



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

**September 2017**

National Development Council



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# I. PREFACE

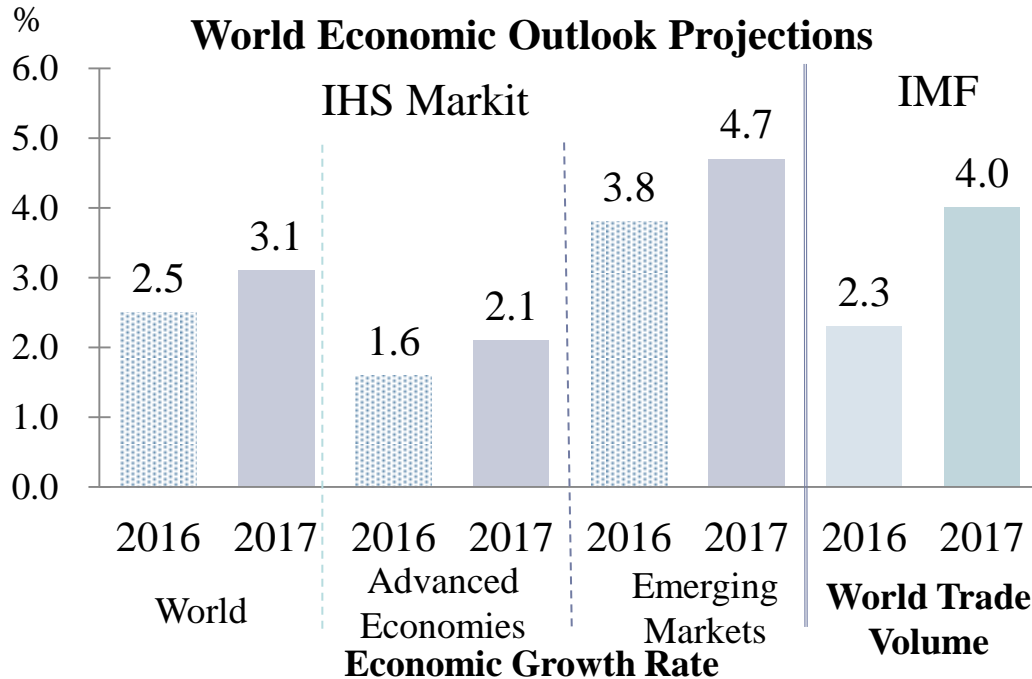
- *Taiwan's Economic Situation and Outlook* offers domestic and foreign readers a summary of the current economic situation in Taiwan, including economic growth, foreign trade, domestic demand, industrial production, employment, and prices, in addition to the country's prospects for 2017 and 2018.
- According to the DGBAS's latest estimation in August 2017, GDP growth rate in 2017 is forecast at 2.11%, up 0.06% on May 2017's forecast, mainly due to better than expected performance of exports and private consumption in the first half of this year. In addition, the government will actively strengthen infrastructure and implement the 5+2 Industrial Innovation Plan. These initiatives should build a strong foundation for Taiwan to build a vigorous and sustainable economy in years to come. In 2018, GDP is expected to rise by 2.27%.



## **II. Global Economic Situation and Outlook**

# Global Economic Growth Momentum Enhanced in 2017

- World economic momentum is expected to be enhanced in 2017 as growth in advanced and emerging economies accelerates simultaneously. With the steady expansion of manufacturing in major countries and consumer and business confidence increasing, IHS Markit raised the global economic growth rate projection 0.1% to 3.1%, higher than the 2.5% of 2016.
- World trade growth rate will accelerate to 4.0% in 2017, much higher than the 2.3% of 2016, according to the IMF's forecast in July, on the back of implementation of the WTO Trade Facilitation Agreement and optimistic world economic outlook.



**Main Country Forecast** unit : %

	Economic Growth Rate	
	2016	2017
United States	1.5	2.1 (2.3)
Eurozone	1.8	2.1 (2.0)
Japan	1.0	1.4 (1.3)
Mainland China	6.7	6.8 (6.5)

Note : \* The values in parentheses represent the previous forecast .

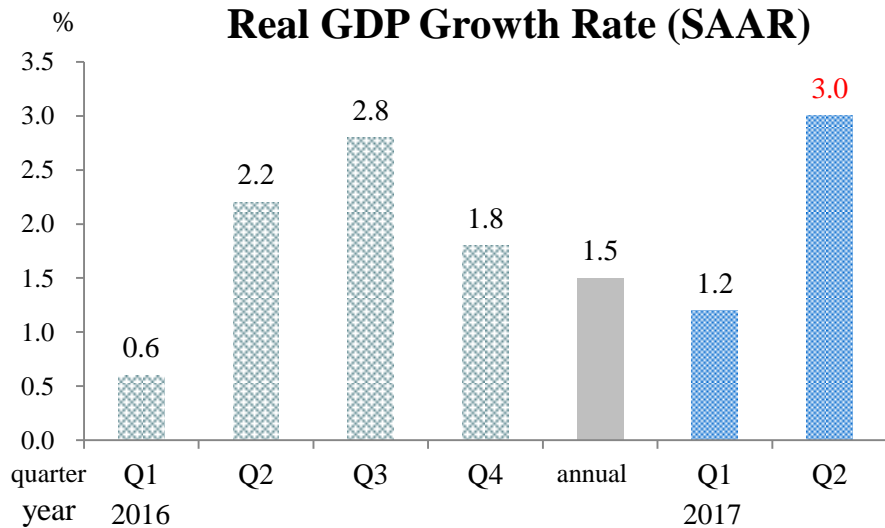
Source : IHS Markit, World Overview, Aug. 15, 2017 ; IMF, World Economic Outlook UPDATE, July 24, 2017



# US Economy Grew Moderately

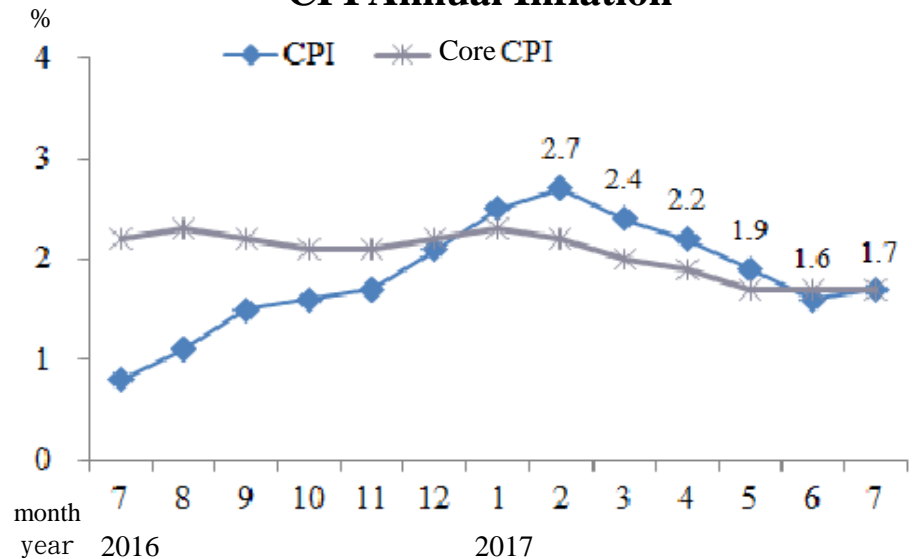
- US manufacturing PMI has expanded for 11 consecutive months, and driven by personal consumption, private investment and export growth expansion, in the second quarter GDP growth rate (SAAR) was 3.0% higher than the first quarter, showing that the US economy's growth was moderate. However, Hurricane Harvey has had a severe impact on Texas. The economic losses are as high as \$75 billion according to Moody's assessment.
- Trump signed an administrative memorandum, according to the Section 301 of the Trade Act of 1974, to start a technology transfer and theft of intellectual property rights investigation into Mainland China. In addition, Trump said that if NAFTA consultation fails, he do not rule out scrapping it, and he will consider withdrawing from the US-South Korea FTA.

### Real GDP Growth Rate (SAAR)



Source : U.S. Department of Commerce, Aug. 2017

### CPI Annual Inflation

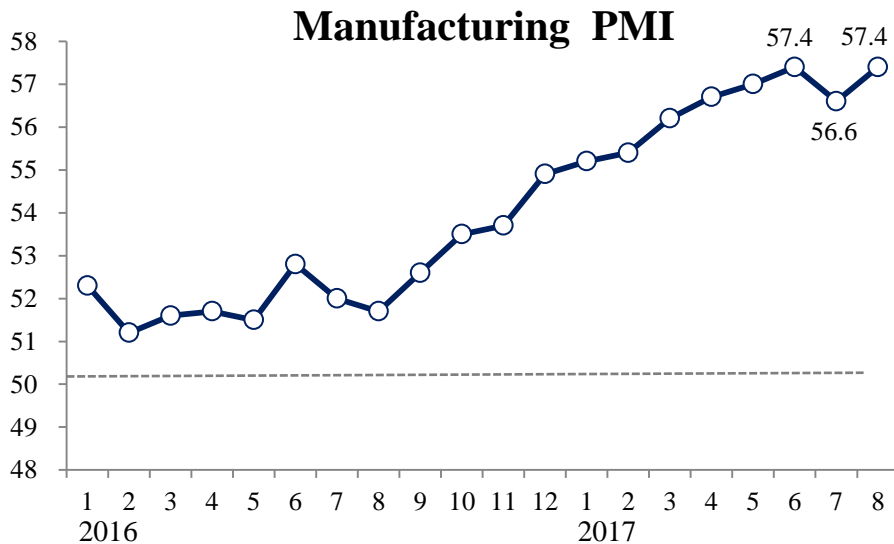


Source : U.S. Bureau of Labor Statistics, Aug. 2017



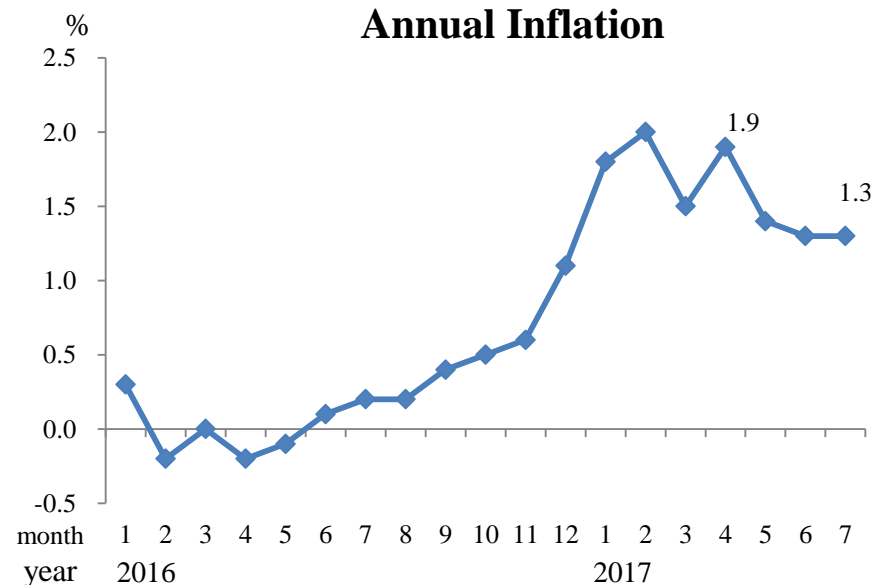
# Eurozone Economic Fundamentals Continue to Improve

- Business in the euro zone countries generally rebounded, with manufacturing PMI rising from 56.6 in July to 57.4 in August; in the second quarter, GDP grew 2.2% on the same quarter last year. These figures indicate that economic recovery is gradually becoming clear, and expansion is still expected to continue in the second half of the year.
- Despite the strong economic and employment recovery, the CPI annual growth rate was only 1.3% in July, a record low this year, and appreciation of the euro may suppress inflation and exports, giving the European Central Bank (ECB) a monetary policy dilemma.



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 : IHS Markit

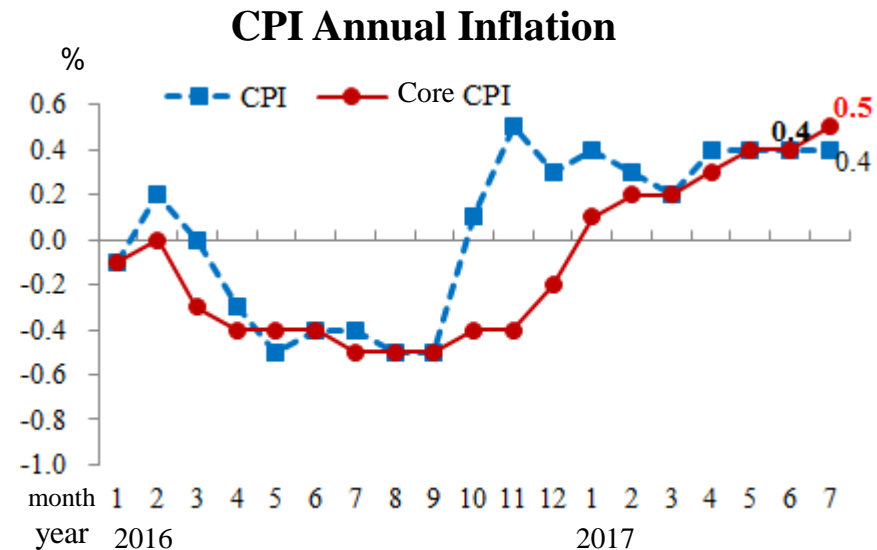
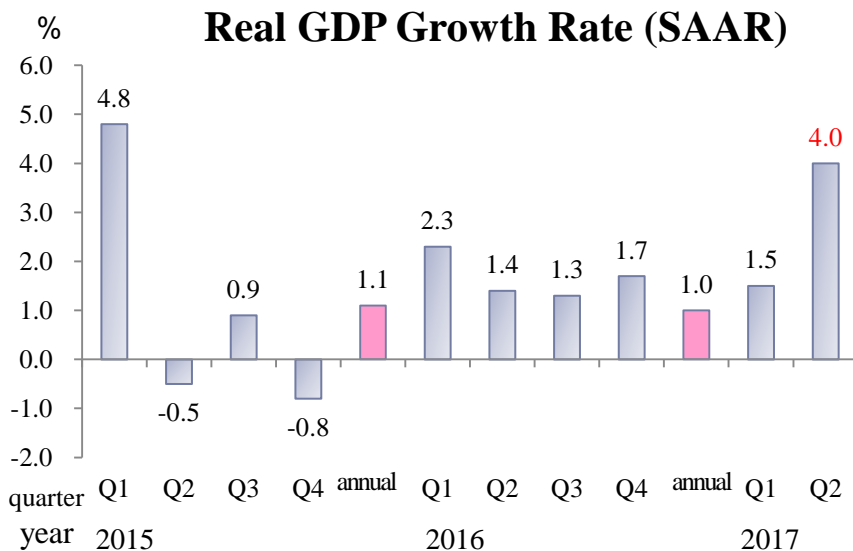


Source : Eurostat, Aug. 2017



# Japan's Economy Is Accelerating

- Japan's second quarter economic growth rate (SAAR) was 4.0%, the sixth consecutive quarter of expansion, and the longest continuous growth record since 2006, mainly benefitting from the growth of private consumption and investment, coupled with the expansion of government investment in public investment.
- The Core CPI annual inflation rate rose to 0.5% in July 2017, up for the 7th straight month, but still far below the central bank's 2% inflation target. Prime Minister Abe plans to raise the consumption tax from the current 8% to 10% in October 2019, hoping to change the inflation expectations of the people and boost prices.



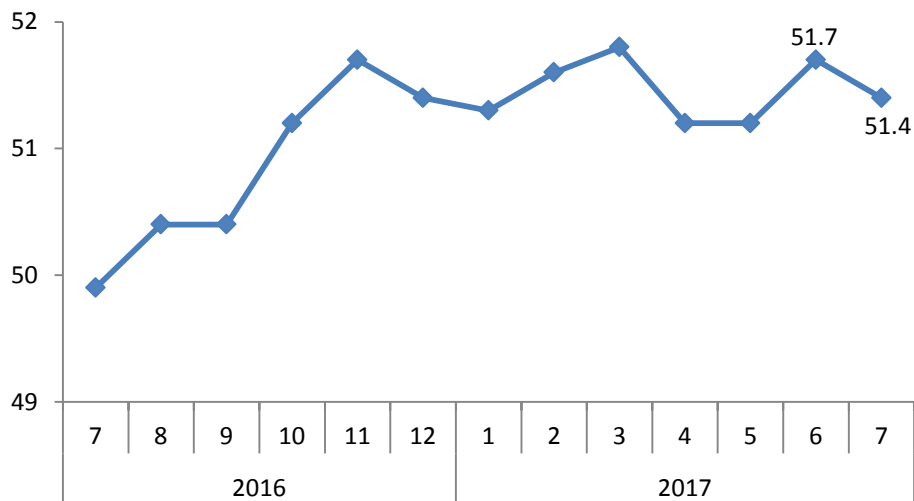




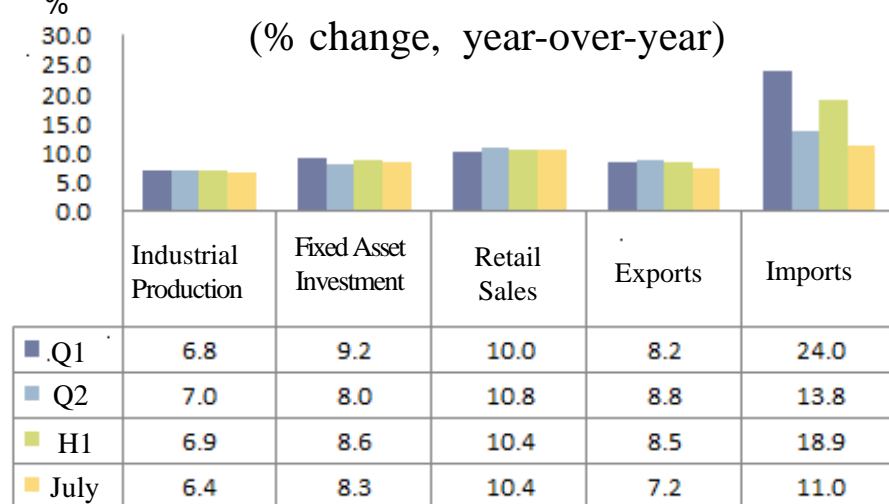
# Mainland China's Economy Slows Down

- In the first half of the year, China's GDP growth rate was 6.9%, driven by growth of domestic and foreign demand, and beyond the outside world's expectations. However, the growth rate of the main economic indicators decreased in July, and PMI also decreased of 0.3 % on the previous month, showing a slowdown in the overall economy.
- Although IHS enhanced China's GDP growth forecast to 6.8% due to public investment in infrastructure construction, real estate and retail sales, the IMF's report in August pointed out that the recent adoption of regulatory measures in Mainland China has led to financial tightening, and weakening of credit expansion, and may slow the economy down. A large amount of uncertainty remains about the prospects for the economy in the second half of the year.

### Manufacturing PMI



### Growth Rate of Main Economic Indicators



Note: The growth rate of fixed asset investment is the cumulative growth rate.  
 Source : National Bureau of Statistics in Mainland China, Aug. 2017



### **III. Current Domestic Economic Situation**

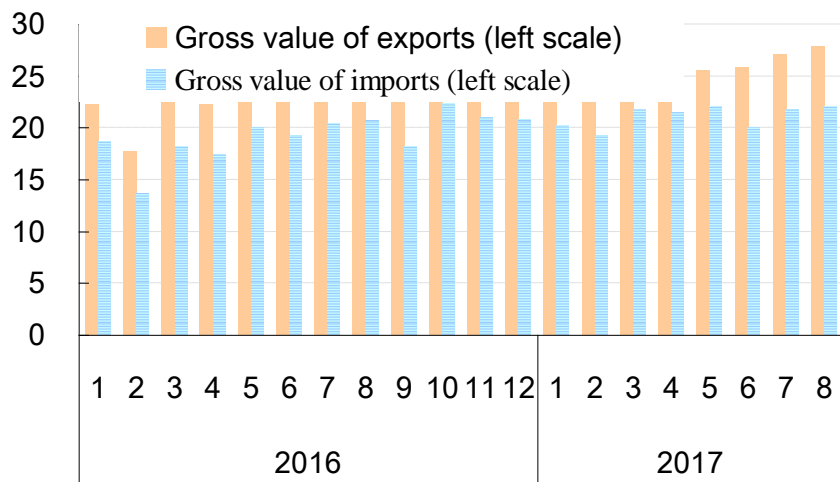


# Foreign Trade Continues to Increase

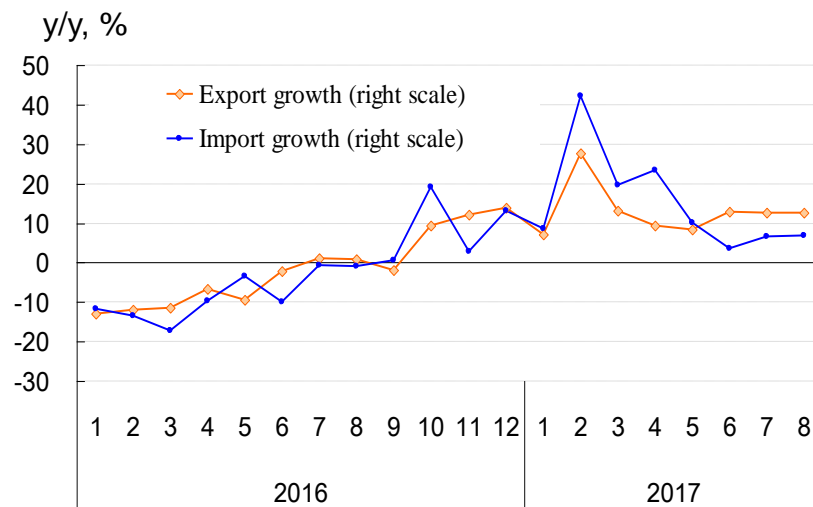
- Total exports increased by 12.7% year-on-year in August 2017, expanding for the 11th consecutive month, mainly due to continuous recovery of world trade, solid demand for electronic components and low base effect. In the first eighth months of this year, Taiwan's exports rose 12.5% from a year earlier.
- Imports increased by 6.9% in August over the previous year, imports of parts of electronic products and mineral products grew by 20.8% and 12.5%, respectively, however imports of machinery decreased 26.4%. The annual change rate of January-August was 13.8%.

## The Gross Value of Exports and Imports

US\$, billion



## The Gross Rate of Exports and Imports



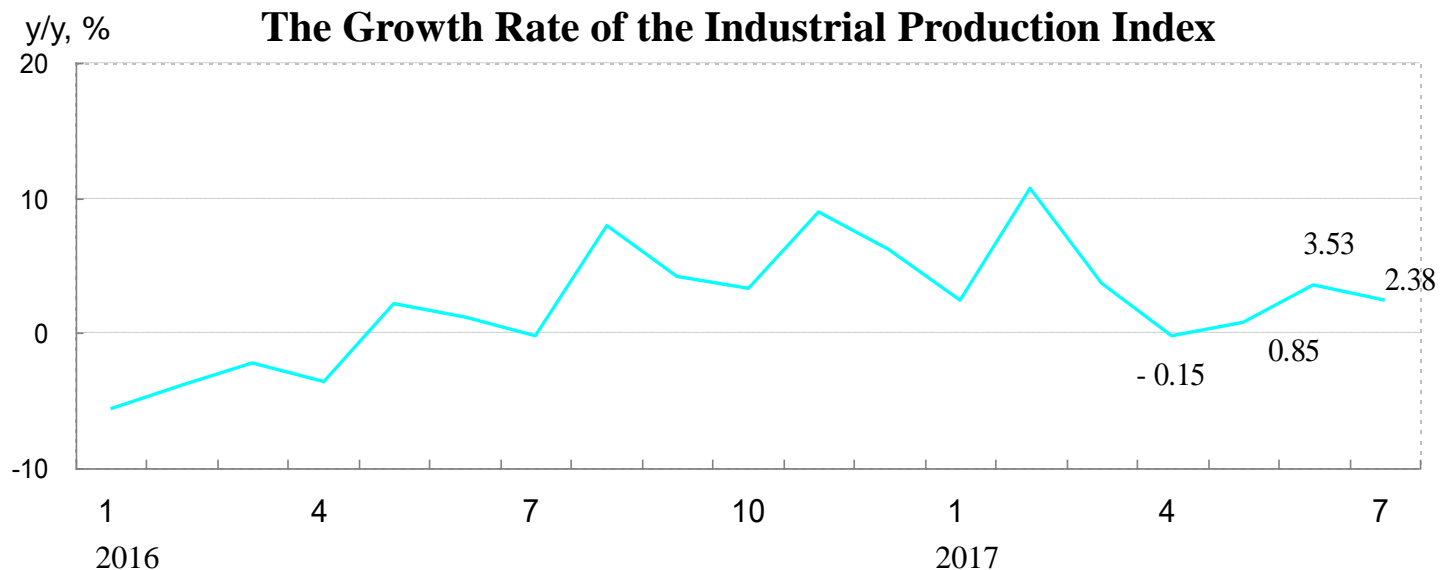
Note: Since FY2016, the general trade system applied for compilation of external trade statistics and the historical data has been revised to FY2001.

Source: Ministry of Finance, Sept. 2017



# Industrial Production Continue to Increase

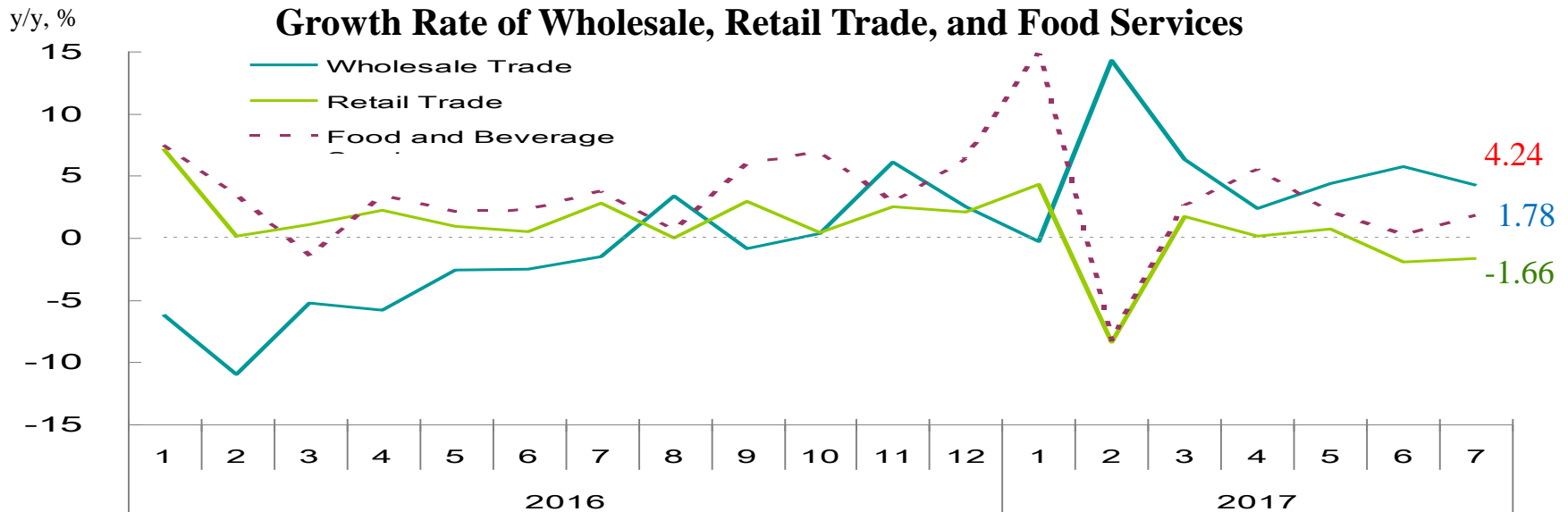
- The Industrial Production Index (IPI) posted an annual increase of 2.38% in July 2017. For the first seven months of 2017, the IPI increased 3.17% over the same period of previous year.
- Manufacturing output, which makes up more than 90% of the IPI, rose by 2.94% year-on-year in July, lower than last month. The growth came largely from increasing demand for electronic parts and components due to the increase in sales of consumer electronics, and increasing demand for machinery and equipment due to automatic production.



Source: Ministry of Economic Affairs, Aug. 2017

# Wholesale Trade Rises, Retail Trade Continues to Decrease

- In July 2017, wholesale trade increased by 4.24%, mainly due to the increase of wholesale trade of machinery and equipment driven by rising demand for chips, memory and servers.
- Retail trade decreased by 1.66%, falling for the second consecutive month, mainly due to the higher base last year, the effectiveness of subsidies for automobiles decreasing, and declining sales of jewelry and watches resulting from shrinking number of Mainland China tourists in Taiwan.
- Food and beverage services grew by 1.78%, mainly due to some restaurants expanding their branches and beverage shops expanding their store numbers.

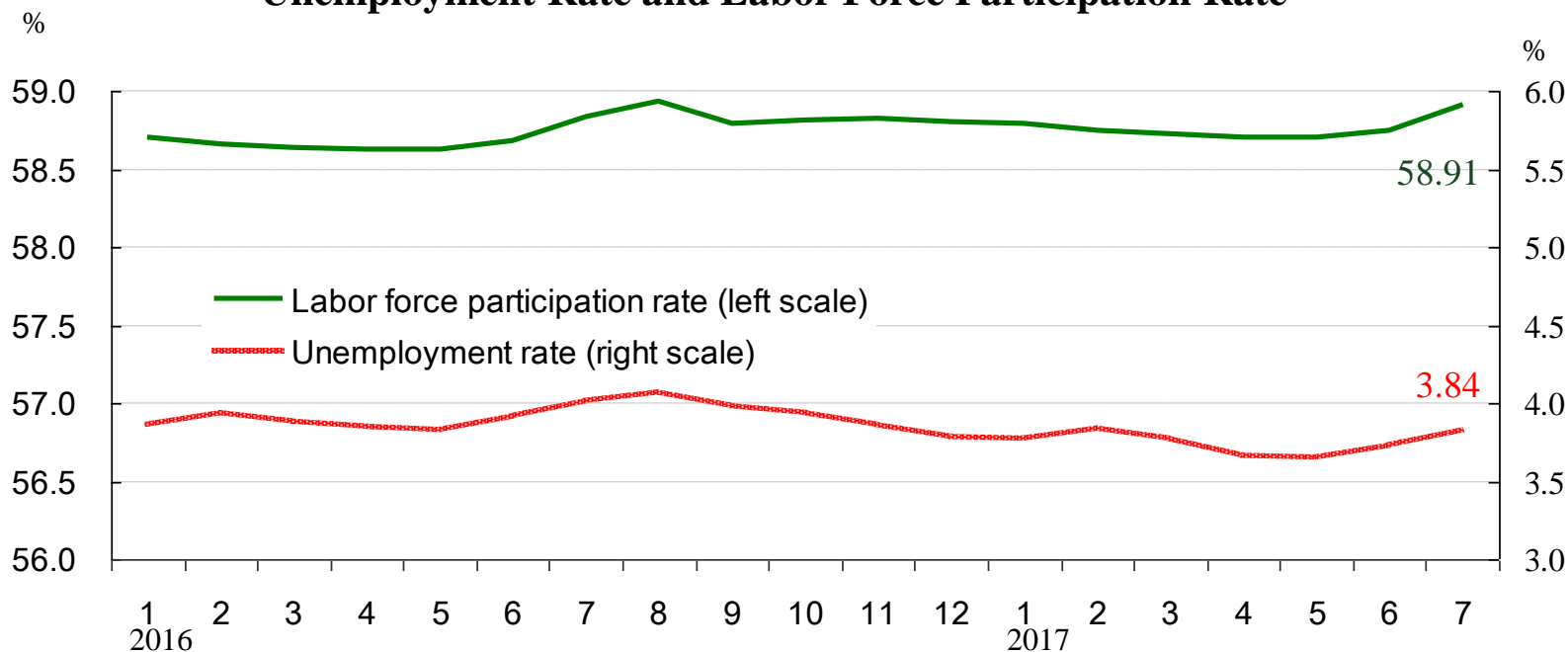




# Employment Remains Steady

- The unemployment rate increased by 0.10% to 3.84% in July, however, the seasonally adjusted unemployment rate remained the same at 3.78%.
- Labor force participation rate was 58.91% in July, which increased by 0.16% and 0.07% on the previous month and the previous year, respectively.

## Unemployment Rate and Labor Force Participation Rate

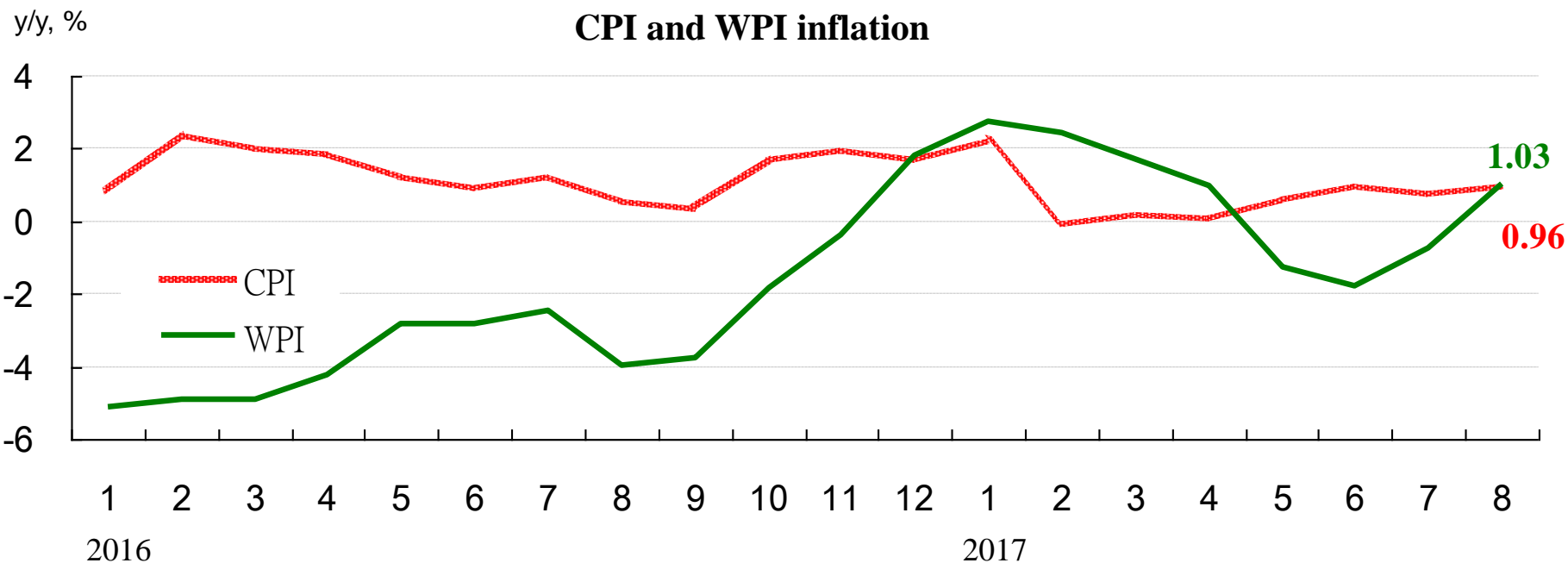


Source: DGBAS, Aug 2017



# Prices Continue to Stabilize

- The annual change of CPI in August 2017, compared with the same month of 2016, rose 0.96%. Prices of vegetables, fuels and lubricants, fish and seafood increased 8.79%, 5.32%, 4.56%, respectively. The prices of fruit and eggs fell 13.73% and 7.35%, respectively. For the first eight months of 2017, the CPI increased 0.72% over the same period of the previous year.
- The WPI increased by 1.03% year-on-year, mainly due to the prices of quarrying products and other mineral products, basic metals, and petroleum and coal products rising 31.72%, 11.07%, and 9.49%, respectively. For the first eight months of 2017, the WPI increased 0.64% over the same period of the previous year.

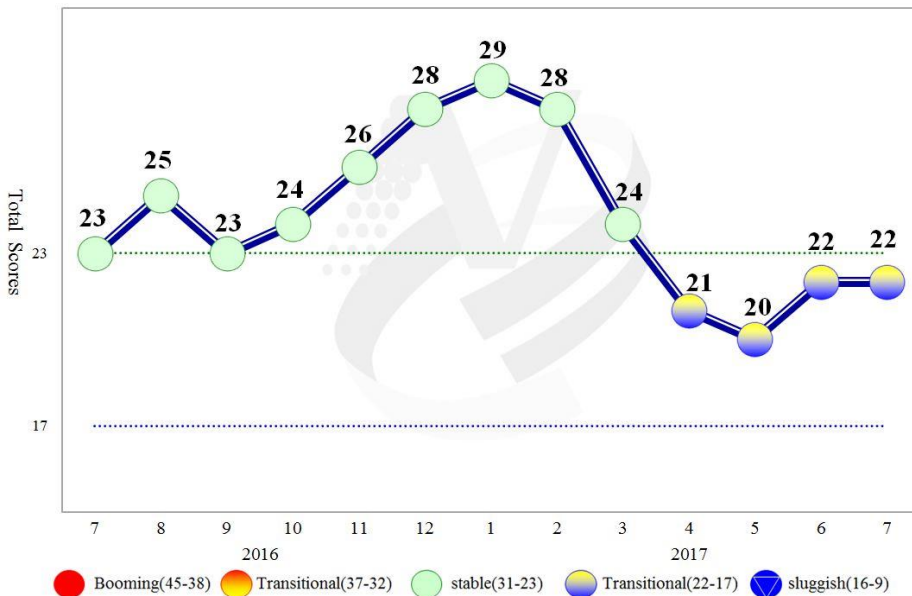




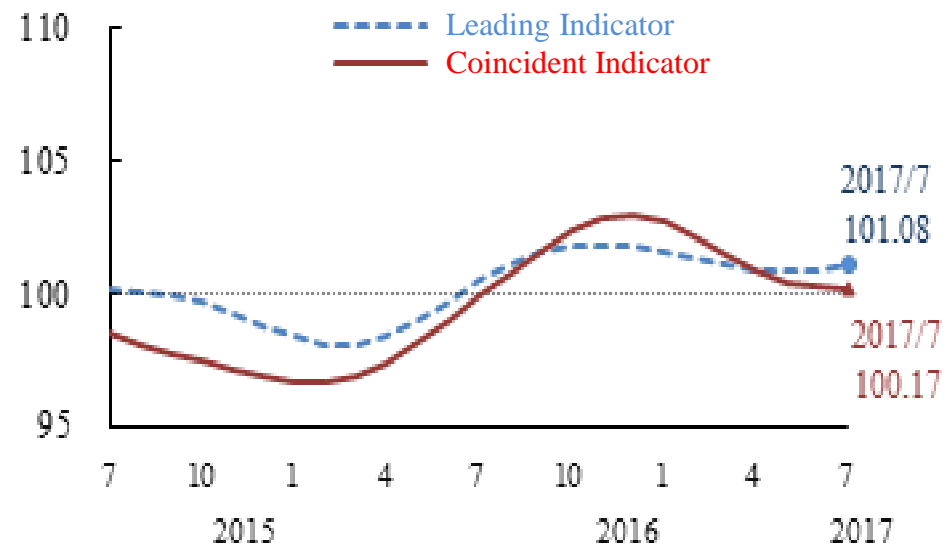
# Monitoring Indicators Flashing “Yellow-Blue” Signal

- In July 2017, the trend-adjusted leading index stood at 101.08, up by 0.18% on the previous month, for two consecutive months of recovery. The trend-adjusted coincident index continued to fall, by 0.09%, to 100.17.
- The total score stood at 22 in July 2017, the same level of the previous month, and flashed the “yellow-blue” signal for the fourth month. Among the nine components of the signal remained unchanged. Taiwan Business Indicators indicated that the current domestic economic recovery still needs to be strengthened.

### Monitoring Indicators



### Trend-adjusted Leading and Coincident Indexes







## **IV. PROSPECTS FOR 2017 and 2018**

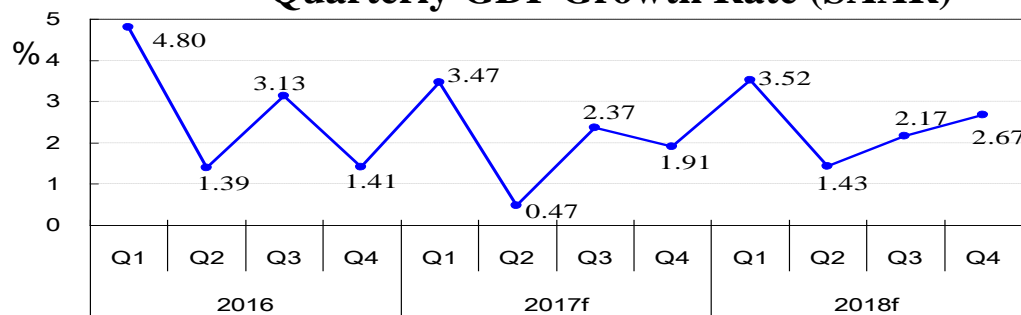


# The Economy Continues to Rebound

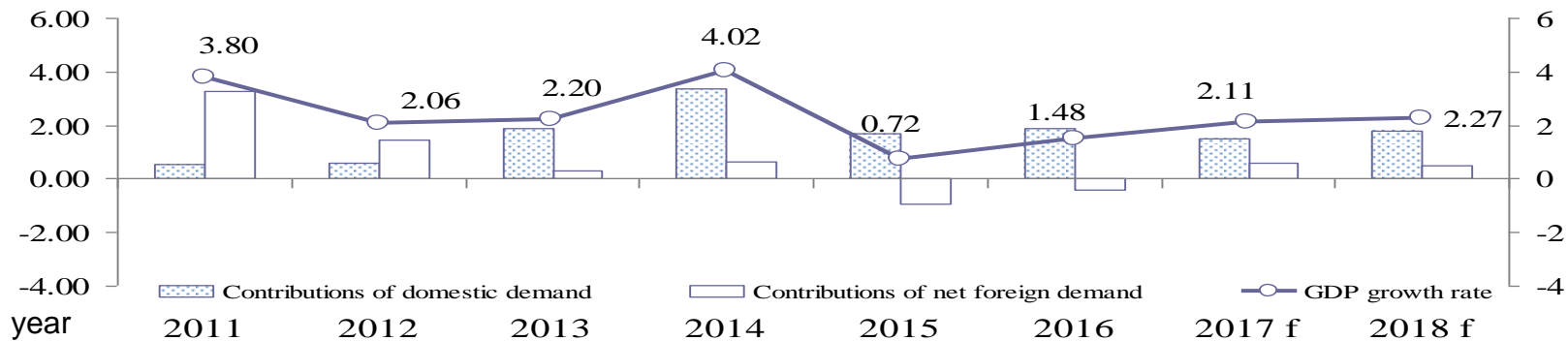
- According to the DGBAS's latest estimate in August 2017, the GDP growth rate in 2017 is forecast at 2.11%, up 0.06% on May 2017's forecast, mainly due to better-than-expected performance of exports and private consumption in the first half of this year. The world economy is expected to continue growing at a modest pace for 2018, which will help to sustain Taiwan's export growth. Combining the contribution from the domestic sector, real GDP will grow by 2.27% in 2018.
- On a quarterly basis, real GDP in Q3 and Q4 in 2017 is expected to grow faster than Q2, compared with the previous quarter on a seasonally-adjusted annualized basis(SAAR).

## Economic Outlook

Quarterly GDP Growth Rate (SAAR)



GDP Growth Rate (%)



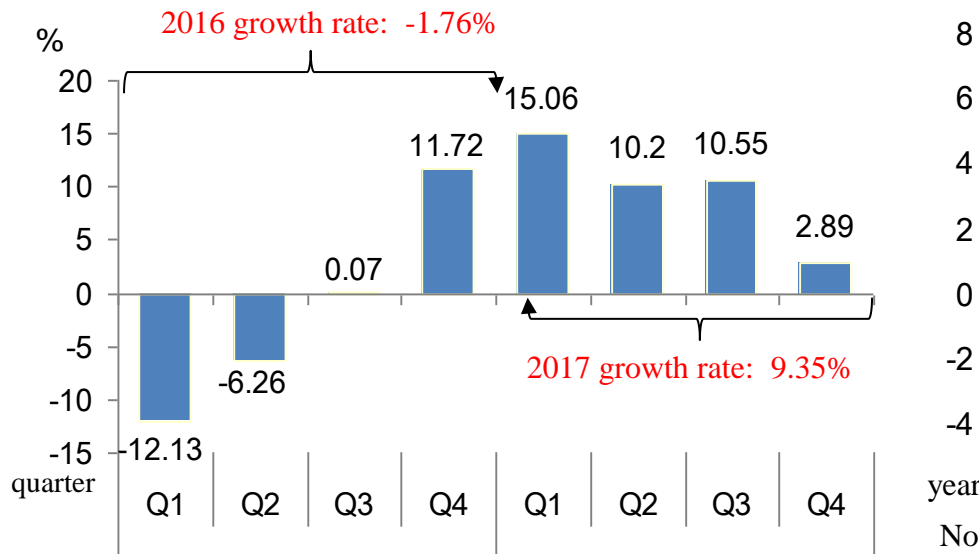
Source: DGBAS, Aug. 2017



# Exports Remain on the Recovery Path

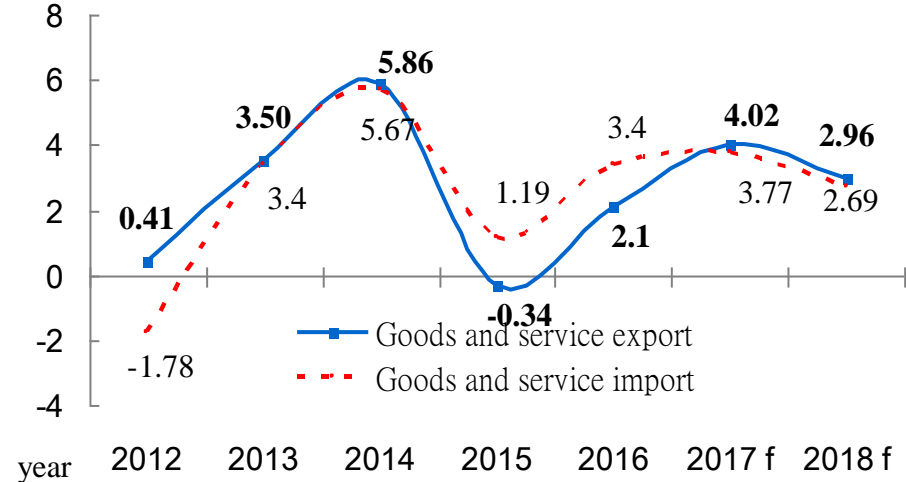
- According to the IMF's latest forecast, world trade is expected to grow by 4.0%, a marked rise compared to 2.3% in 2016. Recovering global demand, particularly demand for electronic products and new technological applications, such as internet of things (IOT), automotive electronics, and artificial intelligence, is expected to support the momentum of Taiwan's goods exports.
- However, the NTD's volatility, a rise in global trade protectionism, and the expanding local supply chain in Mainland China all may restrain Taiwan's export growth momentum.
- Real goods and services exports are projected to grow by 4.02% and 2.96% in 2017 and 2018, respectively, and goods and services imports are forecast to rise by 3.77% and 2.69% in 2017 and 2018, respectively.

### The Growth Rate of Nominal Goods Exports (y/y) %



Source: DGBAS, Aug. 2017

### The Growth Rate of Real Goods and Service Exports and Imports



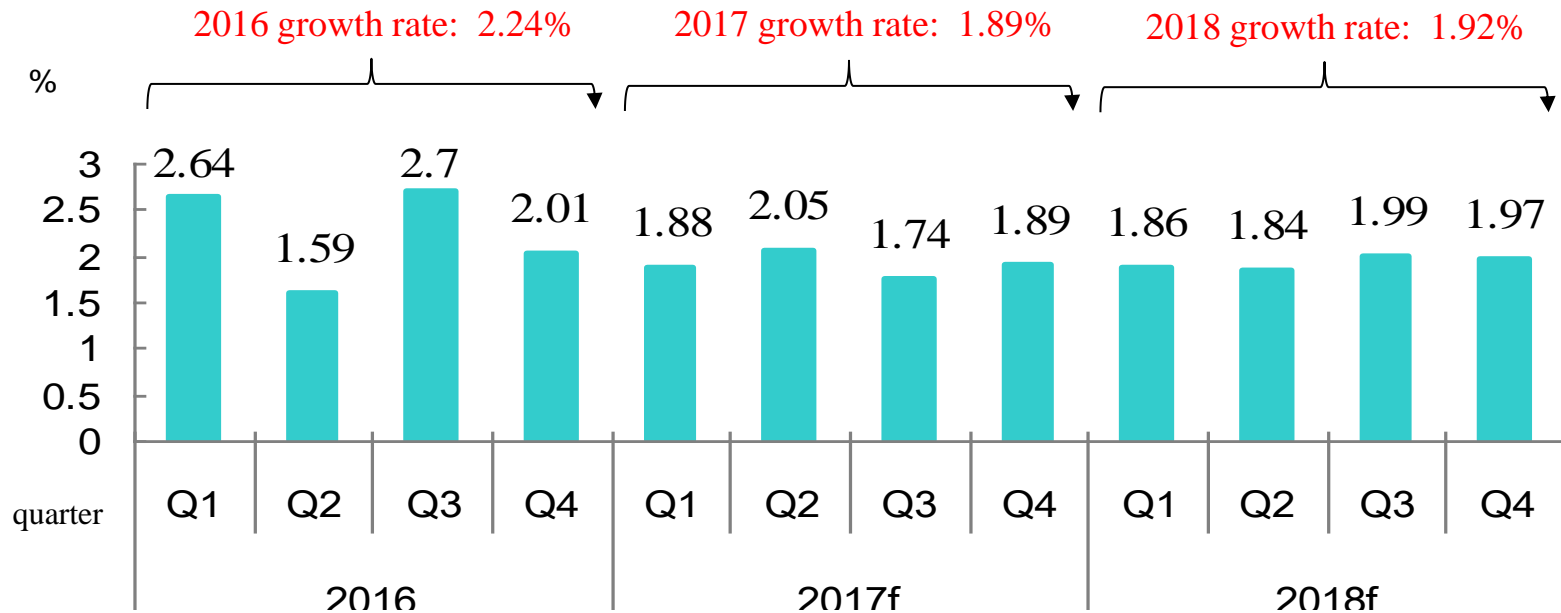
Note: The figures of bold type in the graph represents the Growth Rate of Real Goods and Service Export.



# Private Consumption Growth Pace Remains Slow

- Supported by accelerated economic growth, together with the improving labor market, and the vibrant stock market performance, private consumption is expected to maintain its growth momentum. However, weak real wage growth may be the restraining factor.
- Taking into account the above factors, private consumption is projected to rise by 1.89% in 2017, lower than 2.24% in 2016. In 2018, private consumption is expected to grow by a relatively slow 1.92%.

**The Growth Rate of Private Consumption (y/y)**

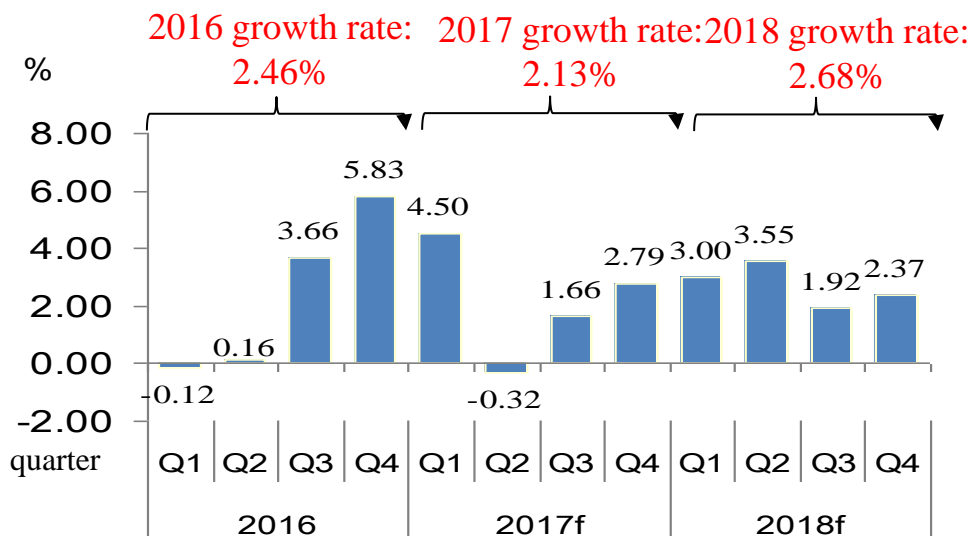




# Domestic Investment Set to Increase Continuously

- Domestic semiconductor manufacturers are expected to continue to invest in advanced production capacity to keep the lead in the field and dominate the market of emerging applications. In addition, the government's active implementation of the 5+2 Industrial Innovation Plan and active improving of the investment environment will help boost private investment. Private fixed investment is projected to increase by 1.70% in 2017. In 2018, private investment is expected to grow by 1.55%.
- On the public investment side, with government's strengthening infrastructure investment and continuing to accelerate budget implementation, government fixed investment and public enterprise fixed investment are expected to rise by 3.74%, 4.93% in 2017, and to rise by 10.59%, 1.37% in 2018, respectively.

**The Growth Rate of Fixed Investment (y/y)**



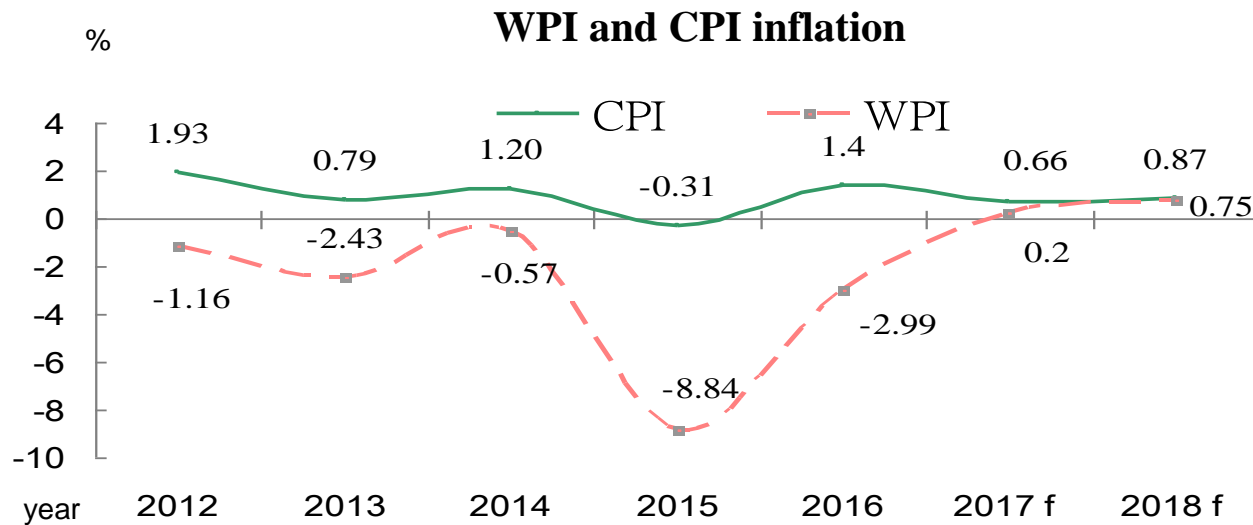
**The Growth Rate of Each Component of Fixed Investment** %

	Private Enterprises	Government	Public Enterprises
<b>2016</b>	<b>2.95</b>	<b>1.26</b>	<b>-3.03</b>
<b>2017 (f)</b>	<b>1.70</b>	<b>3.74</b>	<b>4.93</b>
Q1(r)	3.53	7.58	19.66
Q2(p)	-0.98	8.14	-8.50
Q3(f)	1.53	0.75	6.51
Q4(f)	2.73	0.97	7.54
<b>2018(f)</b>	<b>1.55</b>	<b>10.59</b>	<b>1.37</b>



## Inflation to Remain Stable

- With slower global oil than expected and coupled with a stronger NTD against the USD, the WPI is expected to increase by 0.20% in 2017. In 2018, with the continued recovery of the economy, commodity prices will rise. It is forecast that the WPI will rise 0.75%.
- On the CPI side, for 2017 it is expected to increase 0.66%, 0.29 % lower than the previous forecast released in May, mainly reflecting the moderated global crude oil prices and stable weather. In 2018, the CPI will slightly rise by 0.87%.



Source: DGBAS, Aug. 2017



# Forecasts for Taiwan's Economy

	Real GDP (yoy,%)		Consumer Price Index (yoy, %)	
	2017 <sub>f</sub>	2018 <sub>f</sub>	2017 <sub>f</sub>	2018 <sub>f</sub>
<b>DGBAS (2017.8)</b>	2.11 [2.05]	2.27	0.66 [0.95]	0.87
<b>TIER (2017.7)</b>	2.08 [2.04]	-	1.05 [1.20]	-
<b>CIER (2017.7)</b>	2.14 [2.11]	2.15 [2.15]	1.12 [1.35]	1.36 [1.45]
<b>IEAS (2017.6)</b>	2.18 [1.68]	-	0.93 [1.13]	-
<b>Yuanta-Polaris (2017.6)</b>	2.10 [2.10]	-	1.00 [1.20]	-
<b>TRI (2017.6)</b>	2.01 [1.74]	-	1.22 [0.99]	-
<b>Global Insight (2017.8)</b>	2.2 [2.1]	2.1 [2.1]	0.9 [1.2]	1.2 [1.3]
<b>ADB (2017.7)</b>	2.0 [1.8]	2.2 [2.2]	1.1 [1.3]	1.2 [1.2]
<b>IMF (2017.4)</b>	1.7 [1.7]	1.9	1.4 [1.1]	1.3 [1.3]

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

[ ] indicates the value of previous forecasts

P = preliminary; f = forecast



## V. CONCLUSION

- According to the IMF and Global Insight's latest forecast, 2017's global economic growth rate is expected to be higher than in 2016, as growth in advanced and emerging economies picks up simultaneously. However, European and American monetary policy agendas, together with rising global trade protectionism and geopolitical tension, may contribute to an increase in uncertainty, which means caution is needed in future.
- On the domestic economy side, DGBAS revised its 2017 GDP growth rate forecast up to 2.11% , as private consumption and exports are expected to grow faster than previously forecast. However, the overall monitoring indicator flashed the "yellow-blue" signal in July 2017 for the fourth month. The government will be closely monitoring the economic situation.
- In order to strengthen economic growth momentum and improve the domestic investment environment, the government will continually push deregulation, recruit foreign talent, and reduce investment uncertainties, such as environmental impact assessment and shortages of water and electricity. In addition, the government will press full-speed ahead with implementation of economic development strategies such as the 5+2 Industrial Innovation Program and the Forward-looking Infrastructure Plan to expand public investment this year. These initiatives should build a strong foundation for Taiwan to build a vigorous and sustainable economy in years to come.



# 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](mailto:aurelia@ndc.gov.tw).