



TAIWAN'S ECONOMIC SITUATION AND OUTLOOK

July 2018

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 2018.
- According to the DGBAS's latest estimate in May 2018, the GDP growth rate in 2018 is forecasted at 2.60%, up 0.18 percentage points from February's forecast. The domestic demand should lead the economic growth in this year, driven by pickups of private consumption and investment, while momentum in the external sector will likely be moderate, due to the high base of 2017.



II. Global Economic Situation and Outlook



Global Economy See Another Year of Solid Growth

- The global economy slowed down in the first quarter of 2018, caused by temporary special factors such as extreme weather and the influenza outbreak. However, world economy is expected to recover in the second quarter as main countries' economies stabilized. The GDP growth in the U.S. is stimulated by the tax reduction and expansion of fiscal expenditures, while Japan's economy falters due to weak private consumption and poor exports performance.
- World Bank and IHS Markit forecasted that the 2018 global GDP will grow by 3.1% and 3.3%, respectively, the same as last year, reflecting that the world economy is still solid in the year.

World Economic Outlook Projections

unit : %

	World Bank		IHS Markit	
	2017	2018(f)	2017	2018(f)
World	3.1	3.1 (3.1)	3.3	3.3 (3.4)
Advanced economies	2.3	2.2 (2.2)	2.3	2.4 (2.4)
United States	2.3	2.7 (2.5)	2.3	3.0 (2.8)
Euro area	2.4	2.1 (2.1)	2.4	2.1 (2.2)
Japan	1.7	1.0 (1.3)	1.7	1.1 (1.4)
Emerging market and developing economies*	4.3	4.5 (4.5)	4.8	4.8 (4.9)
Mainland China	6.9	6.5 (6.4)	6.9	6.7 (6.7)

Note : The values in parentheses represent the previous forecast. * IHS Markit's forecast only covered emerging markets.

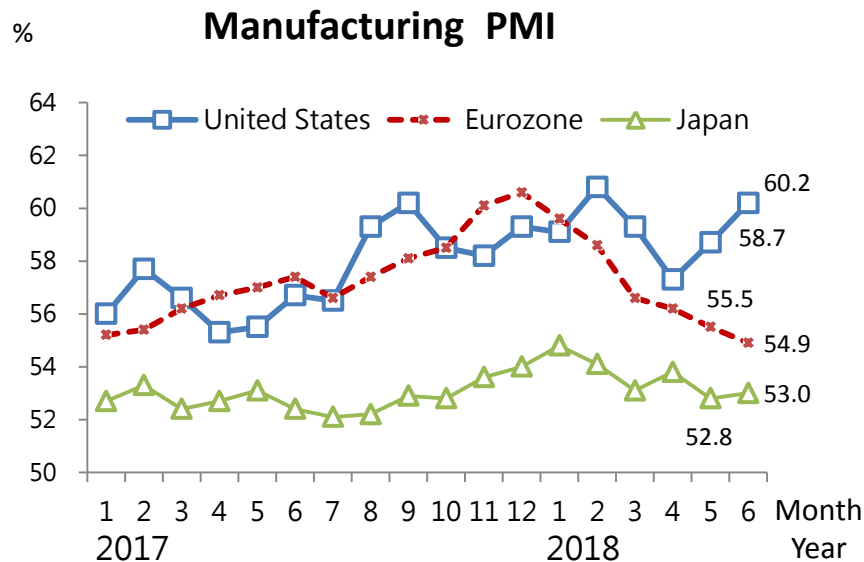
Source : 1.World Bank, Global Economic Prospects, Jun. 5, 2018.

2.IHS Markit, World Overview, Jun. 15, 2018.



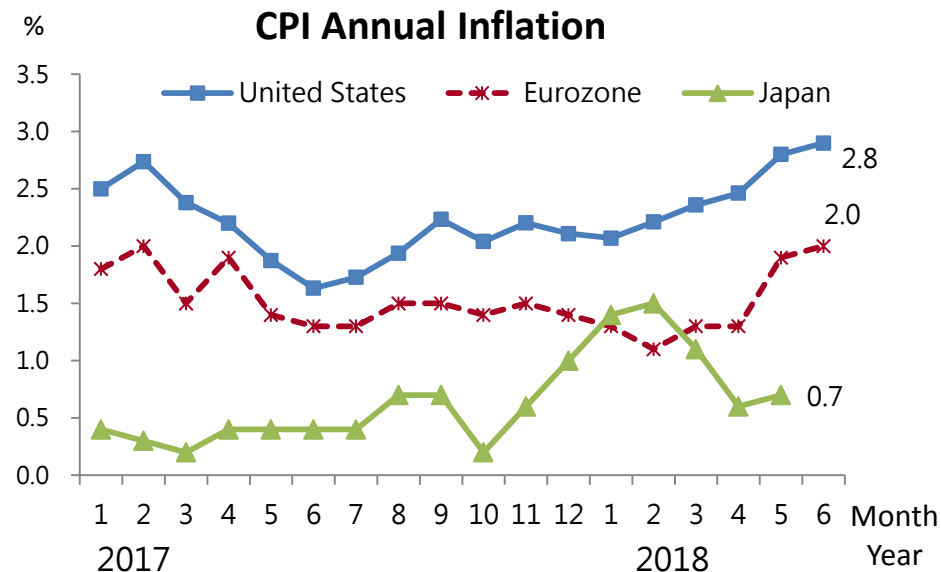
Advanced economies Continue to Expand

- **United States:** The manufacturing PMI rose to 60.2% in June from 58.7 in May 2018, expanding for 22 consecutive months, supported by the continuous expansion of new orders, production and employment. On the prices front, CPI increased by 2.9% in June, following its upward trend since the beginning of the year.
- **Eurozone:** The manufacturing PMI declined to 54.9 in June from 55.5 in May, signaling a weakening in the pace of expansion. The CPI annual inflation rate hit 2% in June, led by a 8% increase in energy prices.
- **Japan:** The manufacturing PMI rose from 52.8 in May to 53.0 in June, marking the 22nd straight month of expansion. The CPI annual inflation rate increased slightly from 0.6% in April to 0.7% in May, still far from the 2% inflation target.



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, Markit.



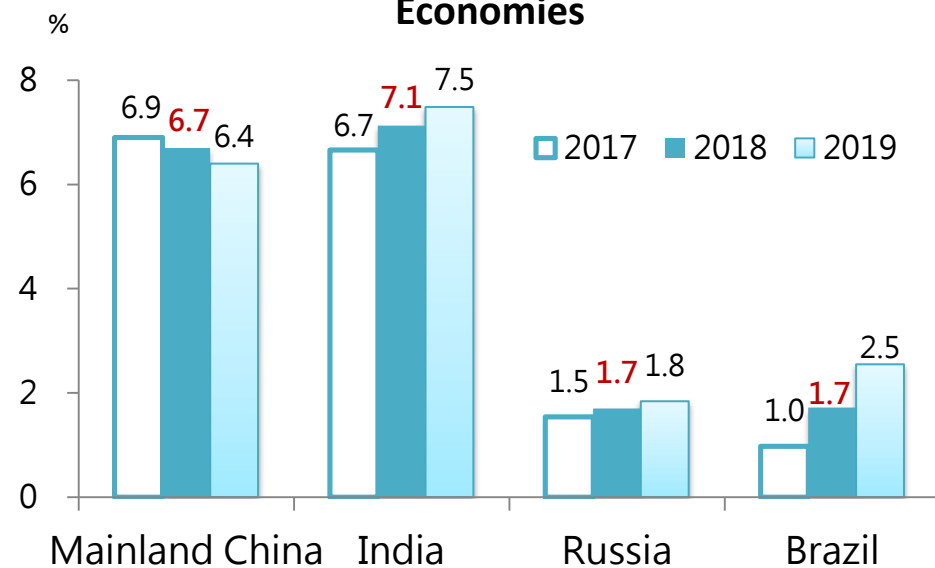
Source : U.S. Bureau of Statistics, Eurostat, Cabinet Office, Government of Japan.



Emerging economies Face Elevated Financial Risks

- **Mainland China:** Affected by the looming US-China trade war and the tightening of financing channels, the growth rate of fixed asset investment has slowed in June 2018, showing signs of the weakening. However, according to IHS Markit latest forecast in June, Mainland China's economy will grow by 6.7% in 2018.
- **Other Large Emerging Economies:** With the rise of global protectionism and the falling trend of international commodity prices, IHS Markit cut its forecast of GDP growth rate for commodity-exporting countries. In addition, investors have accelerated withdrawal from emerging markets due the quicker pace of the US Fed's interest rates hike, which has ramped up pressure on emerging markets.

GDP Growth for Major Emerging Market Economies



Source : IHS Markit, "World Economic Outlook," June 15, 2018 .

CRB Commodity Index



Source : <http://cip.chinatimes.com/>



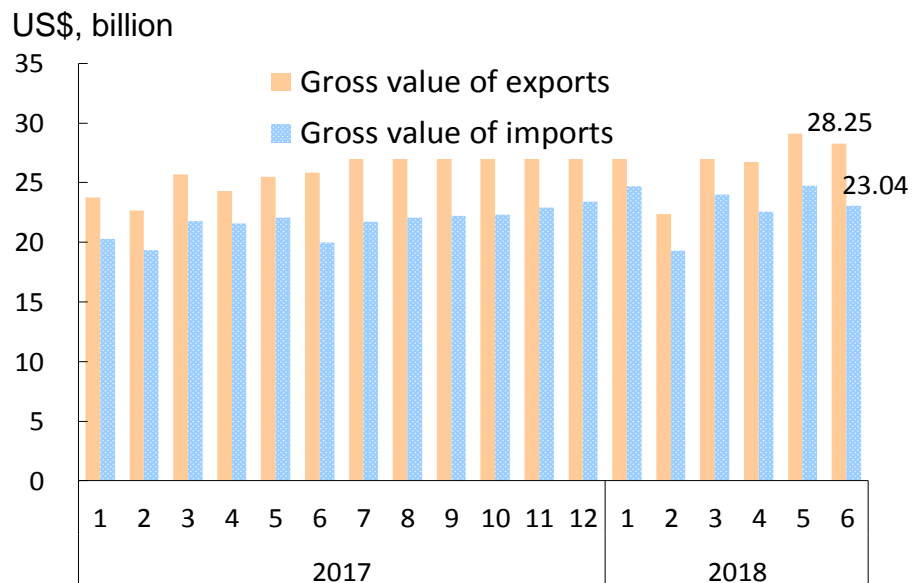
III. Current Domestic Economic Situation



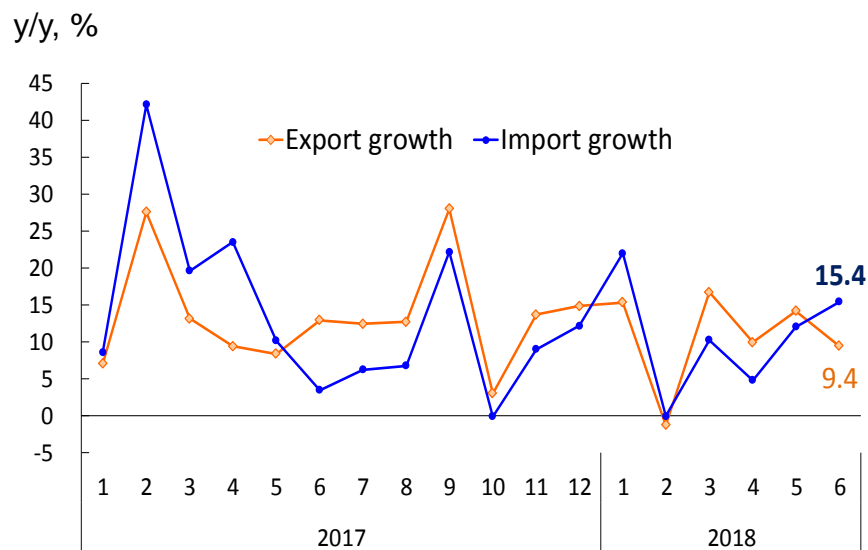
Foreign Trade Continues to Increase

- Total exports increased by 9.4% year-on-year in June 2018, mainly due to a stable global economy, rising prices of international base metals and crude oil, together with strong external demand for machinery. However, electronics shipments contracted slightly. In the first half of this year, Taiwan's exports rose 10.9% from a year earlier.
- Imports increased by 15.4% in June over the previous year, which was driven by the increase of exports and rising prices of raw material. The annual change rate of the first half of the year was 10.8%.

The Gross Value of Exports and Imports



The Gross Rate of Exports and Imports

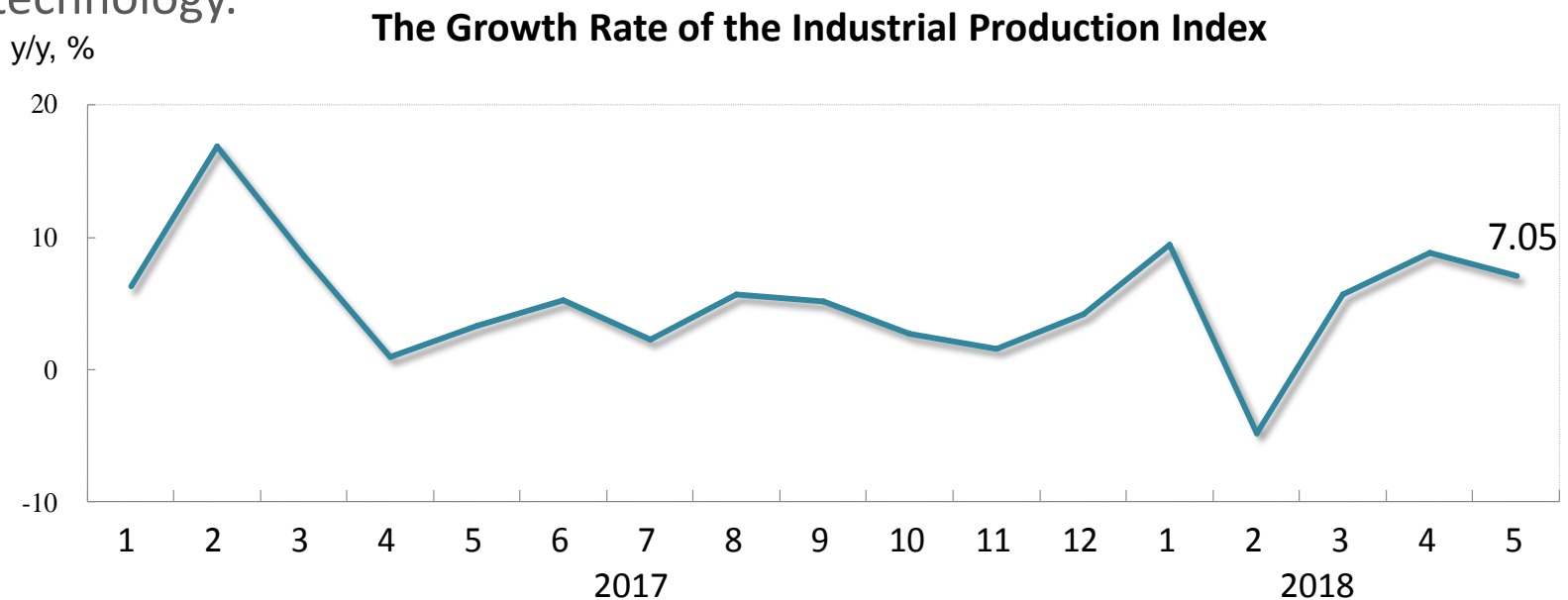


Note: Since FY2016, the general trade system applied for compilation of external trade statistics and the historical data has been revised to FY2001.

Source: Ministry of Finance, Jul. 2018

Industrial Production Maintain its Moderate Growth Path

- The Industrial Production Index (IPI) posted an annual increase of 7.05% in May 2018. For the first five months of 2018, the IPI increased 5.37% over the same period of the previous year.
- Manufacturing output, which makes up more than 90% of the IPI, rose by 7.24% year-on-year in May. The increase was largely due to production of electronic components, especially silicon wafers and DRAM chips, which was supported by new smartphone launches and applications of emerging technology.



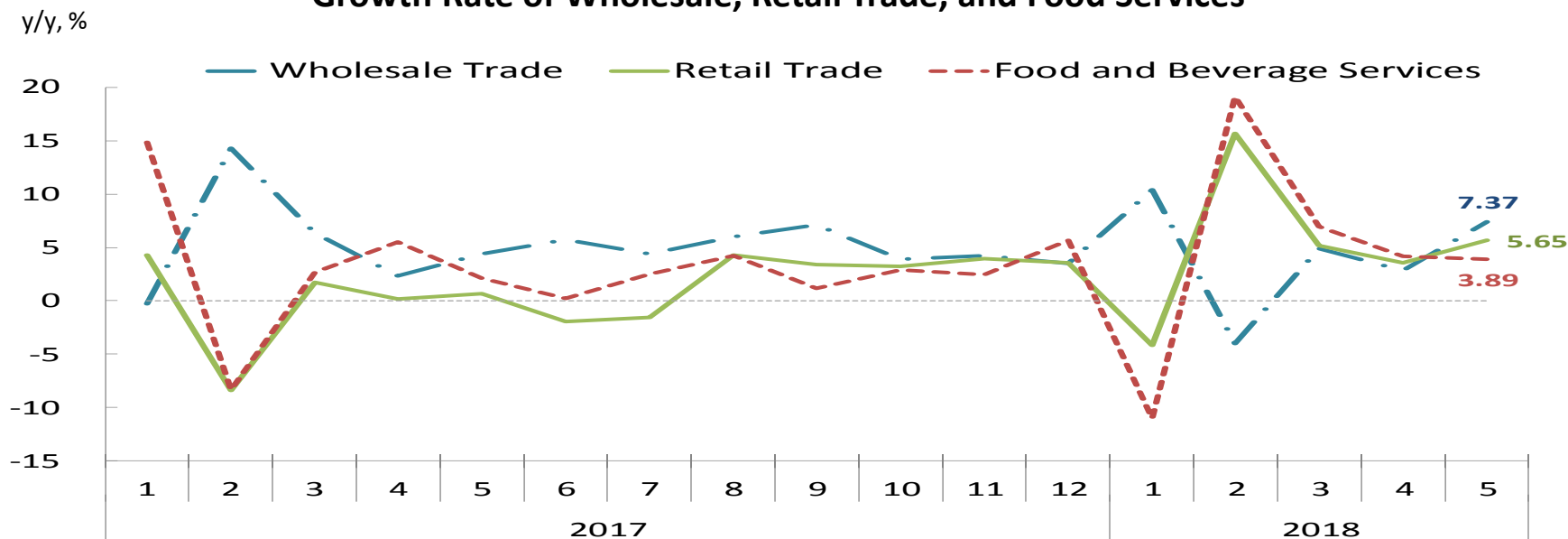
Source: Ministry of Economic Affairs, June 2018



Retail Trade Shows Steady Growth

- In May 2018, wholesale trade increased by 7.4%, mainly due to the expansion of smart technology applications, driving the demand for electronic components such as memory devices, coupled with the rise of steel products' export prices and volume.
- Retail trade increased by 5.7%, with rising demand for imported cars, increasing buying in electronic products and home cooling appliances.
- Food and beverage services grew by 3.9%, benefited from the increase of dining outside on Mother's Day and the rising demand for cold beverages in summer.

Growth Rate of Wholesale, Retail Trade, and Food Services

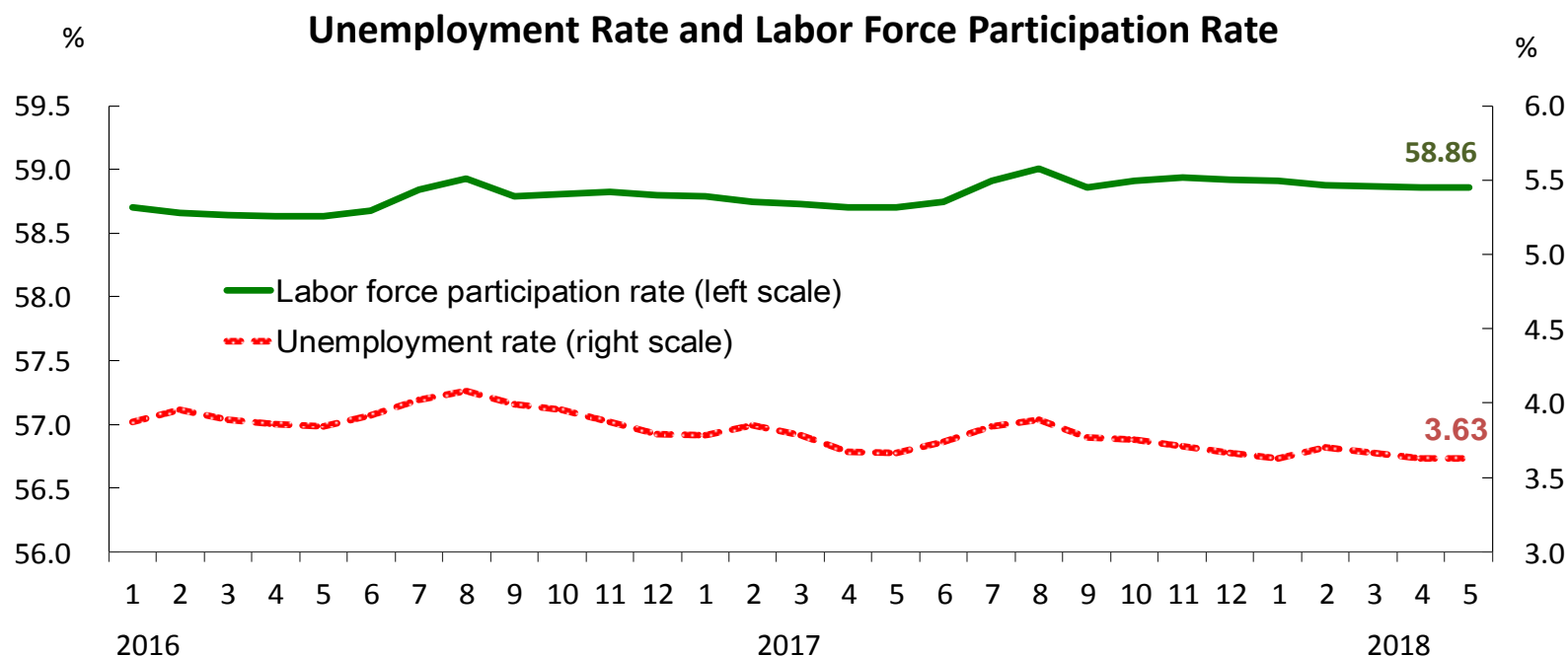


Source: Ministry of Economic Affairs, June 2018



Employment Remains Steady

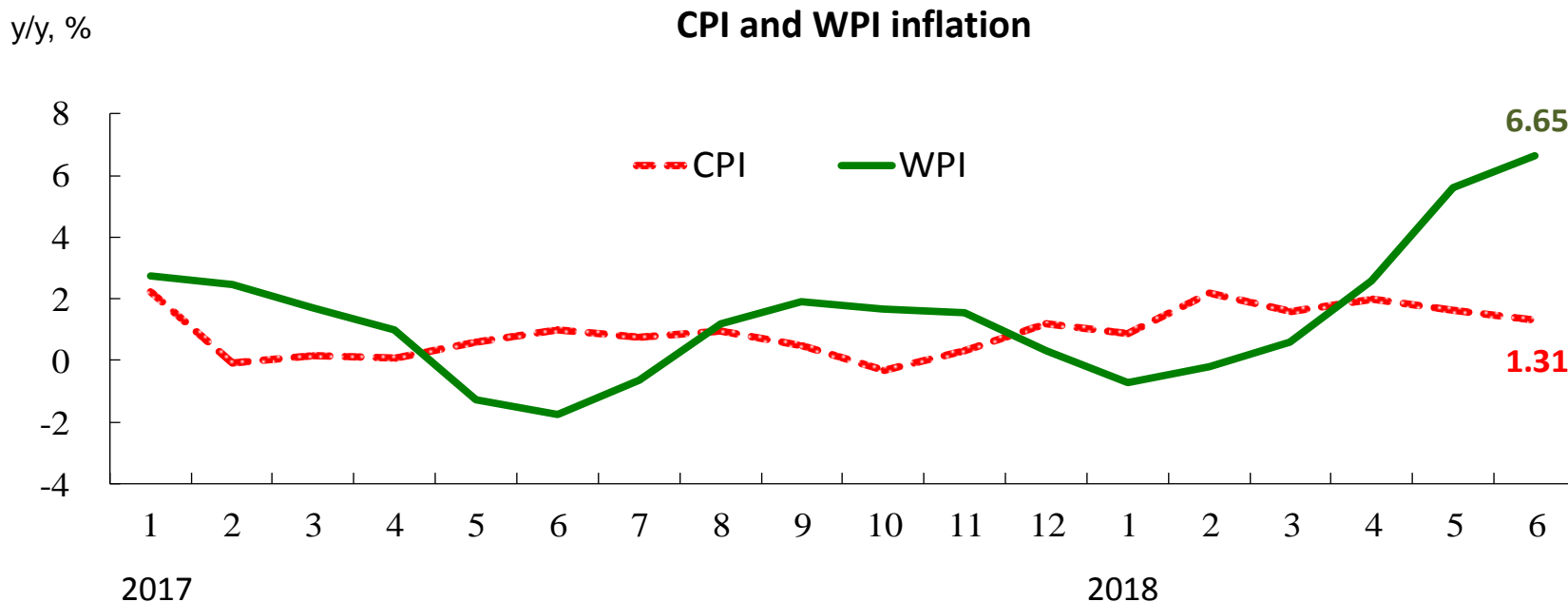
- The unemployment rate decreased by 0.01 percentage points from a month earlier to 3.63% in May, the lowest level since May 2015, when it stood at 3.62%. After seasonally adjusted, the unemployment rate remains unchanged from a month earlier at 3.69%.
- Labor force participation rate was 58.86% in May, unchanged from a month earlier, and increased by 0.16 percentage points on the same month of the previous year.





Consumer Prices Remained Stable

- The annual change of the CPI in June 2018 rose by 1.31%, compared with the same month of 2017, mainly because prices of tobacco and betel nuts rose 40.14% due to the increase of cigarette tax, and fuels and lubricants increased 22.79% as the international oil prices remained within the high interval.
- The WPI rose 6.65% year-on-year. The prices of crude petroleum and natural gas, petroleum and coal products, as well as chemical material increased 55.21%, 36.15%, and 13.96%, respectively; largely explaining the WPI increase.

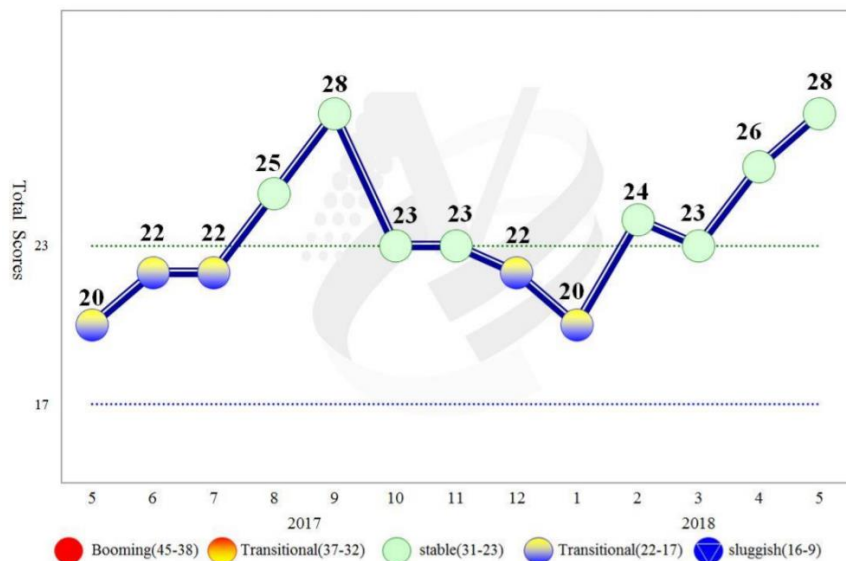




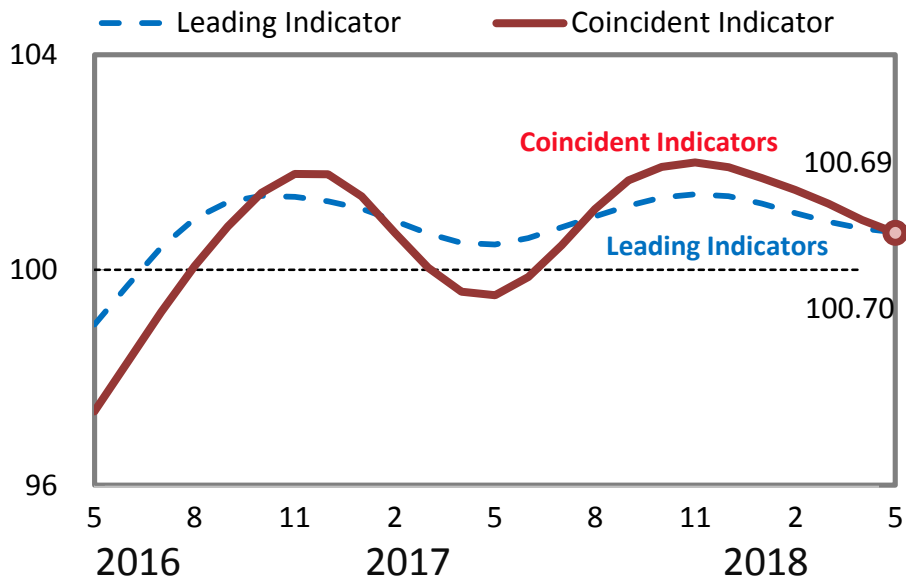
Monitoring Indicators Flashing “Green” Signal

- In May 2018, the trend-adjusted leading index stood at 100.70, down by 0.07% from the previous month, while the trend-adjusted coincident index stood at 100.69, down by 0.24% from the previous month.
- The total score of the monitoring indicators in May 2018 increased by two points to 28, flashing the “green” signal for the fourth consecutive month.

Monitoring Indicators



Trend-adjusted Leading and Coincident Indexes



Source: NDC, June, 2018



IV. PROSPECTS FOR 2018

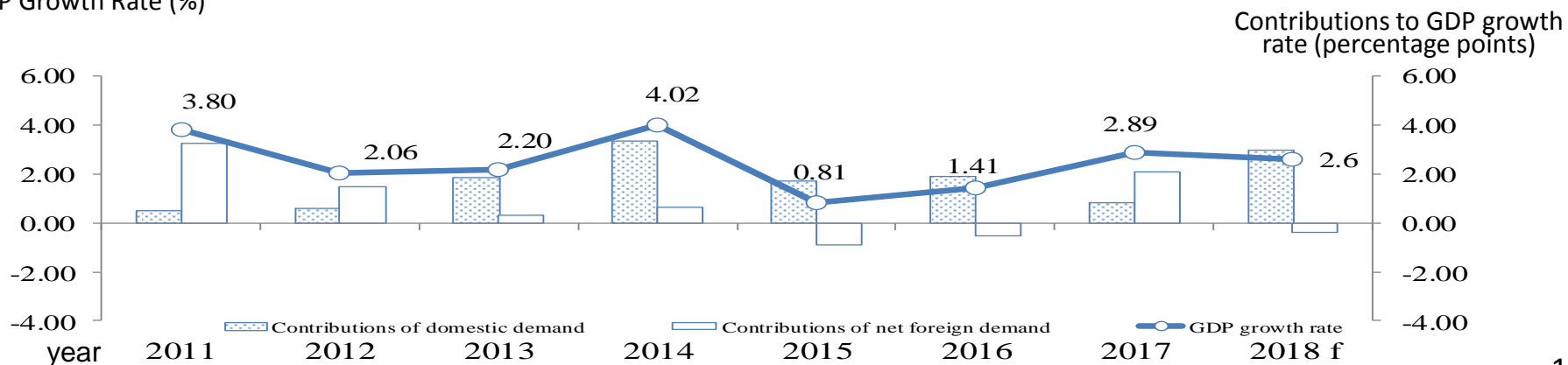
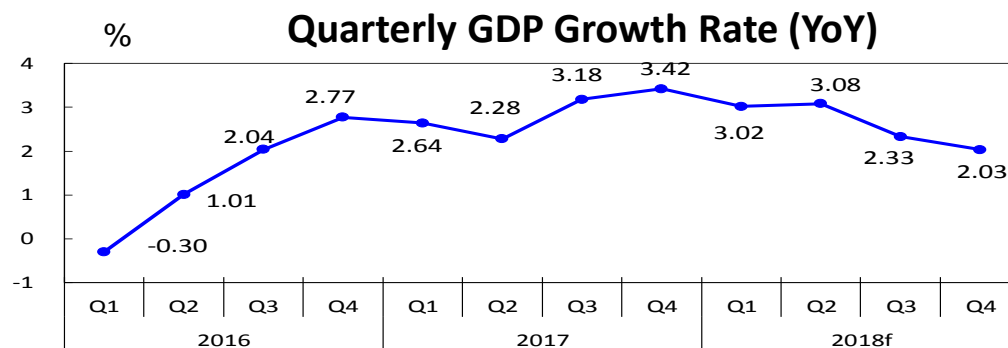


The Economy to Remain Stable

- According to the DGBAS's latest estimate in May 2018, Taiwan's GDP growth rate will be 2.60% in 2018, 0.18 percentage point higher than the February 2018 forecast, as exports, private consumption and fixed investment are expected to grow faster than previously foreseen.
- On a quarterly basis, real GDP is expected to grow more than 3% in the first half of 2018, while it may be slower in the second half of the year.

Economic Outlook

GDP Growth Rate (%)



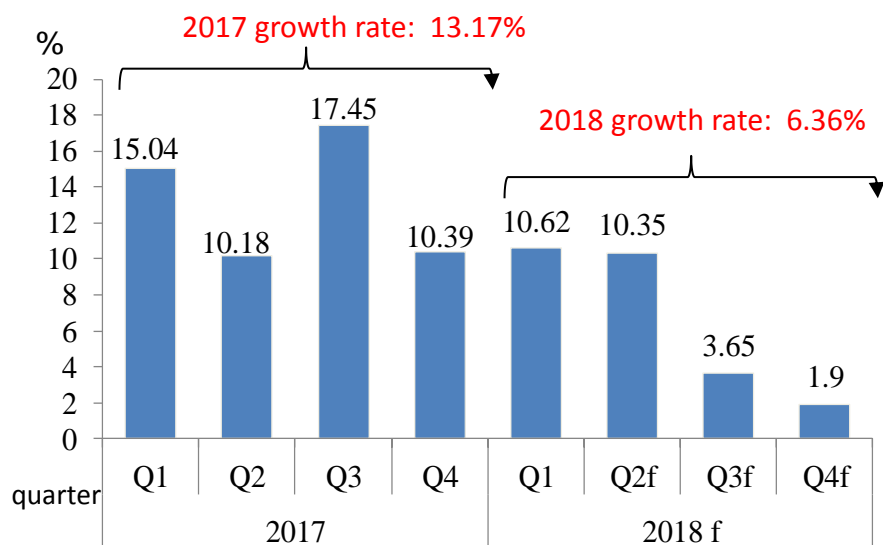
Source: DGBAS, May 2018



Exports Expected to Grow at a Moderate Path

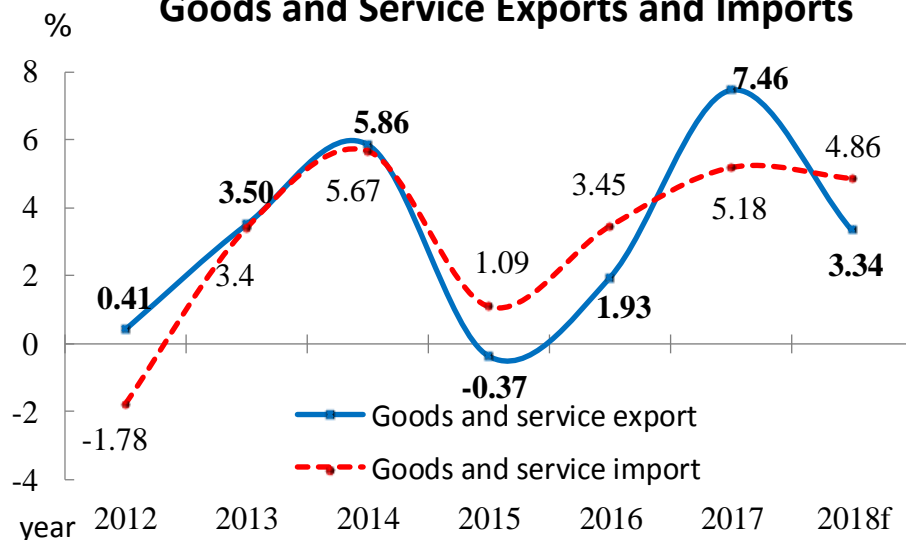
- According to the IMF's latest forecast, world trade volume will grow by 5.1% in 2018, higher than global GDP growth rate for the second consecutive year. Firmly-growing global economy and world trade volume, together with the strong demand in semiconductor markets driven by new technological applications, such as High-Performance Computing (HPC), automotive electronics, and Internet of Things (IoT) are expected to support Taiwan's goods exports growth. However, with the high base of 2017, exports growth rate is expected to be moderate.
- Combining with service exports and excluding price factors, real goods and services exports are projected to grow by 3.34% in 2018, while goods and services imports are forecasted to rise by 4.86% in 2018.

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



Source: DGBAS, May 2018

The Growth Rate of Real Goods and Service Exports and Imports

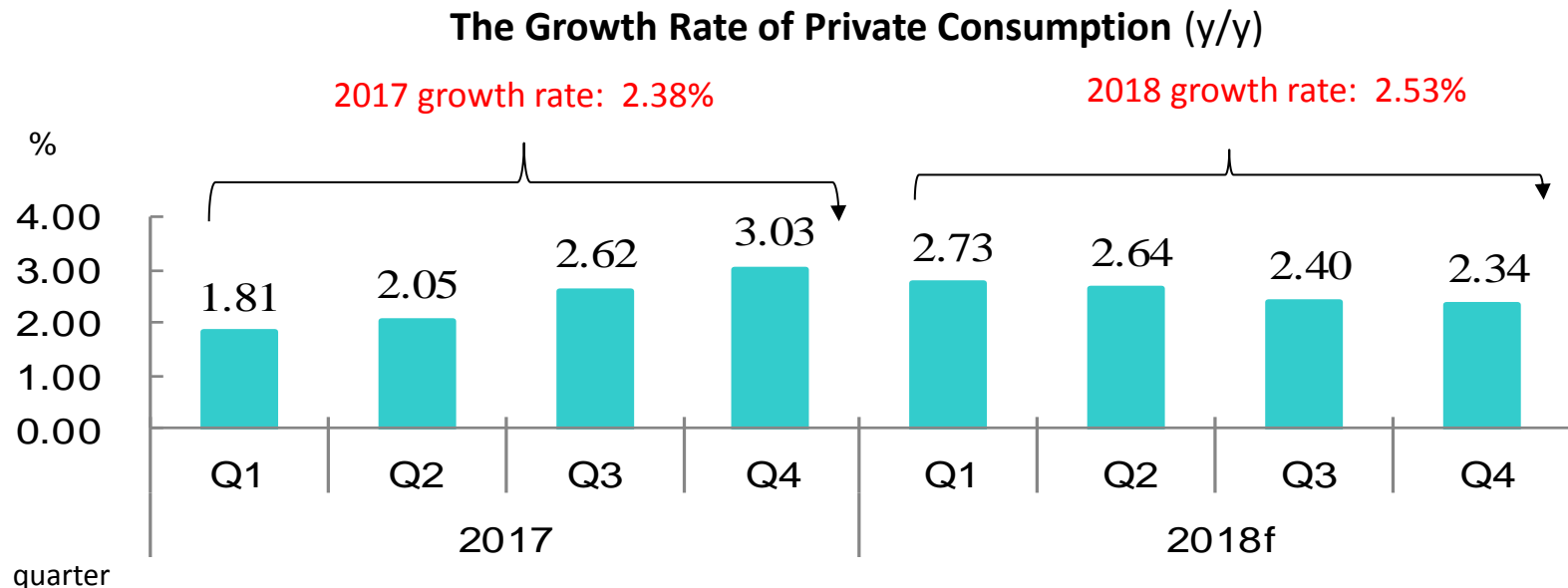


Note: The figures of bold type in the graph represents the Growth Rate of Real Goods and Service Exports.



Private Consumption Growth Pace Remains Steady

- In 2018, with the economy expected to remain stable, together with government increment of minimum wages to NT\$22,000 for labor and public sector employees to receive 3% pay raise from January 2018, plus cash dividend reaching a new high in the equity market, private consumption is expected to maintain its growth momentum. However, fewer children and population aging may be the restraining factors.
- Taking into account the above factors, private consumption is projected to rise by 2.53% in 2018, higher than the 2.38% growth rate of 2017.

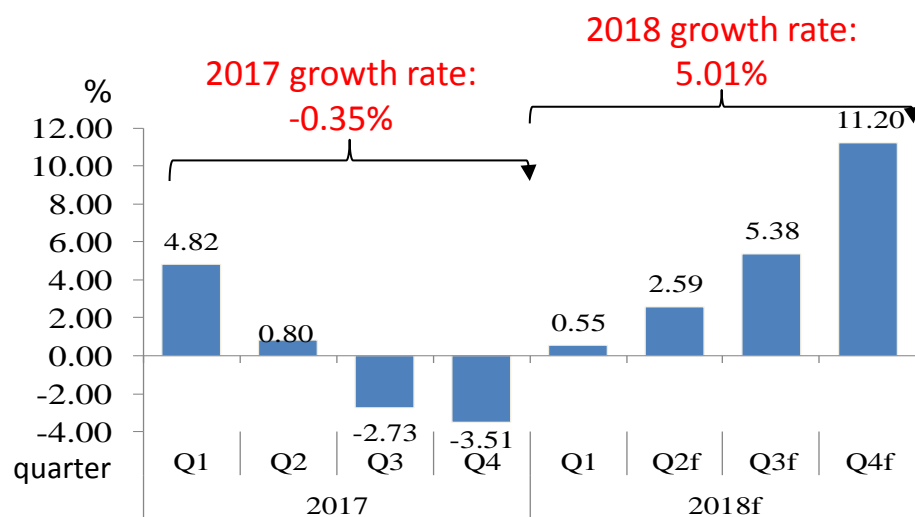




Domestic Investment Set to Rebound

- In 2018, with domestic semiconductor manufacturers expected to continue to invest in advanced production capacity, plus the government's implementations to ameliorate investment environment, and the recovery of construction investment, private fixed investment is expected to grow by 4.61%, higher than the -1.35% mark of the previous year.
- Government and public enterprise fixed investment are expected to rise by 6.28% and 8.11% in 2018, respectively, helped by the government's strengthening of infrastructure investment and continuing acceleration of public budget implementation.

The Growth Rate of Fixed Investment (y/y)



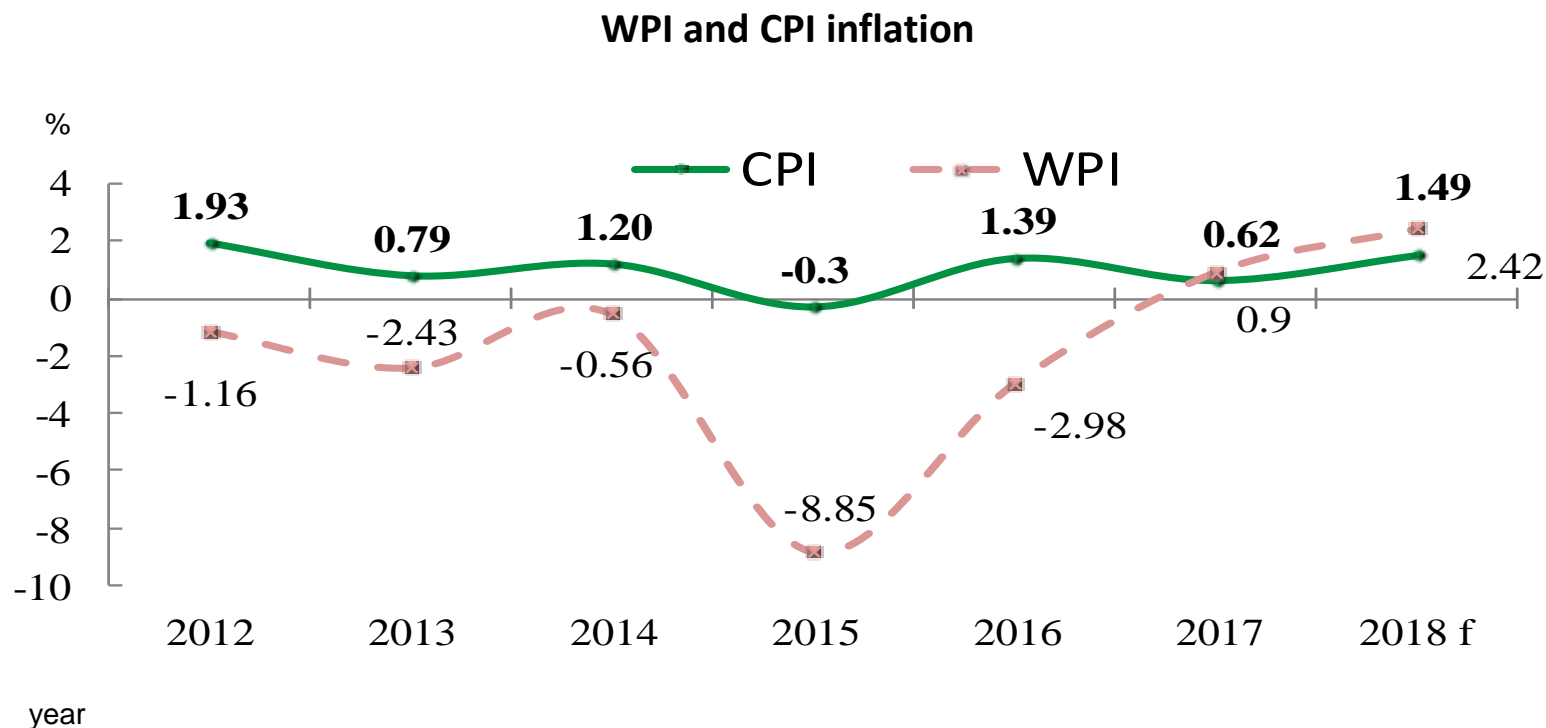
The Growth Rate of Each Component of Fixed Investment

	Private Enterprises	Government	Public Enterprises
2017	-1.35	5.46	0.62
Q1	3.89	8.04	18.34
Q2	0.26	8.73	-7.49
Q3	-4.35	6.07	1.79
Q4	-4.94	1.76	-1.24
2018(f)	4.61	6.28	8.11
Q1(p)	0.81	0.12	-4.58
Q2(f)	1.43	5.02	15.83
Q3(f)	5.03	8.72	2.58
Q4(f)	11.72	8.53	12.23



Inflation to Remain Stable

- With the continuing rise in international oil and raw material prices, the WPI is expected to increase by 2.42% in 2018.
- On the CPI side, it is forecasted to increase by 1.49% which was revised upward 0.28 percentage points from February, mainly reflecting oil prices hike and the increase of cigarette tax.



Note: The figures of bold type in the graph represents the CPI inflation.

Source: DGBAS, May 2018



Forecasts for Taiwan's Economy

	Real GDP (yoy,%)		Consumer Price Index (yoy, %)	
	2017	2018 _f	2017	2018 _f
DGBAS (2018.5)	2.89	2.60 [2.42]	0.62	1.49 [1.21]
TRI (2018.6)		2.62 [2.31]		1.58 [0.88]
Yuanta-Polaris (2018.6)		2.55 [2.40]		1.50 [1.30]
TIER (2018.4)		2.45 [2.34]		1.34 [1.03]
CIER (2017.4)		2.47 [2.27]		1.63 [0.99]
IEAS (2017.12)		2.43		1.18
IHS Markit (2018.6)		2.7 [2.7]		1.5 [1.6]
ADB (2018.4)		2.9 [2.2]		1.1 [1.0]
IMF (2018.4)		1.9 [1.9]		1.3 [1.4]

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; UBS= Union Bank of Switzerland.

[] indicates the value of previous forecasts

P = preliminary; f = forecast



V. CONCLUSION

- World Bank and IHS Markit forecasted that in 2018 the global economy will grow by 3.1% and 3.3% respectively, the same as last year, reflecting that the world economy is still solid in this year. However, global economic uncertainty continued to pose a threat, due to the rising trade friction between the US and EU and between the US and Mainland China, and thus intensifying financial market volatility.
- On the domestic economy side, according to DGBAS' latest forecast, the real GDP will grow by 2.60% in 2018, suggesting that the economy is still on a moderate growth path. The domestic demand should lead the economic growth in this year, driven by pickups of private consumption and investment, while momentum in the external sector will likely be moderate. Major economic institutions forecasted that Taiwan's real GDP growth rate for 2018 will be between 1.9% and 2.9%.
- Faced with challenges such as the rise of international trade frictions and global political and geopolitical uncertainty, the government will closely monitor the economic situation, and actively implement relevant policies to promote the development of the domestic demand, such as forward-looking infrastructure development program, energy transformation and urban renewal. These initiatives will all help boost investment in Taiwan and build long-term 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.