75	-4.30	-6.94
2016 (f)	1.09	4.24	1.71
Q1(f)	-0.14	-3.15	-2.98
Q2(f)	1.58	1.67	4.18
Q3(f)	1.18	5.84	1.52
Q4(f)	1.78	9.24	1.94



Inflation to Remain Steady

- In 2016, international oil and raw material prices are expected to be lower than last year, though they are already rebounding from their January lows. Taking into account the above factors, the WPI is forecast to decrease by 2.88% in the year.
- The CPI is forecast to increase by 1.09% this year, mainly due to the rising food prices and the low base effect of last year.



Source: DGBAS, May 2016



Forecasts for Taiwan's Economy

	Real GDP (yoy,%)		Consumer Price Index (yoy, %)	
	2015	2016 _f	2015	2016 _f
DGBAS (2016.5)	0.65	1.06 [1.47]	-0.31	1.09 [0.69]
IEAS (2016.6)		0.52 [1.74]		0.99 [0.49]
Yuanta-Polaris (2016.6)		0.9 [1.42]		1.14 [0.89]
TRI (2016.6)		0.92 [2.06]		1.16 [0.54]
TIER (2016.4)		1.27 [1.57]		1.09 [0.71]
CIER (2016.4)		1.36 [2.24]		1.11 [0.81]
Global Insight (2016.6)		1.3 [1.4]		1.2 [1.2]
IMF (2016.4)		1.5 [2.6]		0.7 [1.0]
ADB (2016.3)		1.6 [2.4]		0.7 [1.1]

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

[] indicates the value of previous forecasts

P = preliminary; f = forecast



V. CONCLUSION

- With a sluggish world economy, Global Insight has revised down the forecast of world GDP growth rate to 2.5% in 2016, lower than in 2015, which may dampen Taiwan's exports. According to the DGBAS's latest estimation, Taiwan's GDP is projected to increase by 1.06% in 2016, down 0.41 percentage points on the previous forecast. However, it is expected to return to positive growth starting from 2016/Q2, and to gain a faster pace quarter by quarter, supported by gradually recovering exports and the government's expansionary fiscal policy.
- Taking into consideration that Taiwan's economy has been impacted by both cyclical and the structural factors, the government will conduct two-way reform programs on both the demand side and the supply side of the economy.
 - On the demand side, the NDC will adopt a three-pronged approach to boost private investment: setting up an equity fund to enable private firms' innovative transformation, establishing a national investment and trading company, and promoting the five strategic innovative industries (biomedicine, green energy, smart machinery, national defense, and IOT Asia Silicon Valley).
 - On the supply side, the government will review regulatory institutions and production factors relating to the investment environment and conduct a comprehensive reform program so as to deepen the potential for economic growth.

Thank you

This summary was prepared by the Department of Economic Development of the National Development Council (NDC). Quarterly updates can be found on the NDC's website at <http://www.ndc.gov.tw/encontent/m1.aspx?sNo=0001444>. For inquiries, please send an e-mail to aurelia@ndc.gov.tw.