



TAIWAN'S ECONOMIC SITUATION AND OUTLOOK

June 2019

National Development Council



CONTENTS

- I. PREFACE**
- II. GLOBAL ECONOMIC SITUATION AND
OUTLOOK**
- III. CURRENT DOMESTIC ECONOMIC SITUATION**
- IV. PROSPECTS FOR 2019**
- V. CONCLUSION**



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 prospects for 2019.
- According to the DGBAS' latest forecast, for the first quarter of 2019, real GDP grew by 1.71%. Meanwhile, real GDP is projected to grow by 2.19% in 2019. Domestic demand is expected to be the main driver supporting GDP growth, while exports are projected to grow at a moderate pace due to the trade conflict between the U.S and China.

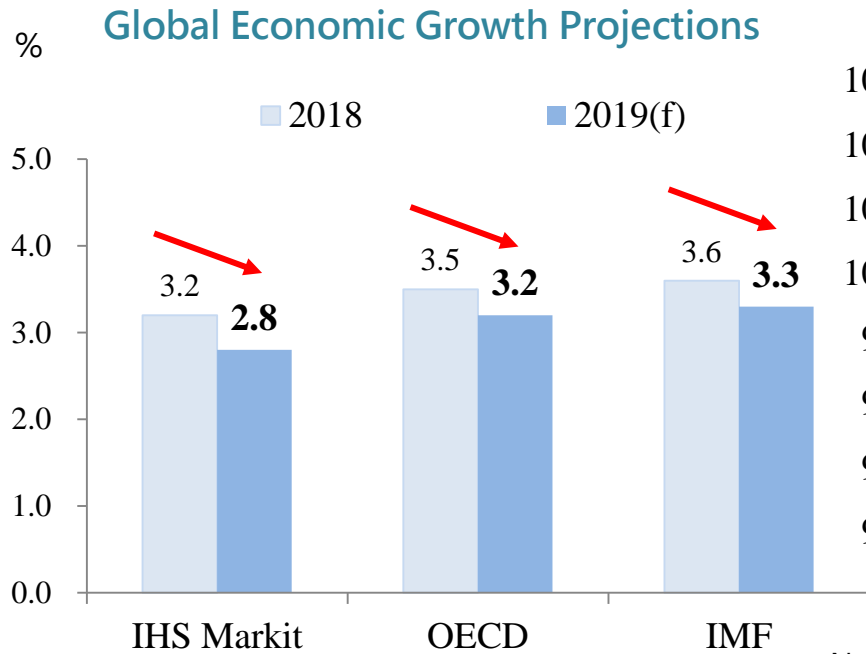


II. Global Economic Situation and Outlook

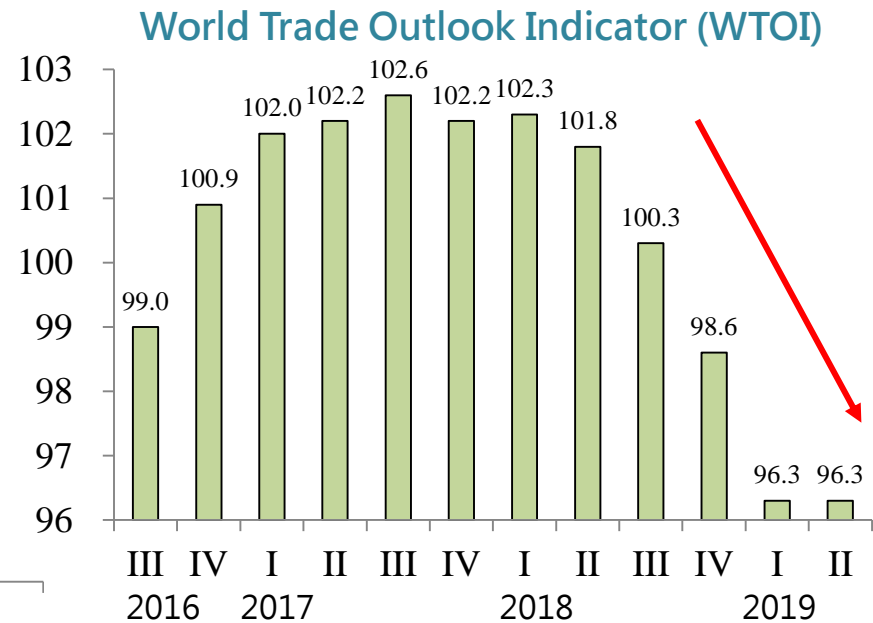


Global Economic Momentum Weakened

- The major international economic institutions have predicted that global economic growth will slow down this year, mainly due to factors such as trade friction between major countries and Brexit uncertainty.
- As China-U.S. trade friction heats up, the World Trade Outlook Indicator (WTOI) is the lowest since its release in 2016, indicating weak trading momentum.



Source : 1.IMF, *World Economic Outlook*, Apr. 10, 2019.
2.IHS Markit, *World Overview*, May 16, 2019.
3.OECD, *Economic Outlook*, May 21, 2019.



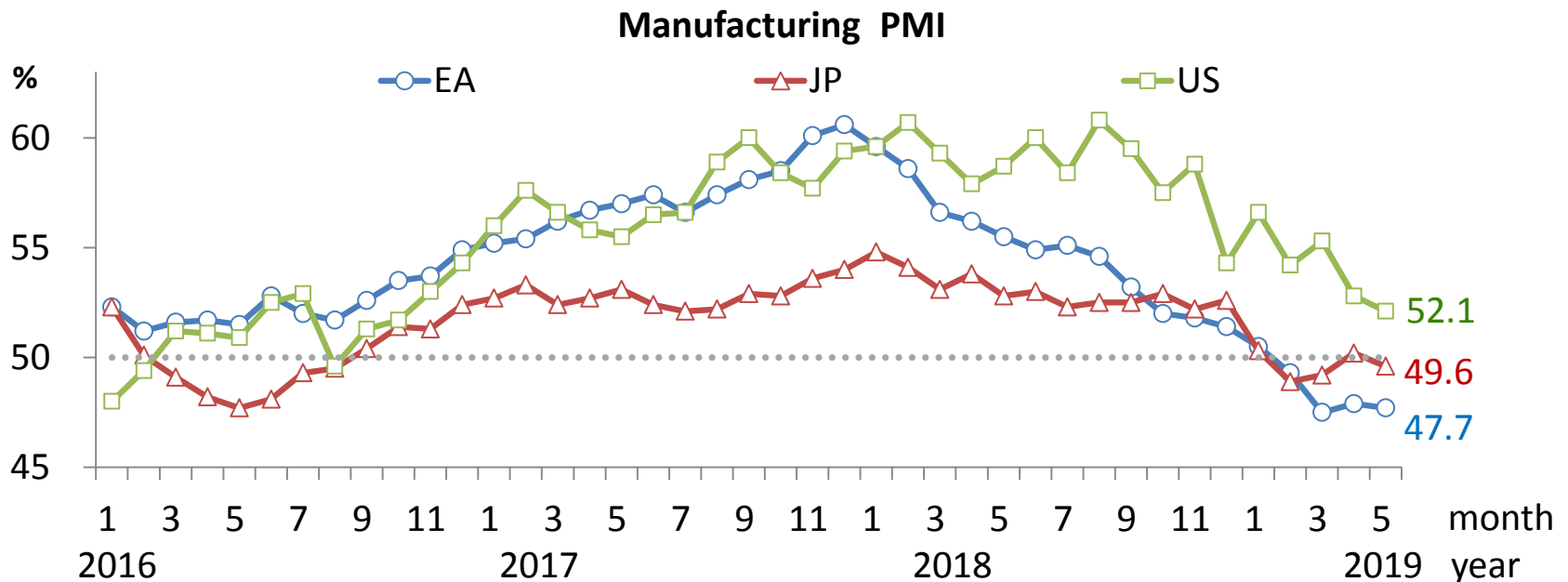
Note : World Trade Outlook Indicator (WTOI) designed to provide real time information on trends in global trade. A reading greater than 100 would suggest above trend growth, while a reading below 100 indicates below trend growth.

Source : WTO, World Trade Outlook Indicator news archive , May 20, 2019.⁵



Advanced Economy Manufacturing PMI Weaker

- The pace of growth in the U.S. manufacturing sector slowed again, manufacturing PMI fell from 52.8 to 52.1 in May, a 30 month low. Furthermore, respondents expressed concern over the escalation in the U.S.-China trade standoff.
- The Eurozone and Japan's manufacturing economy entrenched inside contraction territory during May, reflecting weak global demand and mounting uncertainty following escalating trade tensions between China and the United States.



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.

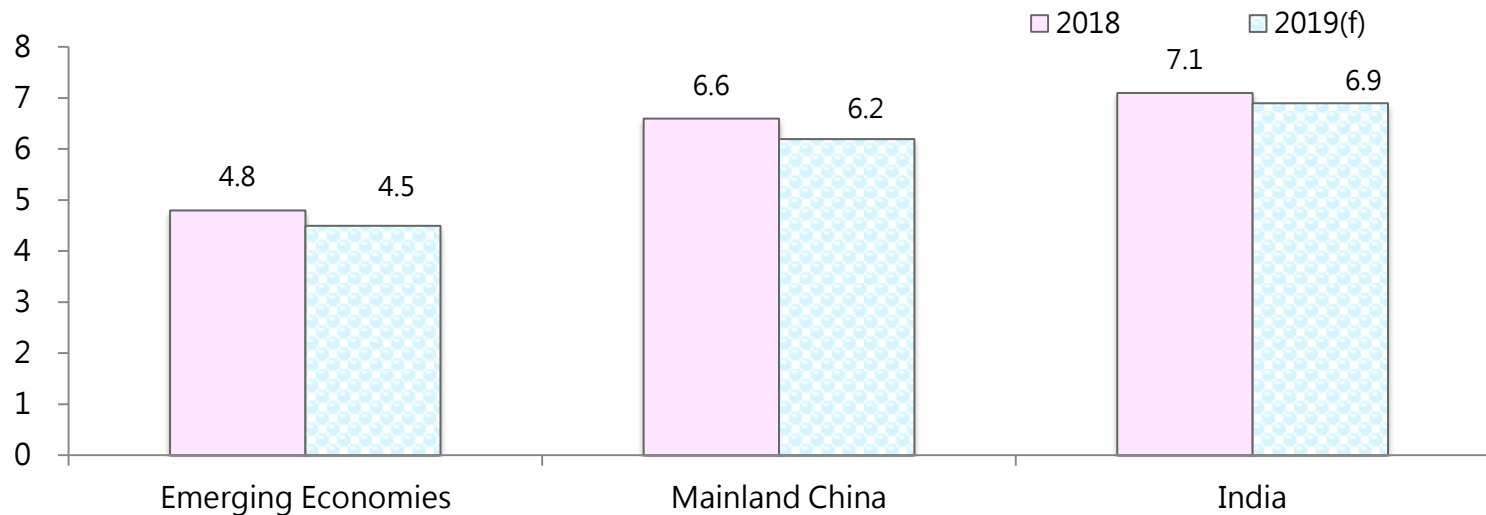
Source : ISM, Markit.



Emerging economies slowing down

- China's growth will gradually slow as investment is restrained by deleveraging. Trade tensions with the United States are a downside risk.
- The OECD estimates that a 2-percentage point reduction in domestic demand growth in China, sustained for two years and combined with heightened uncertainty, could reduce global GDP by 1¾ per cent by the second year.

Emerging Economies' Economic Growth Rate



Source : IHS Markit, World Overview, May 15, 2019.

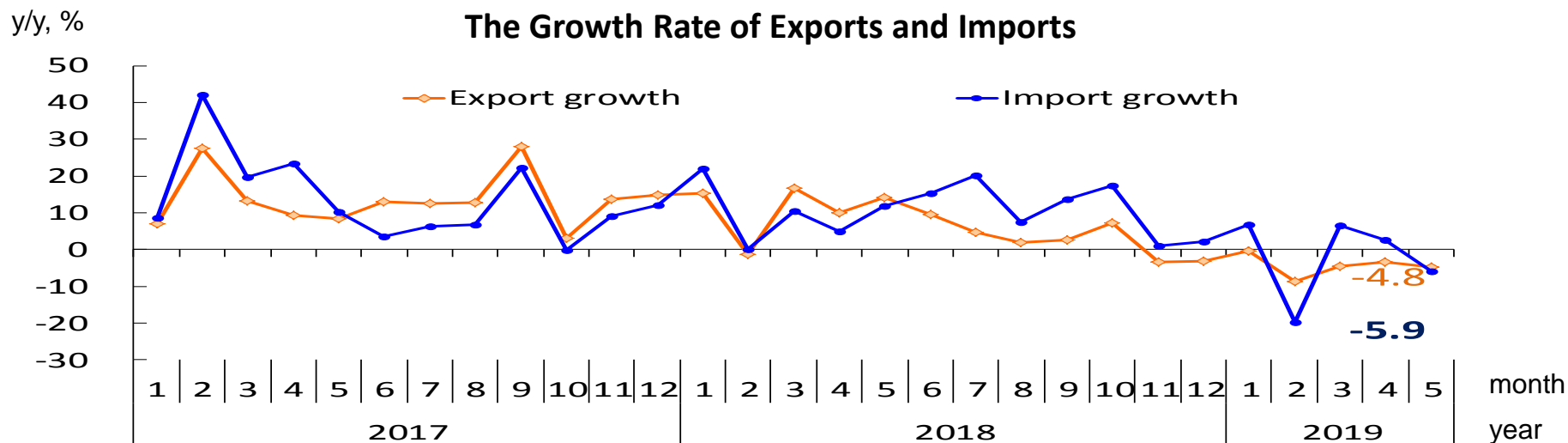


III. Current Domestic Economic Situation



Foreign Trade Continues to Decrease

- Total exports decreased by 4.8% year-on-year in May 2019, mainly due to the U.S.-China trade dispute and lower raw material prices. Combining the first five months of this year, Taiwan's exports decreased 4.2% from a year earlier.
- Imports decreased by 5.9% in May over the previous year, mainly due to manufacturers' conservative purchases and lower raw material prices. The annual change rate of January-May was -1.2%.



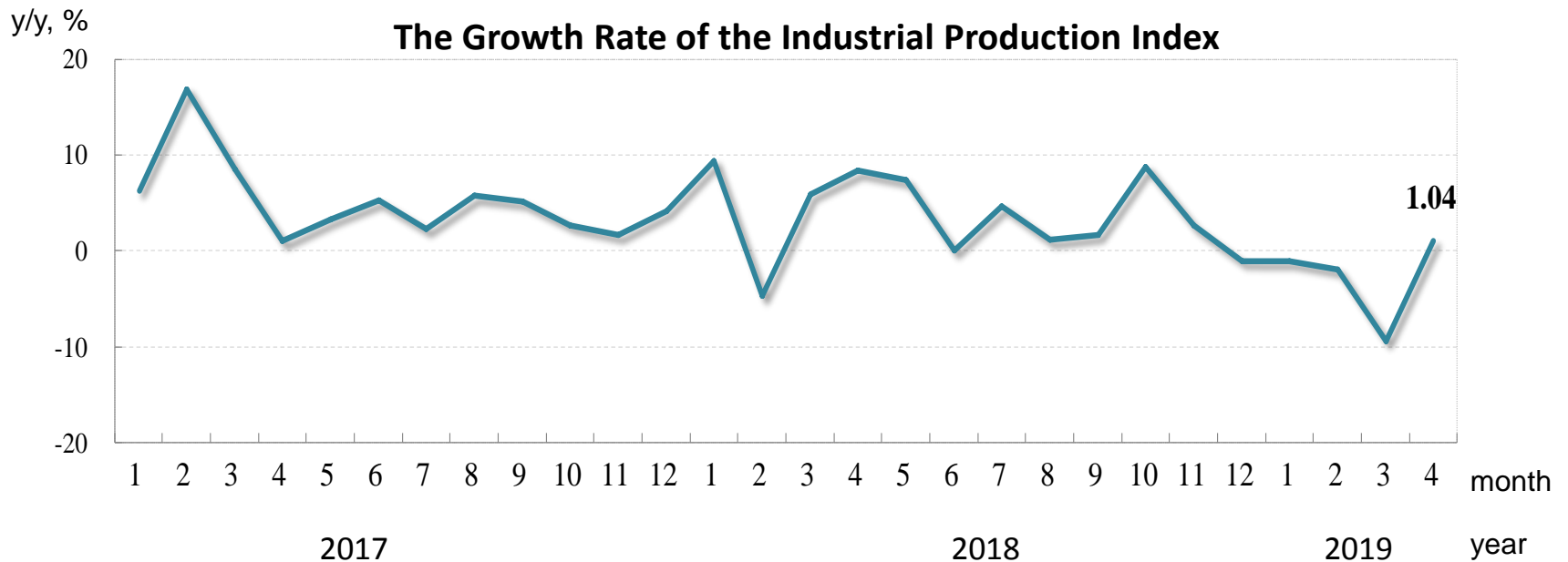
Note: Since FY2016, the general trade system has been applied for compilation of external trade statistics and the historical data has been revised to FY2001.

Source: Ministry of Finance, June 2019.



Industrial Production Rebounds Modestly

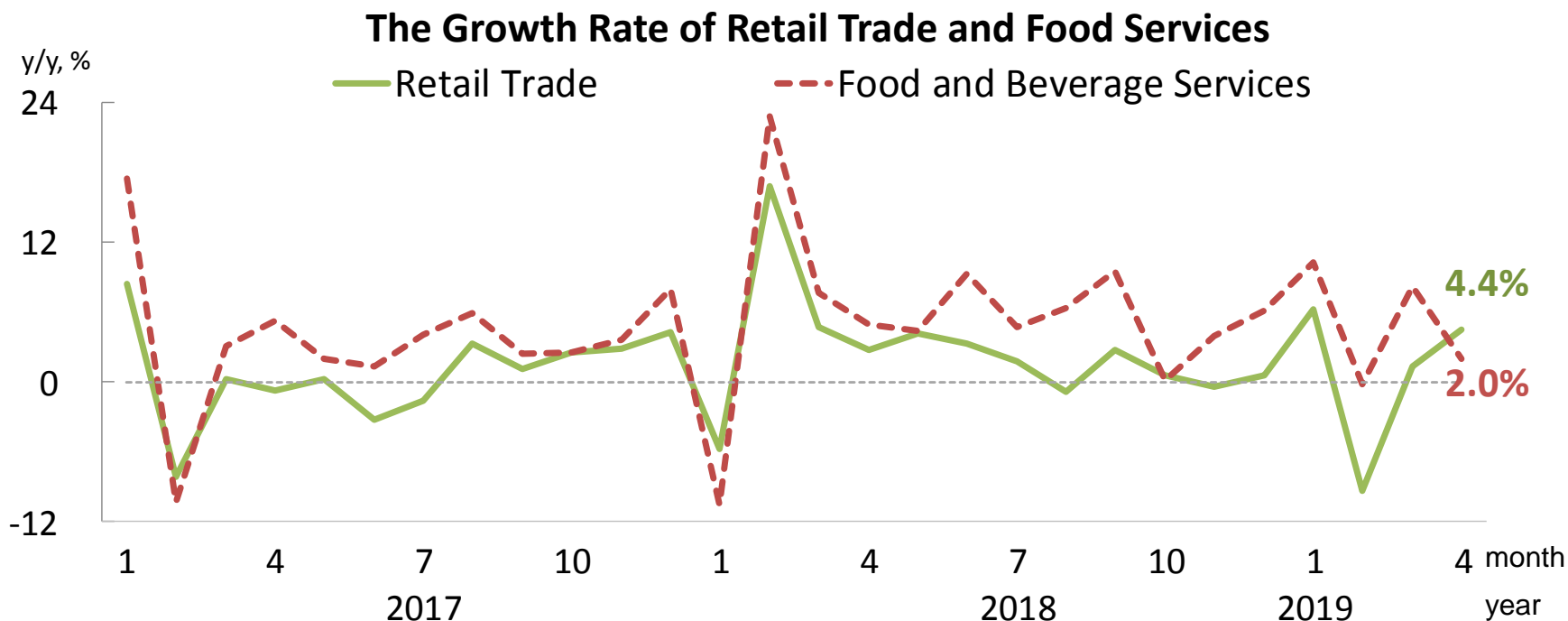
- The Industrial Production Index (IPI) posted an annual increase of 1.04% in April 2019. For the first four months of 2019, the IPI decreased 3.05% over the same period of the previous year.
- Manufacturing output increased by 0.9% year-on-year in April. The increase was mainly due to the dispute between the US and China, which has seen server, switch, router and other manufacturers continue to expand domestic production lines.





Retail Trade Increases Continually

- In April 2019, retail trade increased 4.4% year on year, mainly due to the Mother's Day promotions of department stores and a sales season for automobiles.
- Food and beverage services increased 2.0% year on year, mainly due to dining season during the Tomb Sweeping Festival period .

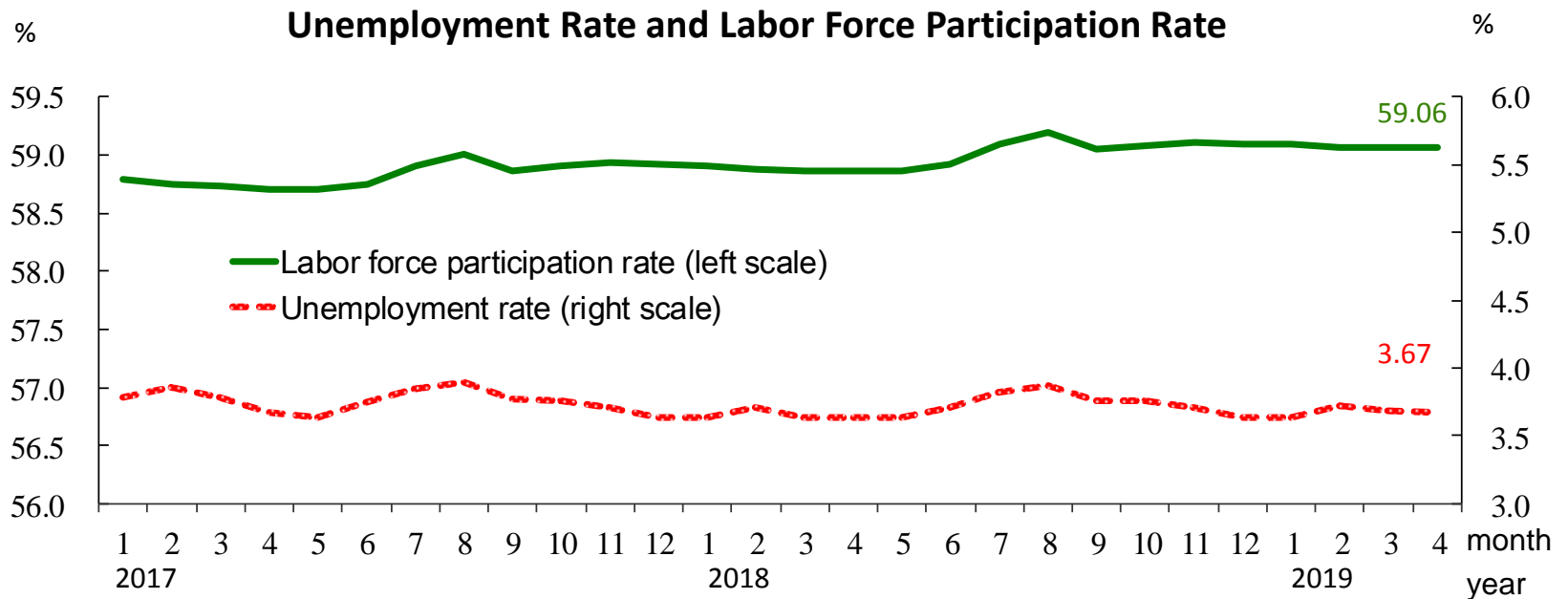


Source: Ministry of Economic Affairs, May 2019.



Labor Market Stays Healthy

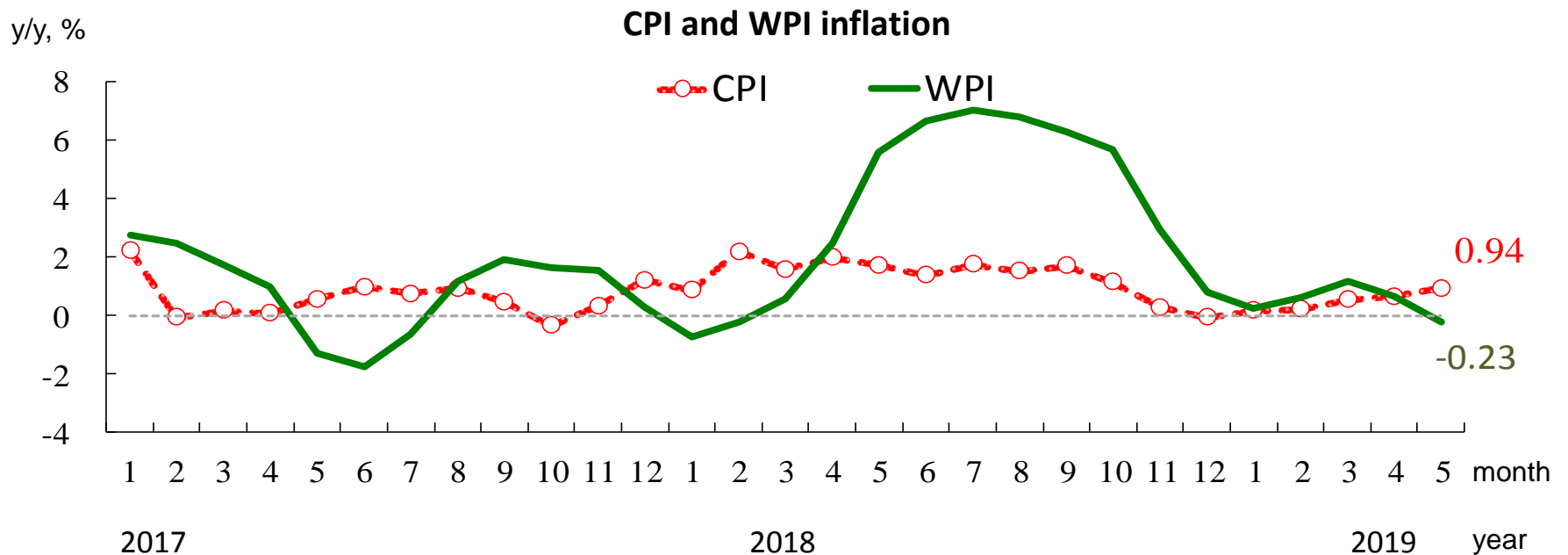
- The unemployment rate fell by 0.01 percentage points to 3.67% in April 2019, and the seasonally-adjusted unemployment rate increased by 0.01 percentage points from a month earlier to 3.73%.
- The labor force participation rate remained the same at 59.06% in April; moreover, it rose by 0.2 percentage points on the previous year.





Consumer Prices Remain Stable

- The CPI increased 0.94% in May 2019, due to higher prices of vegetables, fruit, tour group fees and gas, but this was partly offset by lower prices for garments and communication fees.
- The WPI decreased 0.23%, mainly reflecting sharp decreases in the prices of chemical materials and chemical products and pharmaceuticals.

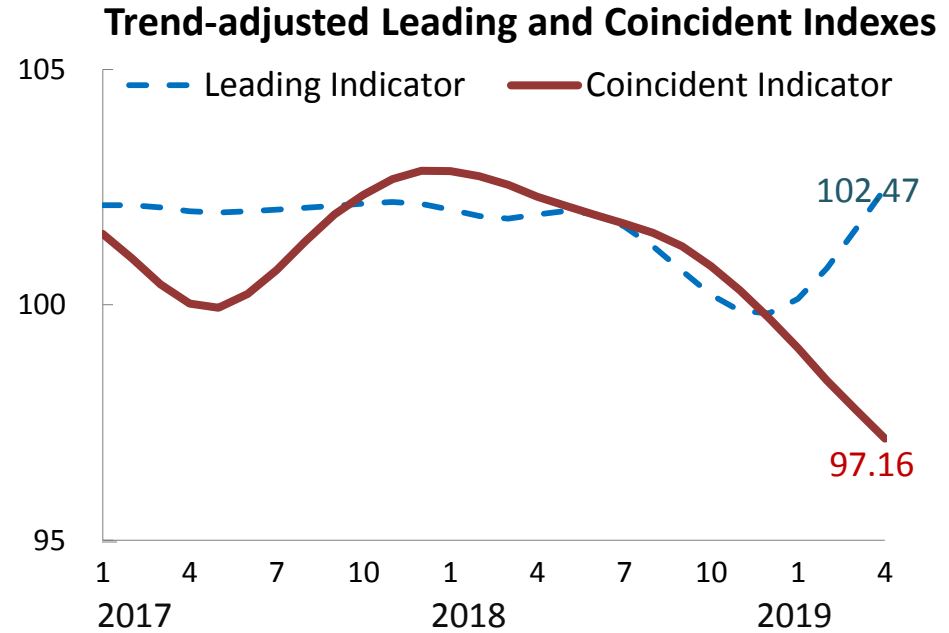
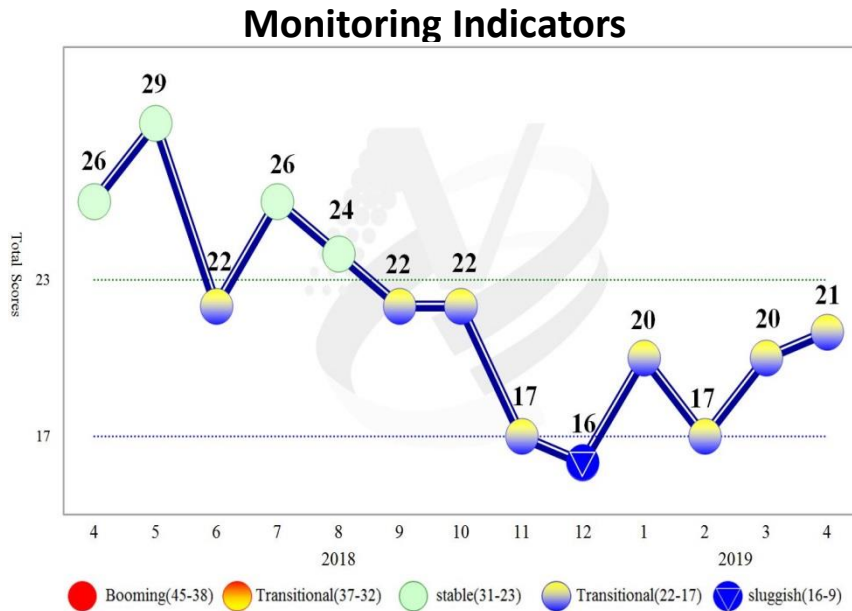


Source: DGBAS, June 2019 .



Monitoring Indicators Flash “Yellow-Blue” Signal

- In April 2019, the overall monitoring indicator continued to flash the “yellow-blue” signal, as the total score increased by one point to 21.
- The trend-adjusted leading index increased by 0.85% in April 2019 to 102.47, the 4th consecutive monthly rise. The trend-adjusted coincident index declined by 0.62% in April 2019 to 97.16, the 16th consecutive monthly fall.



Note: The checkpoints of each component of monitoring indicators were changed in 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

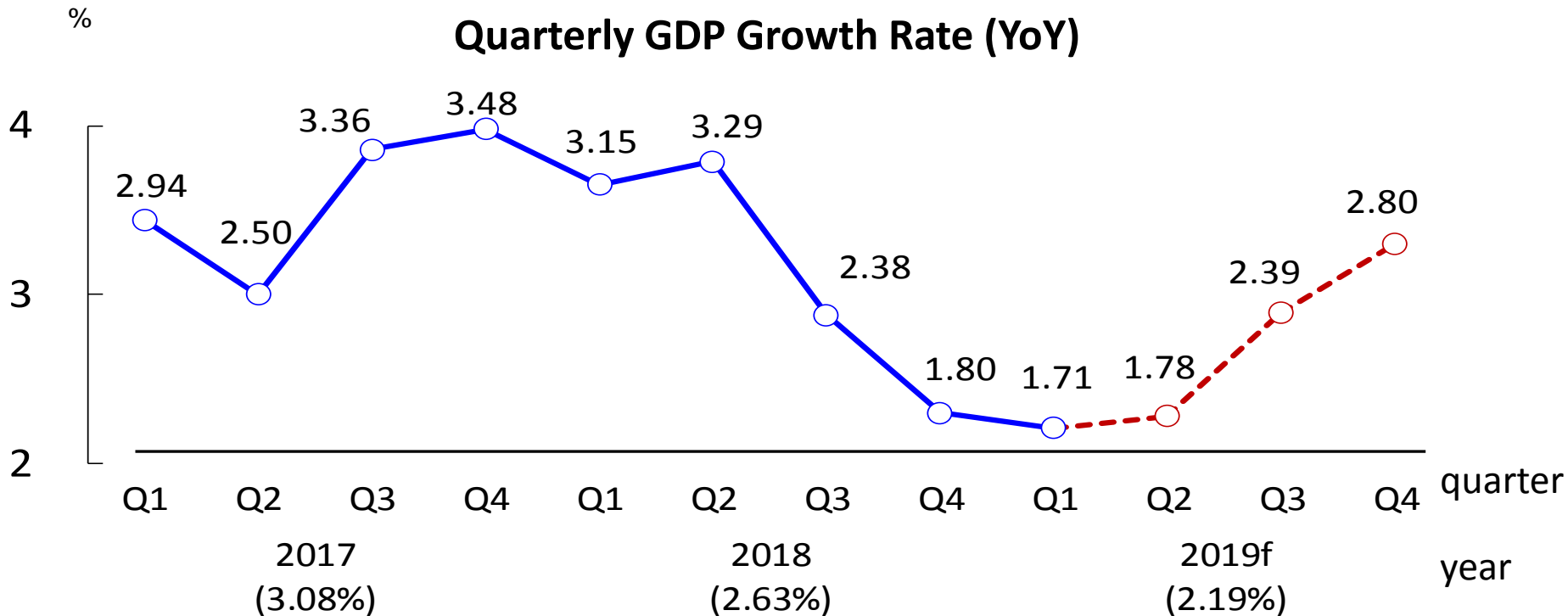


IV. PROSPECTS FOR 2019



The Economy to Remain Stable

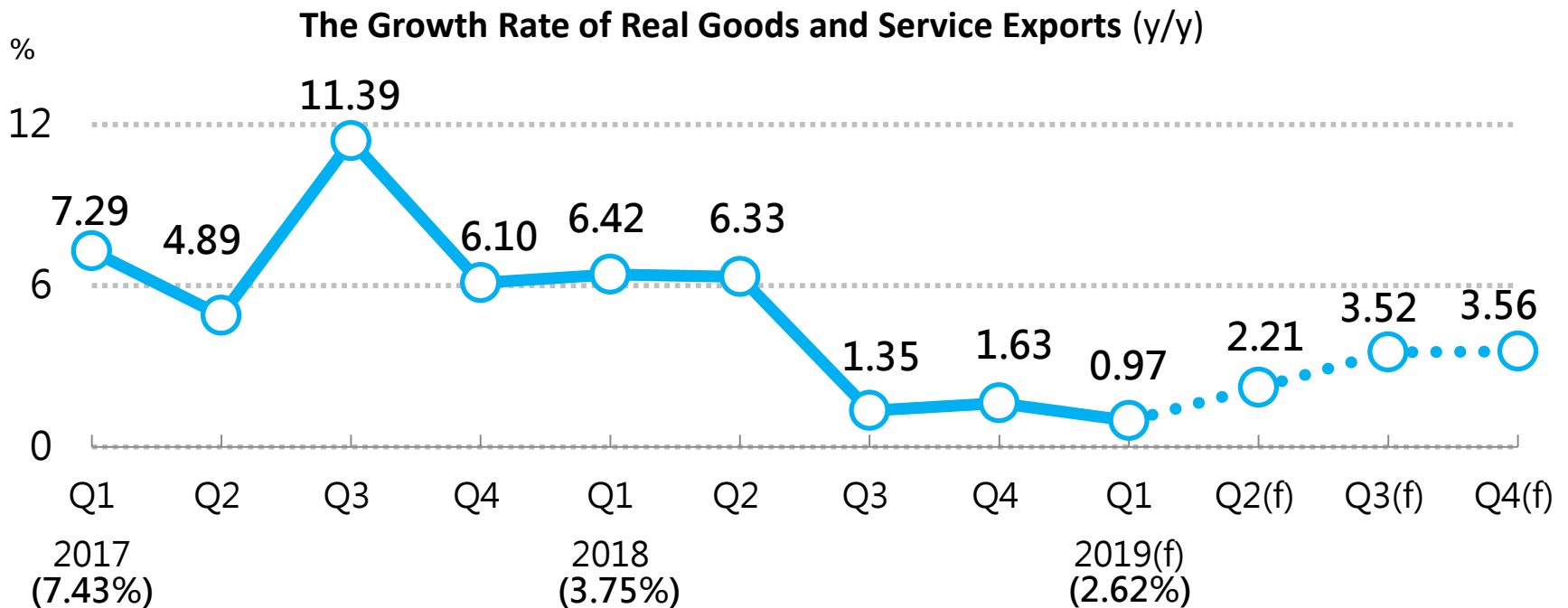
- In May 2019, DGBAS revised downward its projection of GDP growth to 2.19% (from 2.27%) for 2019.
- Domestic demand is expected to be the main driver supporting GDP growth, while exports are projected to grow at a moderate pace due to trade conflict between the U.S and China.





Exports to Grow at a Moderate Pace

- Taiwan's exports are expected to grow at a moderate pace in 2019, mainly due to inventory adjustments in the semiconductor industry and weaker demand for mobile devices, which will drag down export growth. However, the reshoring of major Taiwanese manufacturing companies will increase domestic production capacity, and this may partially offset the drag down effect.
- Combined with services exports, real exports of goods and services will grow by 2.62% in 2019.

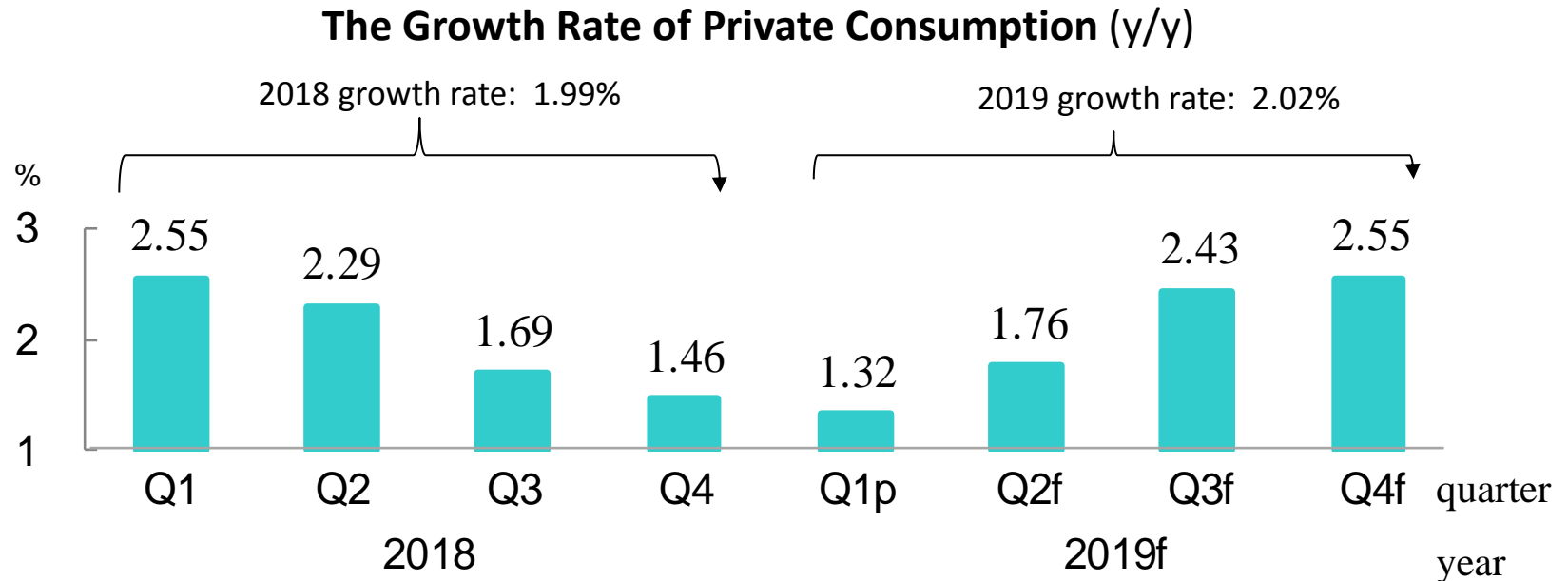


Source: DGBAS, May 2019.



Private Consumption to Grow at a Moderate Pace

- In 2018 real private consumption expanded by 1.99%. In 2019, real private consumption will grow by 2.02%, supported by labor market improvement, individual income tax cuts, and the subsidy programs for domestic travel and energy-efficient appliance replacement, but dampened by economic uncertainties and volatile financial markets.



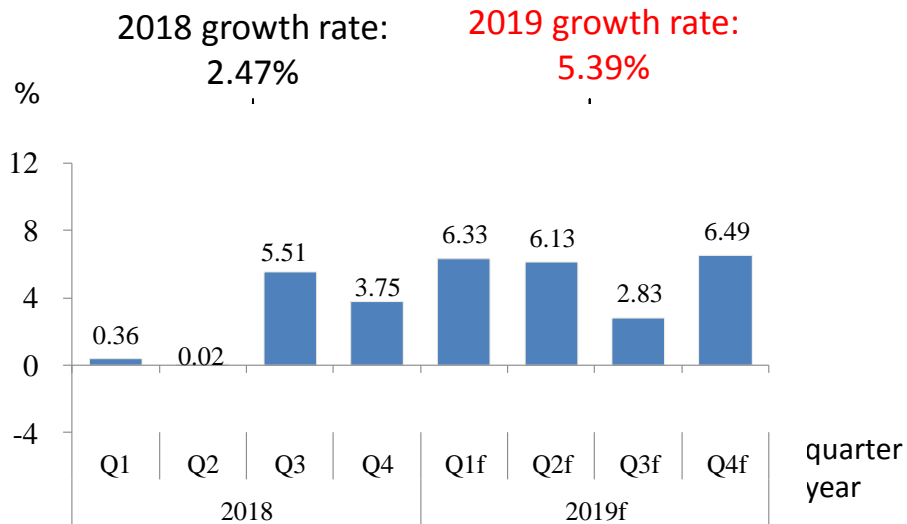
Source: DGBAS, May 2019.



Domestic Investment to Regain Momentum

- The growth rate of fixed investment is expected to go up to 5.39% in 2019.
- As domestic semiconductor manufacturers continue to invest and manufacturers' relocation encouraged by the government's "Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan" continuing, private fixed investment is expected to grow by 4.48% in 2019.
- With the government's strengthening of infrastructure investment, government fixed investment is expected to rise by 10.15% in 2019.

The Growth Rate of Fixed Investment (y/y)



Source: DGBAS, May 2019.

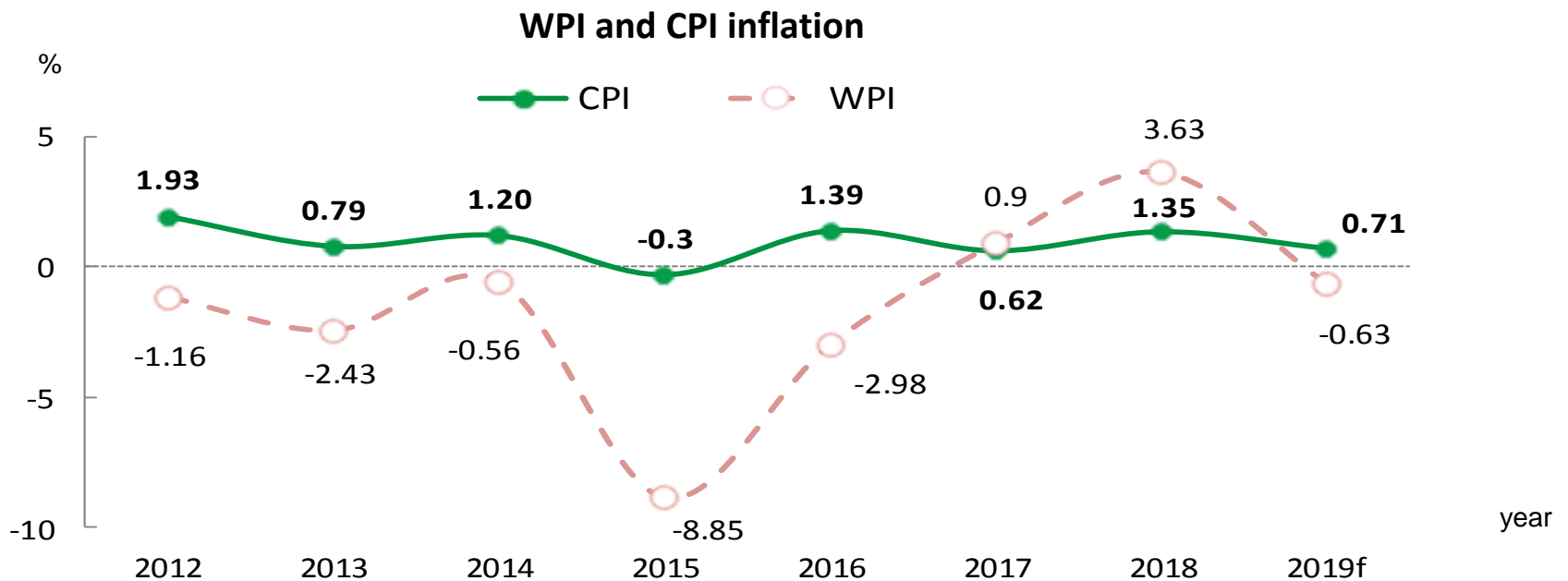
The Growth Rate of Each Component of Fixed Investment

	%		
	Private Enterprises	Government	Public Enterprises
2018	1.79	2.53	13.78
2019(f)	4.48	10.15	7.50
Q1	6.45	6.59	4.43
Q2(f)	5.06	10.97	11.61
Q3(f)	1.22	11.35	9.08
Q4(f)	5.55	10.53	5.60



Inflation Rate Remains Stable

- The CPI will increase slightly to 0.71% in 2019, mainly reflecting the decrease in the WPI and the end of the impact of the lifting of the tobacco tax.
- The WPI will slightly fall 0.63% in 2019, due to the downtrend of international raw material prices, and the high base of 2018.



Source: DGBAS, May 2019.



Forecasts for Taiwan's Economy

	Real GDP (yoy,%)		Consumer Price Index (yoy, %)	
	2018	2019 _f	2018	2019 _f
DGBAS (2019.5)	2.63	2.19	1.35	0.71
TIER (2019.4)		2.12		0.80
CIER (2019.4)		2.15		0.83
IEAS (2019.3)		2.10		0.95
IHS Markit (2019.5)		2.0		0.9
IMF (2019.4)		2.5		1.1
ADB (2019.4)		2.2		1.1

Note:

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

2.f = forecast



V. CONCLUSION

- IHS Markit forecasts the global economy will maintain growth with a slower pace of 2.8% in 2019. US-China trade tensions and political uncertainties, including the path of Brexit, are adding to caution.
- On the domestic side, according to the DGBAS' latest forecast, real GDP is expected to grow by 2.19% in 2019, with domestic demand expected to be the main driver supporting GDP growth. Export growth momentum in the external sector will likely be moderate due to the global economic slowdown. The main economic institutions forecast that Taiwan's real GDP growth rate for 2019 will be 2.0%-2.5%.
- The government has implemented the Forward-looking Infrastructure Development Program, Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan, and the subsidy programs for domestic travel and energy-efficient appliance replacement. These measures will provide the economy with a greater boost in 2019.

Thank you