



TAIWAN'S ECONOMIC SITUATION AND OUTLOOK

September 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 and 2019.
- According to the DGBAS' latest forecast, the real GDP is expected to grow by 2.69% and 2.55% in 2018 and 2019, respectively. Domestic demand will be the main driver of economic growth, as private consumption and fixed investment should grow faster than previous year, while momentum in the external sector will likely be moderate.

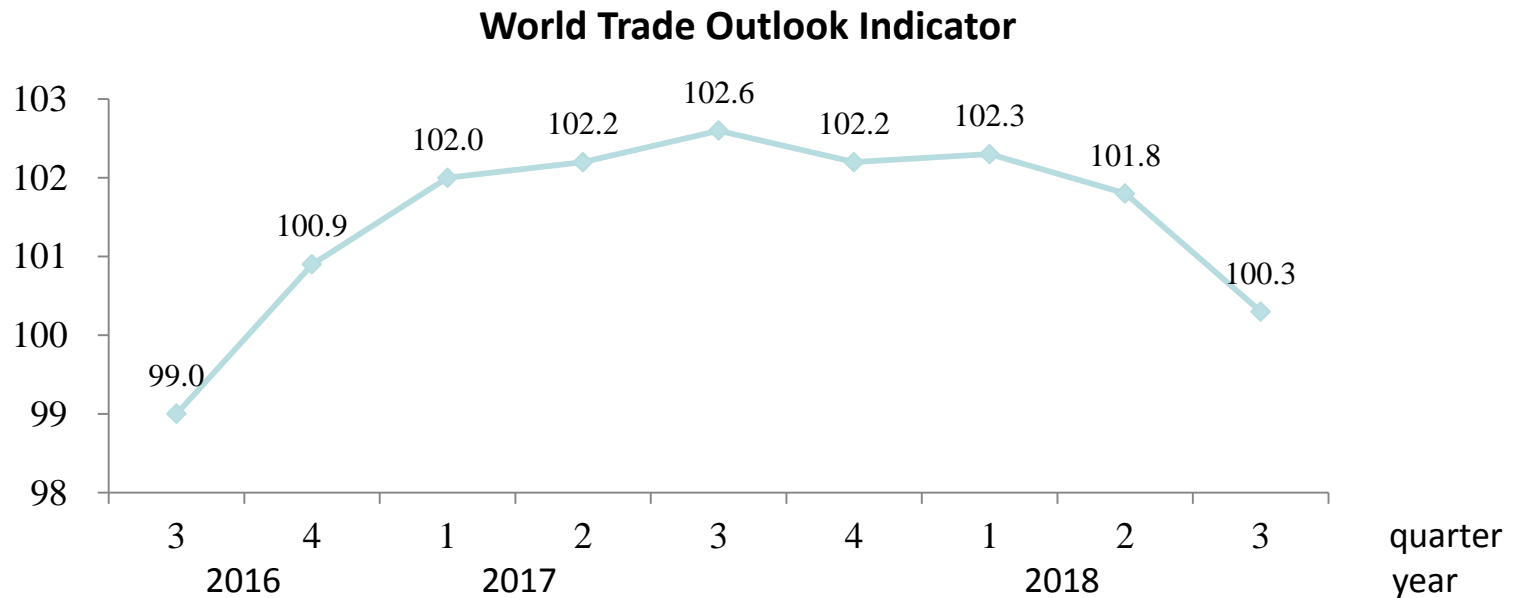


II. Global Economic Situation and Outlook



Global Economy Begins to Slow

- Owing to increased risks caused by trade tensions, rising oil prices and financial crisis in Turkey, IHS Markit revises down its forecast for 2018 global GDP growth rate to 3.2%.
- The 3rd quarter World Trade Outlook Indicator falls to its lowest level in the past two years, signaling a possible moderation of international trade.



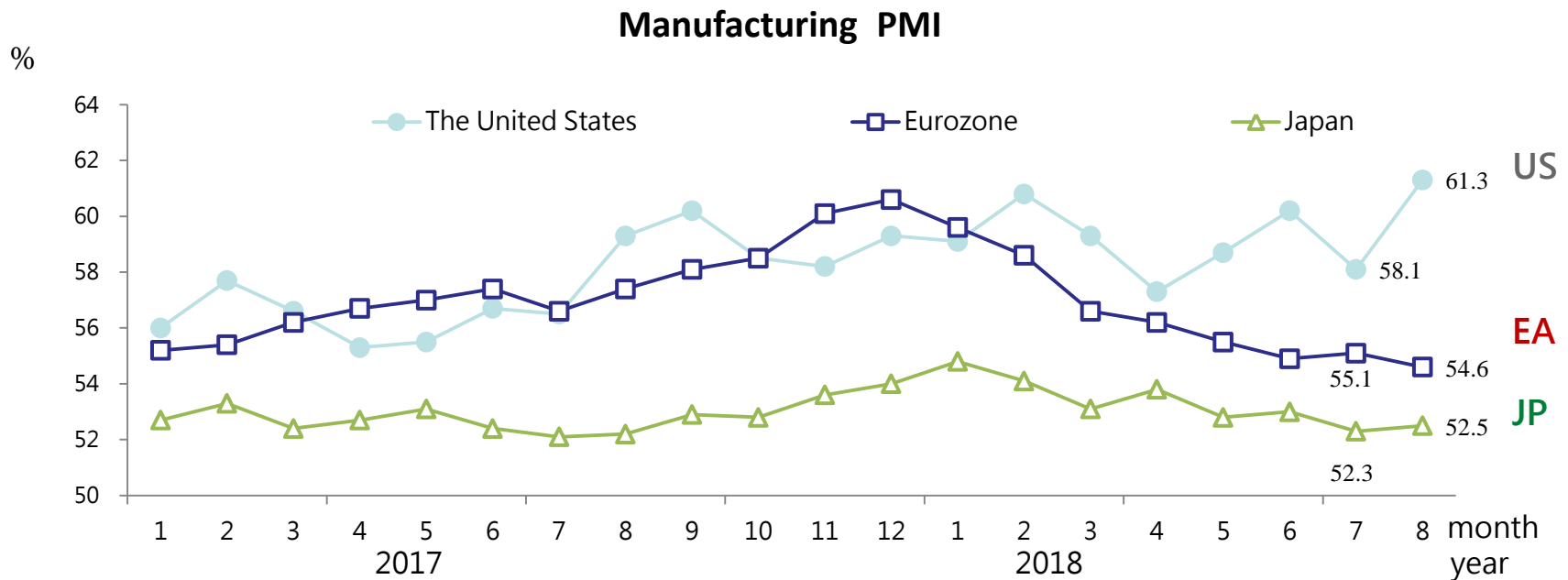
Note: The WTOI was first released in July, 2016. The main purpose of the index is to predict the trend of global trade volume in the next three to four months. If higher than 100, it means international trade is in the expansion phase. If lower than 100, it means it is in the contraction phase.

Source: WTO, Aug.9, 2018.



Advanced economies Continue to Expand

- Although the situation of trade war remains highly uncertain, manufacturing PMI of the major advanced economies are still in the expansion phase. However, Eurozone PMI has seen a downward trend.



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

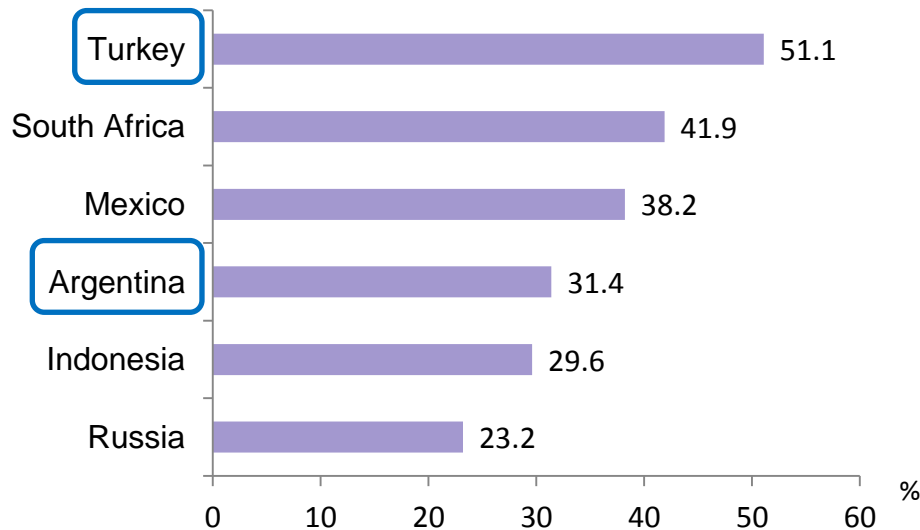
Source : ISM, Markit.



Emerging economies Face Elevated Financial Risks

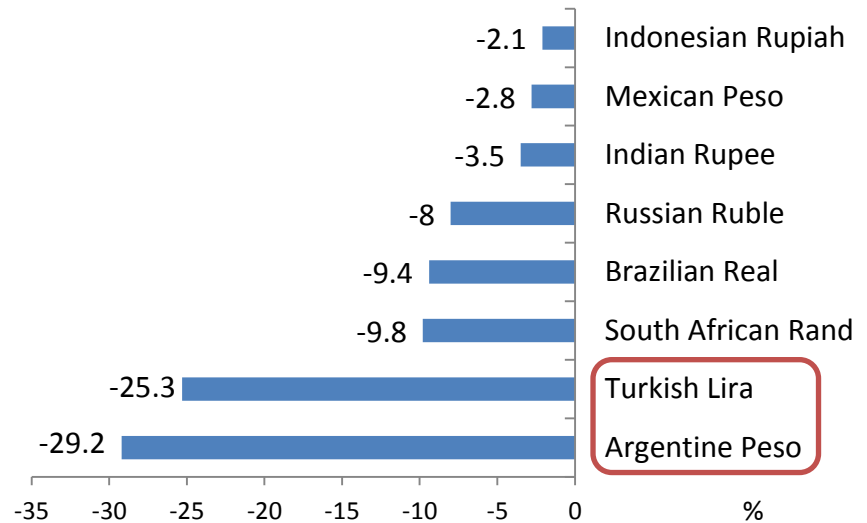
- Emerging markets have amassed high levels of foreign debt, and the strengthening dollar will further add pressure to emerging markets' debt burden. In addition, the escalation of US-China trade conflict will also weigh on their economic outlook.

Emerging Markets' External Debt to GDP ratio



Source : OECD, Economic Outlook, May 30, 2018.

**Depreciation of Emerging Market Currencies
(2018.8.1-2018.8.31)**



Source : Bloomberg

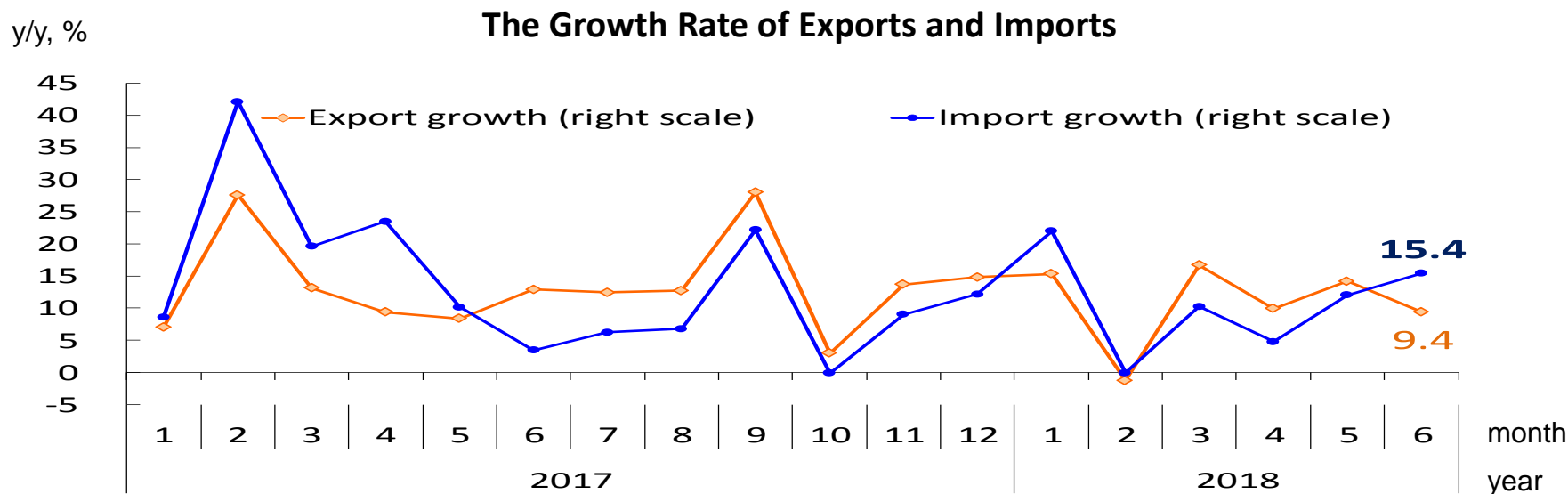


III. Current Domestic Economic Situation



Foreign Trade Continues to Increase

- Total exports increased by 1.9% year-on-year in August 2018, mainly due to a stable global economy and rising prices of international crude oil. In the first eight months of this year, Taiwan's exports rose 8.9% from a year earlier.
- Imports increased by 7.9% in August over the previous year, driven by the demand for investment in the semiconductor industry and rising prices of crude oil. The annual change rate of January-August was 11.7%.

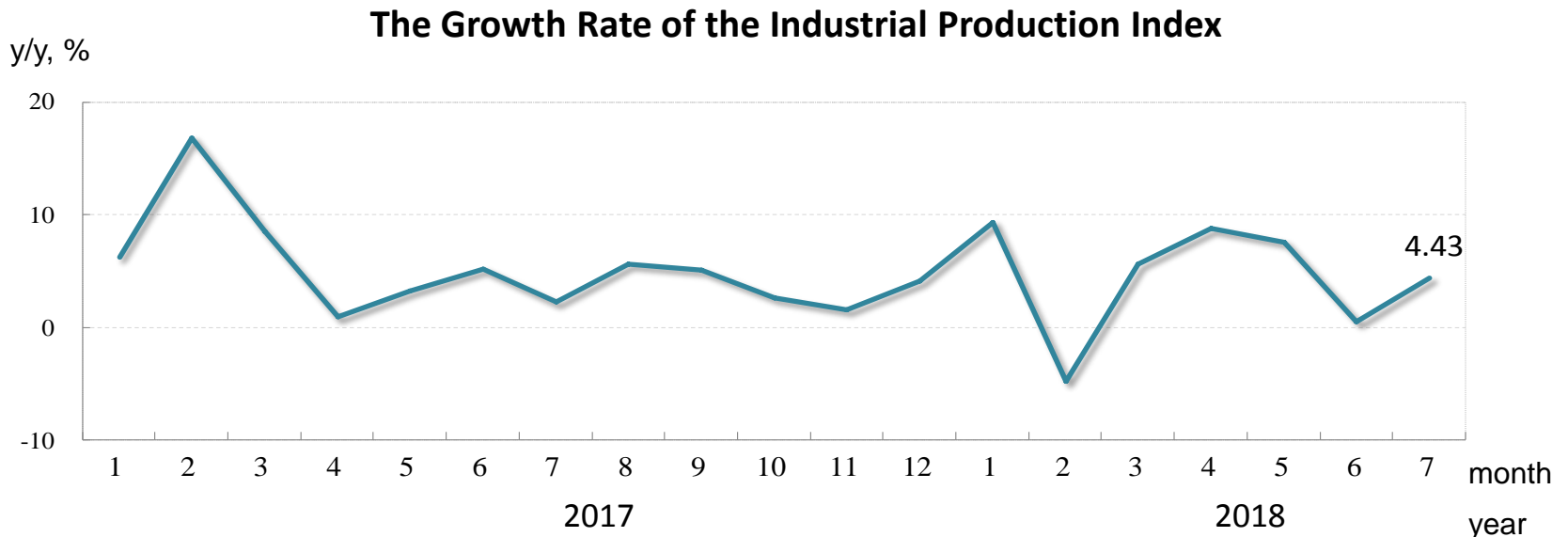


Note: Since FY2016, the general trade system applied for compilation of external trade statistics and the historical data has been revised to FY2001.

Source: Ministry of Finance, Sep. 2018

Industrial Production Remains its Solid Growth Path

- The Industrial Production Index (IPI) posted an annual increase of 4.43% in July 2018. For the first seven months of 2018, the IPI increased 4.58% over the same period of the previous year.
- Manufacturing output rose by 5.01% year-on-year in July. The increase was largely supported by new smartphone launches and applications of emerging technology.



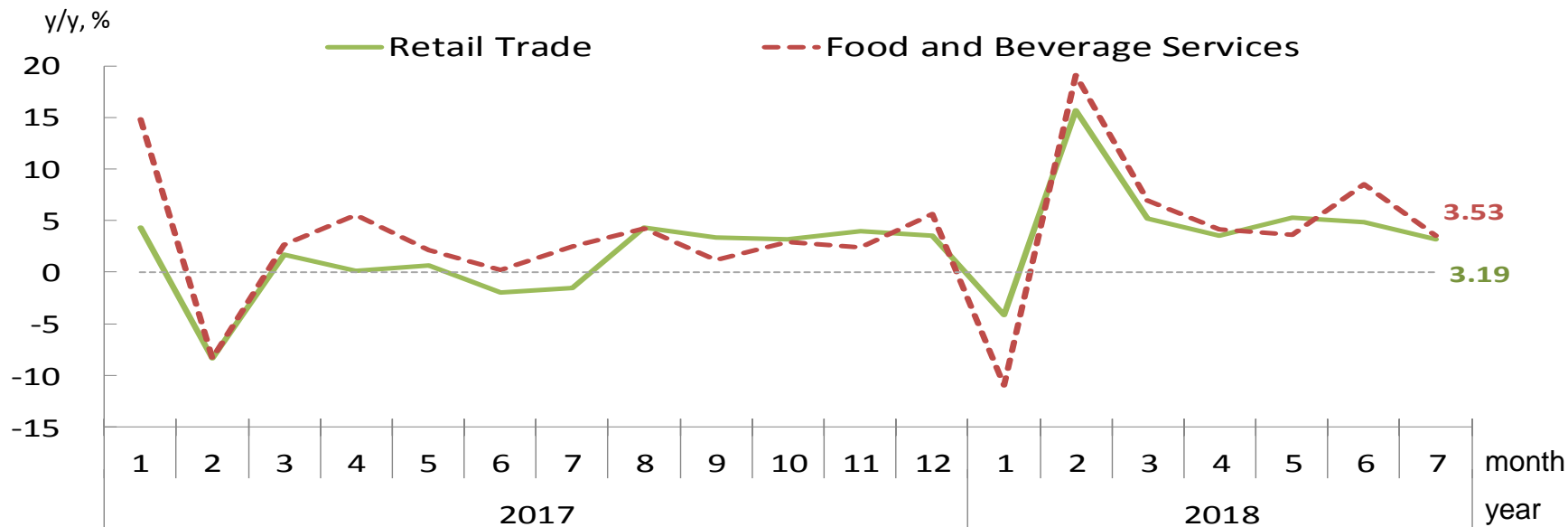
Source: Ministry of Economic Affairs, Aug. 2018



Retail Trade Shows Steady Growth

- Retail trade increased by 3.19% year on year, with rising demand of pre-ordered in Moon Festival and Ghost Festival, and increased purchases of fuel products and electronic products.
- Food and beverage services grew by 3.53% year on year, benefited from the increase of dining out during the World football match season and the rising demand for cold beverages during summer.

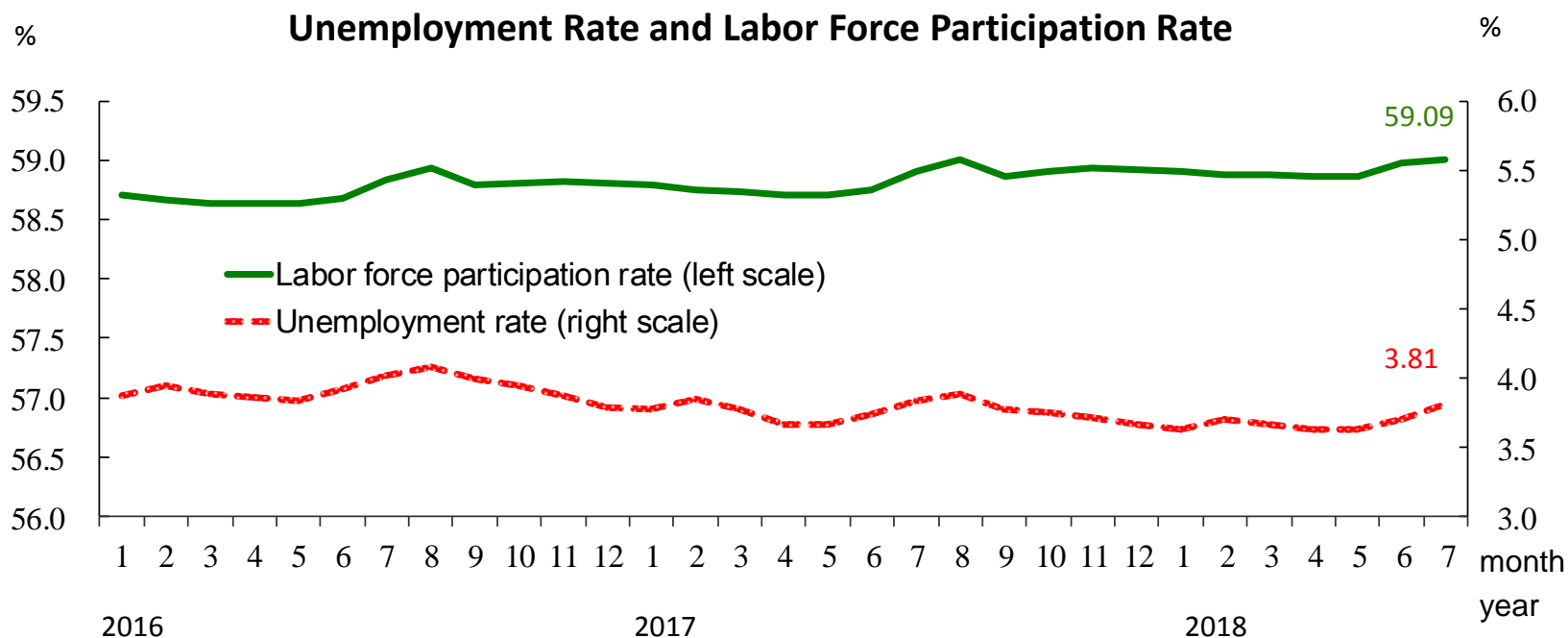
The Growth Rate of Retail Trade and Food Services





Labor Market Stays Healthy

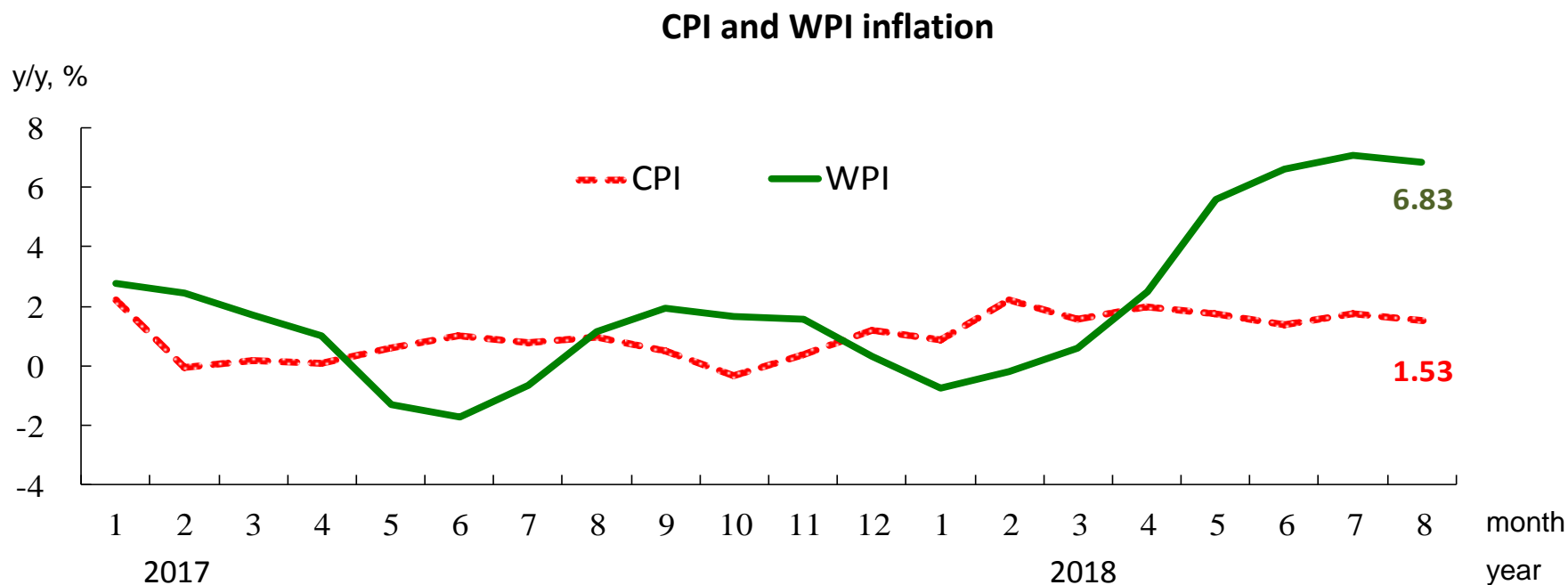
- The unemployment rate rose by 0.11 percentage points to 3.81% in July 2018, compared with the previous month. After seasonal adjustment, unemployment rate rose by 0.01 percentage points to 3.69%.
- Labor force participation rate was 59.09% in July, up by 0.17 percentage points from the previous month. Over the last 12 months, the rate increased by 0.18 percentage points.





Consumer Prices Remain Stable

- In August 2018, The CPI increased 1.53% year on year, mainly reflecting oil prices hike and the increase of cigarette tax.
- The WPI increased 6.83% year on year, mainly because the prices of quarrying and mining products increased 40.54%, and the petroleum and coal products increased 35.05%.



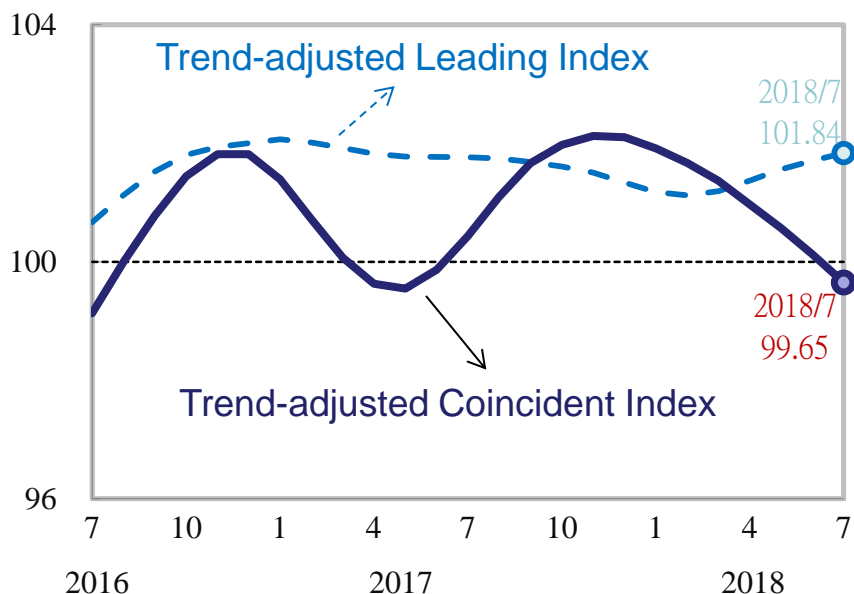
Source: DGBAS Sep. 2018



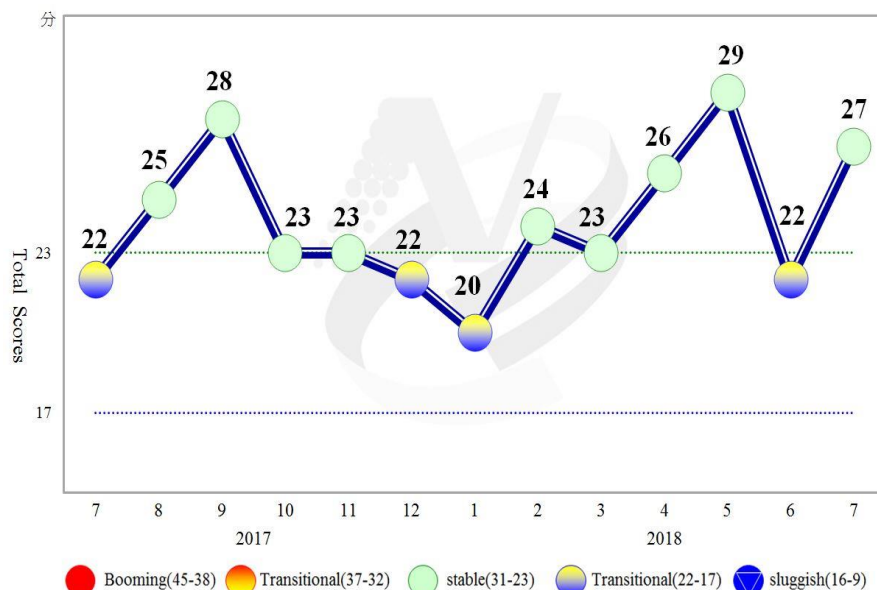
Monitoring Indicators Flash “Green” Signal

- In July 2018, the trend-adjusted leading index stood at 101.84, up by 0.13% from last month, while the trend-adjusted coincident index stood at 99.65, down by 0.47% from last month.
- The overall monitoring indicator flashed the “green” signal. The total score was 27.

Trend-adjusted Leading and Coincident Indexes



Monitoring Indicators



Note: The checkpoints of each component of monitoring indicators have been changed since July 2018, due to regular review and revision every five years, but the component items remain the same. As for leading indicators, there have been some changes of the components, such as “diffusion Index of export orders” substituting for “Index of export orders”. Please find the link below for more detail:

https://www.ndc.gov.tw/en/News_Content.aspx?n=4061A3F0B105B5AE&sms=E39F6CCF42B6E423&s=D1D76F75B2FF19C5



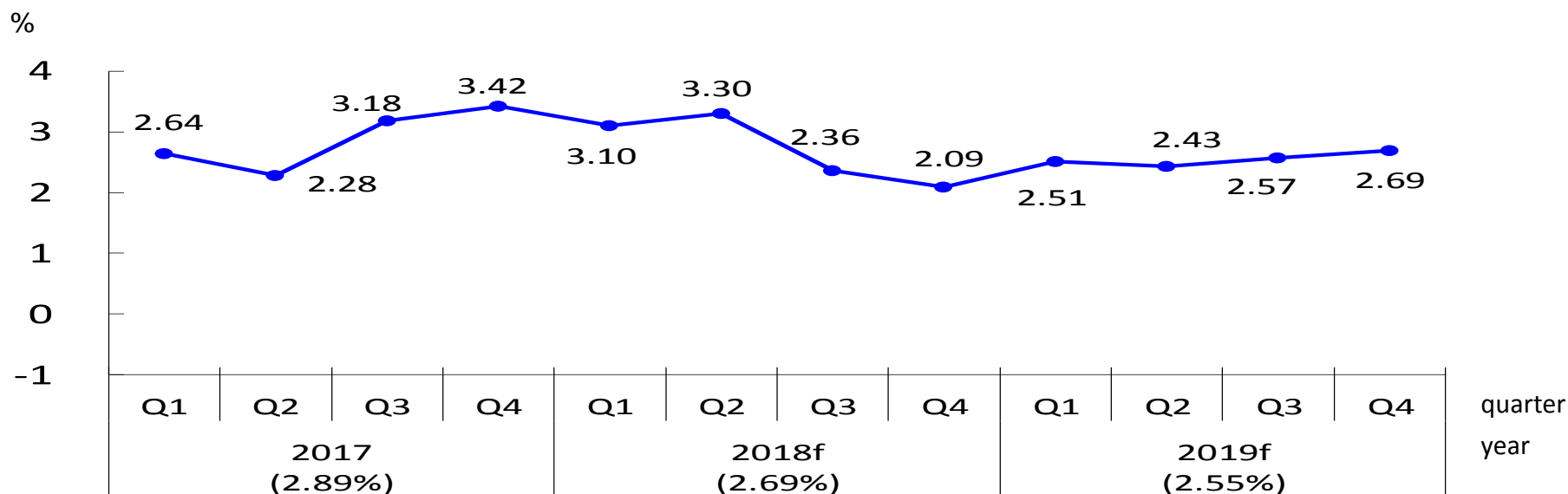
IV. PROSPECTS FOR 2018 and 2019



The Economy to Remain Stable

- In August 2018, DGBAS revised up its projection of GDP growth to 2.69% (from 2.60%) for 2018, and initially forecasted 2019 GDP growth rate at 2.55%.
- On a quarterly basis, real GDP grew 3.2% in the first half of 2018, while it may be slower in the second half of the year.

Quarterly GDP Growth Rate (YoY)



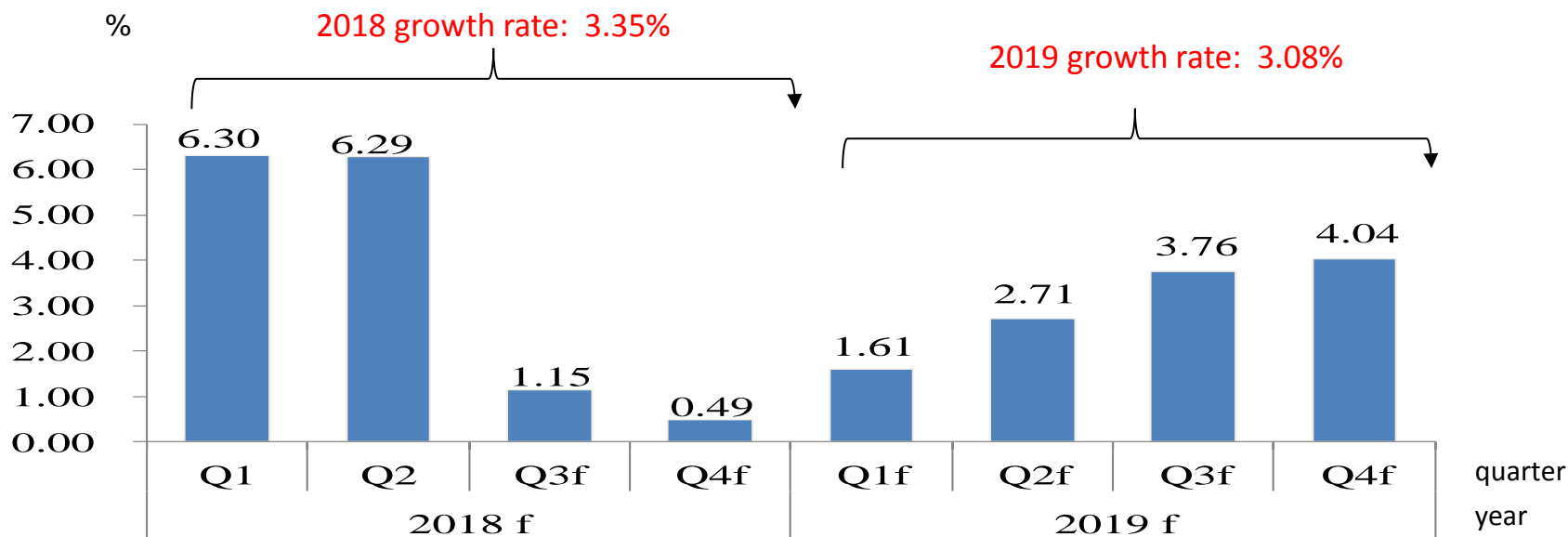
Source: DGBAS, Aug. 2018



Exports to Grow at a Moderate Path

- Firmly-growing global economy and world trade volume, together with the strong semiconductor's demand, are all expected to contribute to Taiwan's goods exports growth.
- Combining with service exports and excluding price factors, real goods and services exports are projected to grow by 3.35% and 3.08% in 2018 and 2019, respectively.

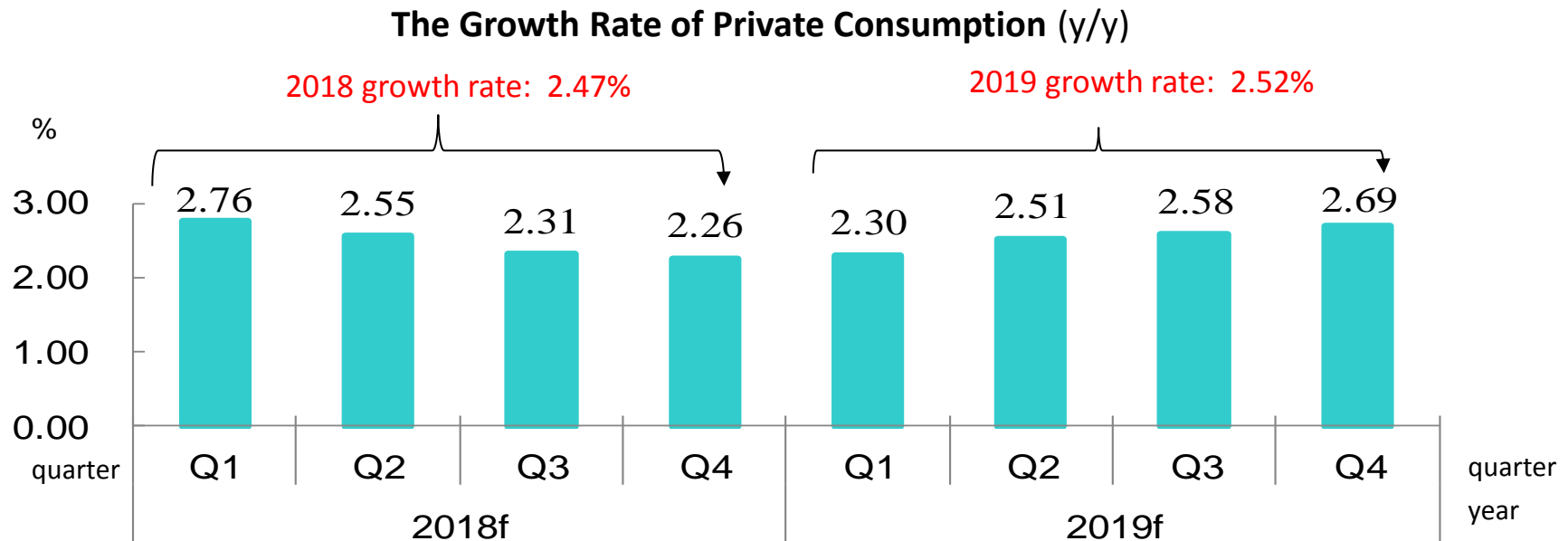
The Growth Rate of Real Goods and Service Exports (y/y)



Source: DGBAS, Aug. 2018

Private Consumption Growth Pace Remains Steady

- In 2018, with the economy expected to remain stable, together with more employers willing to offer salary increases, plus the optimizing measures of Income Tax system, private consumption is expected to maintain its growth momentum.
- Taking into account the above factors, private consumption is projected to rise by 2.47% and 2.52% in 2018 and 2019, respectively.



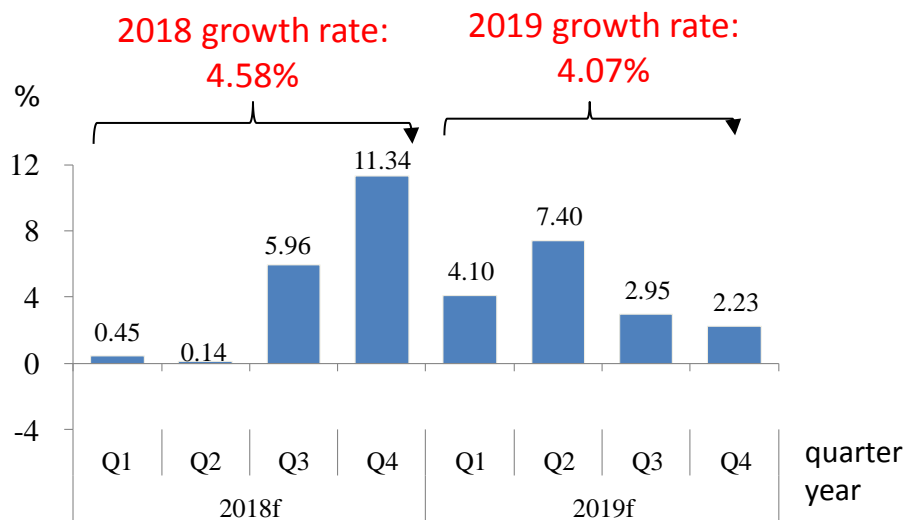


Domestic Investment to Regain Momentum

As domestic semiconductor manufacturers continue to invest in advanced production capacity, private fixed investment is expected to grow by 4.26% and 2.60% in 2018 and 2019, respectively.

- On the public investment side, with government's strengthening infrastructure investment, government fixed investment and public enterprise fixed investment are expected to rise by 5.06% and 7.84% in 2018, and to rise by 10.23% and 11.13% in 2019, respectively.

The Growth Rate of Fixed Investment (y/y)



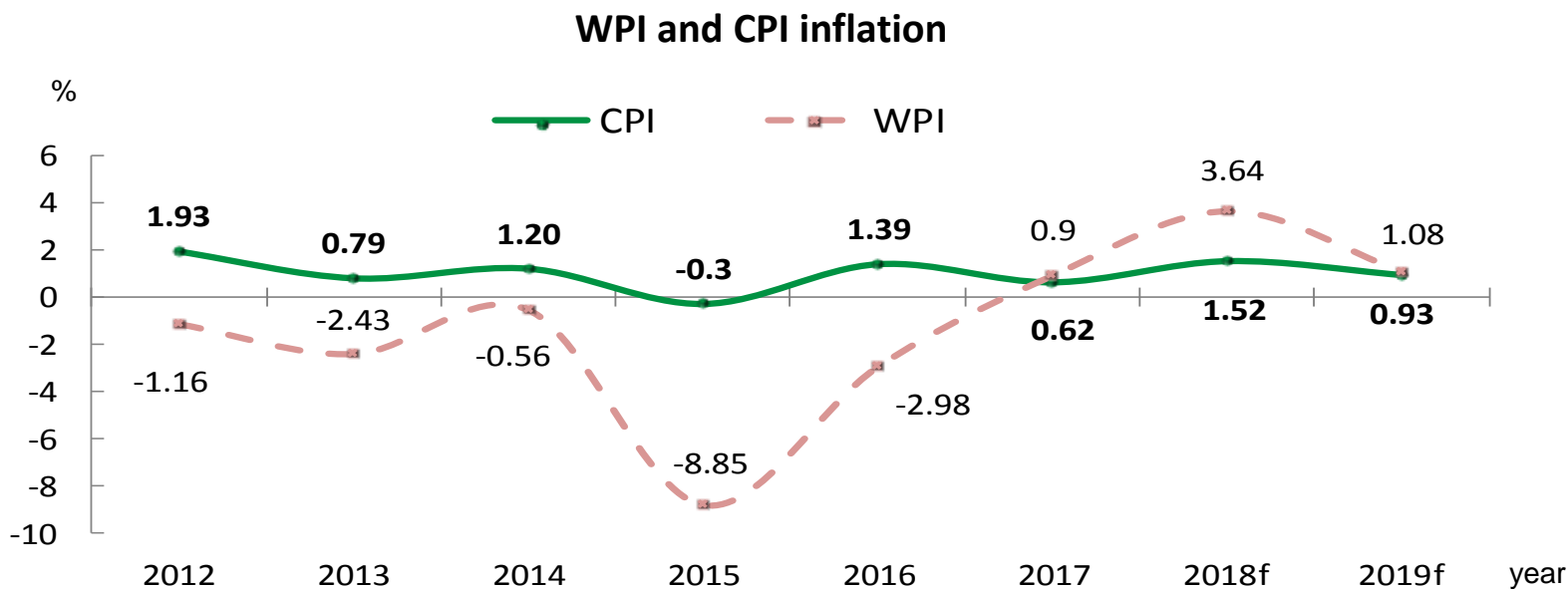
The Growth Rate of Each Component of Fixed Investment

	Private Enterprises	Government	Public Enterprises
2017	-1.35	5.46	0.67
2018(f)	4.26	5.06	7.84
Q1(r)	0.74	-0.15	-4.79
Q2(p)	0.01	-0.77	3.52
Q3(f)	5.08	8.87	14.54
Q4(f)	11.80	8.94	12.37
2019(f)	2.60	10.23	11.13



Inflation Rate Remains Stable

- With the international oil prices remaining in a high range and depreciation of the NT dollar, the WPI is expected to increase by 3.64% in 2018. In 2019, due to the high base of 2018, the WPI will slightly rise by 1.08%.
- On the CPI side, it is forecasted to increase by 1.52%, mainly reflecting the escalating oil prices. In 2019, CPI will gently rise by 0.93%.



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

Source: DGBAS, Aug, 2018



Forecasts for Taiwan's Economy

	Real GDP (yoy,%)		Consumer Price Index (yoy, %)	
	2017	2018 _f	2017	2018 _f
DGBAS (2018.8)	2.89	2.69 [2.60]	0.62	1.52 [1.49]
IEAS (2018.7)		2.65 [2.43]		1.58[1.18]
TIER (2018.7)		2.49 [2.45]		1.47 [1.34]
CIER (2018.7)		2.48 [2.47]		1.65 [1.63]
TRI (2018.6)		2.62 [2.31]		1.58 [0.88]
Yuanta-Polaris (2018.6)		2.55 [2.40]		1.50 [1.30]
IHS Markit (2018.9)		2.7 [2.7]		1.6 [1.6]
ADB (2018.7)		3.0 [2.9]		1.2 [1.1]
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

- IHS markit revises down its forecast for 2018 global GDP growth rate to 3.2%, due to higher trade tensions. In addition, the elevated financial risks in Emerging Markets, and geopolitical tensions in the Middle East, all pose threats to the global economy.
- According to the DGBAS' latest forecast, the real GDP is expected to grow by 2.69% and 2.55% in 2018 and 2019, respectively. Domestic demand will be the main driver of economic growth, while momentum in the external sector will likely be moderate.
- The government will actively implement relevant policies to promote domestic demand development, such as "forward-looking infrastructure development program", "5+2 Industrial Innovation Program", reconstruction for aging, unsafe structures across the nation, and "Long-term Care 2.0 plan". In addition, the government will continue to promote deregulation and remove investment barriers. These initiatives should help diversify the domestic economy and build long-term economic growth for Taiwan.

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.