



TAIWAN'S ECONOMIC SITUATION AND OUTLOOK



September 2021

National Development Council



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I. PREFACE

- ***Taiwan's Economic Situation and Outlook*** offers local 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 prospects for 2021.
- Real GDP expanded by 7.43% in the second quarter of 2021, slowing from a revised 9.27% upturn for the first quarter as a sudden spike in domestic COVID-19 cases that began in mid-May weighed on consumption, however, exports, private investment and government expenditure together muted decline in consumer spending caused by level 3 control measures.
- With domestic demand gradually recovering from the recent local COVID-19 outbreak, Taiwan's economy will grow by 5.88% in 2021, the highest in 11 years.



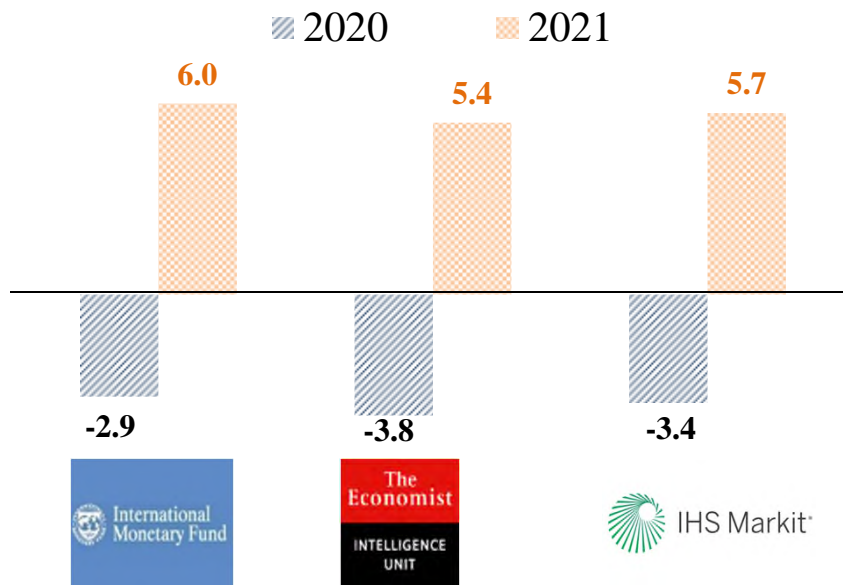
II. Global Economic Situation and Outlook



The Global Economy and Trade Revive Strongly

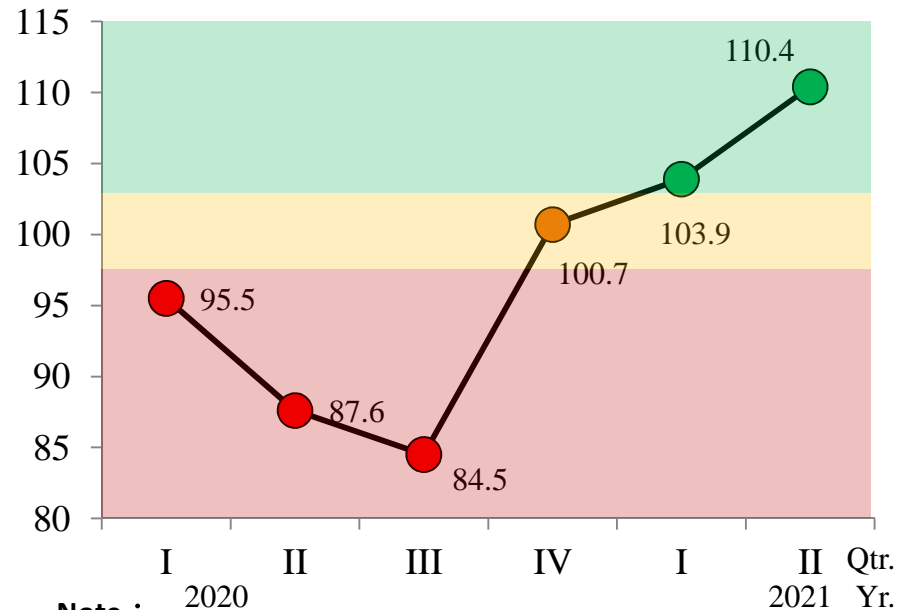
- Based on forecasts of authoritative economic institutes, the global GDP for 2021 is forecast to grow by over five percent.
- The latest WTO Good Trade Barometer reading of 110.4 hits a record high, reflecting current strong trade expansion. However, some forward-looking indices, such as new export orders, start to rise at a decreasing rate, which might indicate a deceleration in recovery.

2021 Global Economic Growth Forecasts



Source: IMF, "World Economic Outlook," Jul. 27, 2021.
EIU, "Global outlook summary," Aug. 16, 2021.
IHS Markit, "World Overview," Aug. 17, 2021.

WTO Good Trade Barometer Trends



Note :
Below 97.5: growth substantially below trend.
Value between 97.5 and 102.5: in line with the medium-term growth trends.
Above 102.5: growth well above trend.

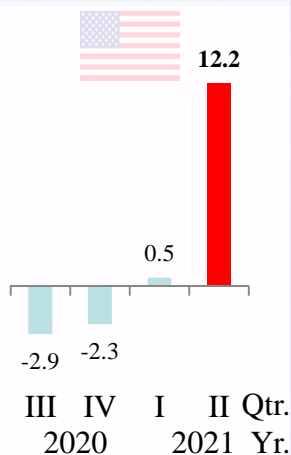
Source: WTO



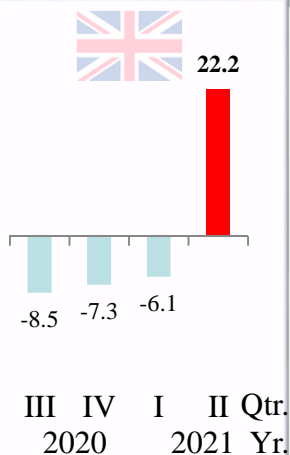
Major Economies Show A Robust Rebound

GDP
Growth
(%, yoy)

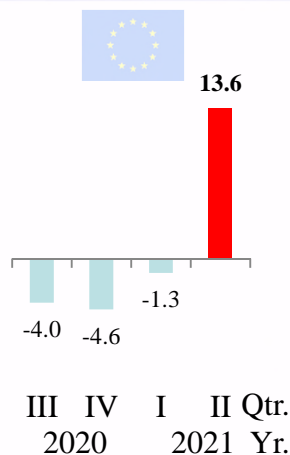
U.S.



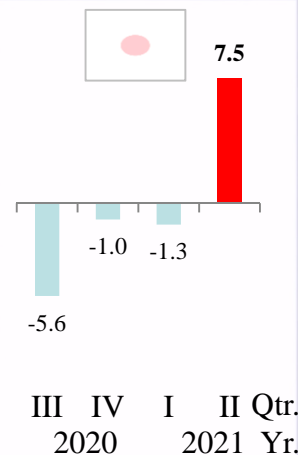
U.K.



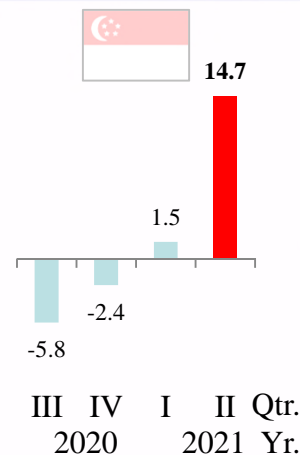
Eurozone



Japan

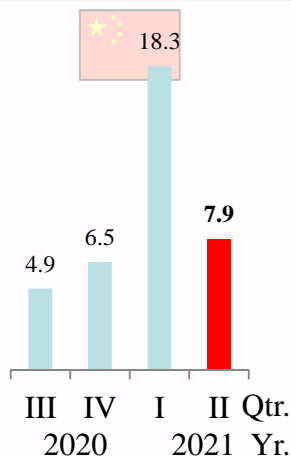


Singapore

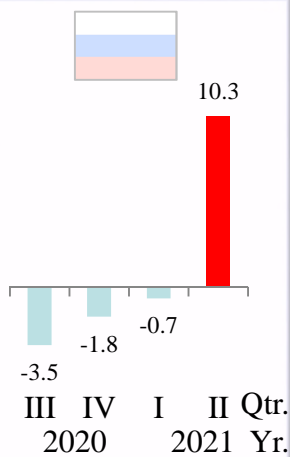


China

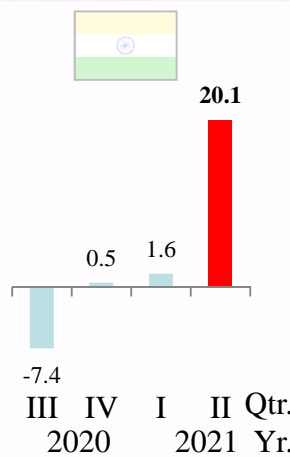
GDP
Growth
(%, yoy)



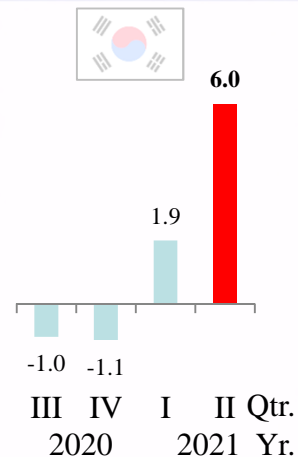
Russia



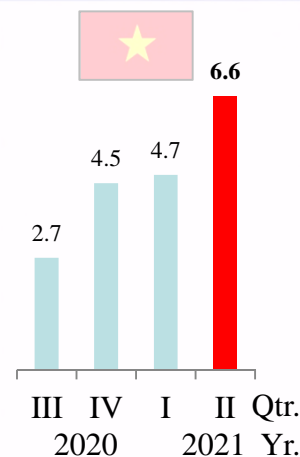
India



S. Korea



Vietnam



Source: Official Websites of Countries/Economic Entity Above



Road to Recovery under Uncertainty



Delta Variant Rocks the Whole World

The Delta COVID-19 variant has caused new outbreaks in more than 132 countries. Even lockdowns can't stop the spread, forcing the world to reorient strategies.

Vaccine Inequality Broadens

While wealthy economies are eager to have a booster shot of vaccine, people in developing countries can't receive their first dose yet.



The Rise of Trade Protectionism

The US imposing tariffs on European nations over digital taxes, together with the EU's proposing of carbon tariff, are likely to set off a new wave of trade barriers.



Road to Recovery under Uncertainty

Extreme Weather

Natural disasters like flood, forest fire, and draught, from climate change, have caused many casualties in many countries, which may disrupt global supply chain.



Inflation Concerns

Prices have surged across advanced economies. This may be a big concern in terms of higher operating costs for enterprises as a whole. Central banks may raise interest rates or reduce the scale of bond purchases in response.



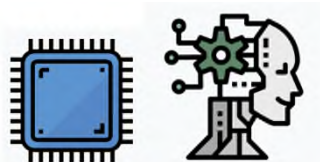


III. Current Domestic Economic Situation



Foreign Trade Continues to Increase

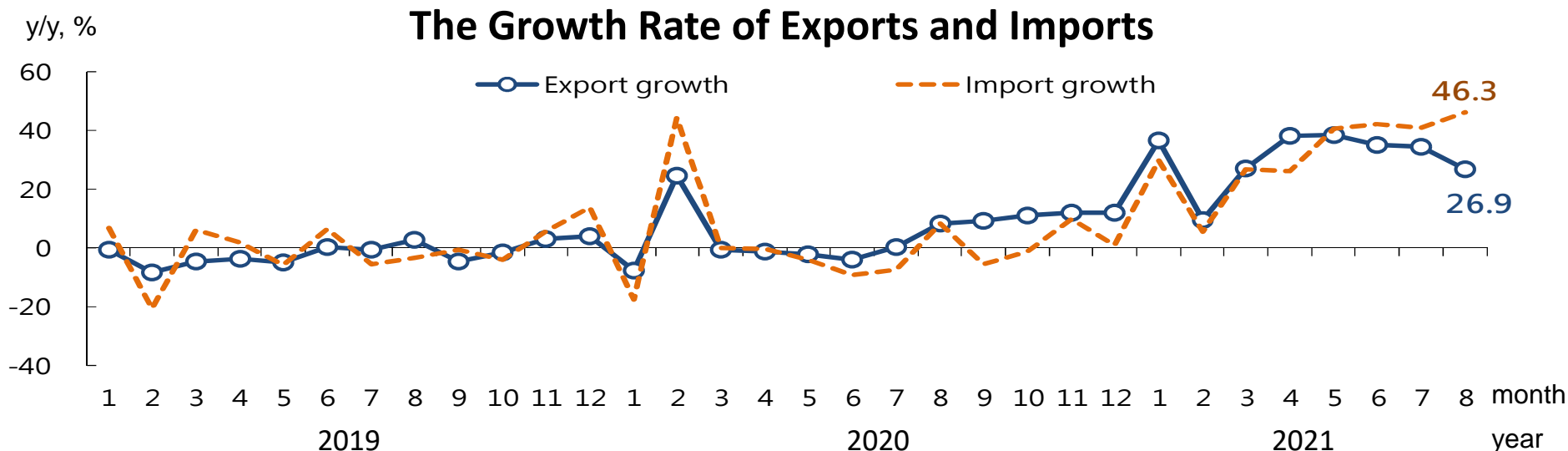
- In August 2021, Taiwan's total exports increased by 26.9% year-on-year, buoyed by strong demand for high-tech products and raw materials as the global economy recovered.



Parts of electronic product
+21.9%



Information, communication and audio-video products **+17.2%**



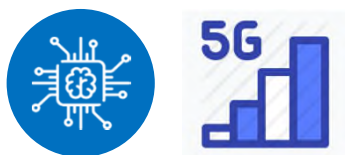
Note: Since FY 2016, the general trade system has been applied for the compilation of external trade statistics, and the historical data has been revised to FY 2001.

Source: Ministry of Finance, Sep. 2021.



Industrial Production to Grow Modestly

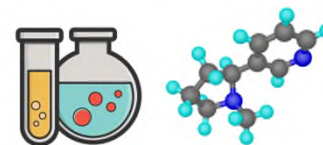
- The Industrial Production Index (IPI) reported an annual increase of 13.93% in July 2021, rising for the 18th consecutive month, with solid global demand for both tech and old economy products.



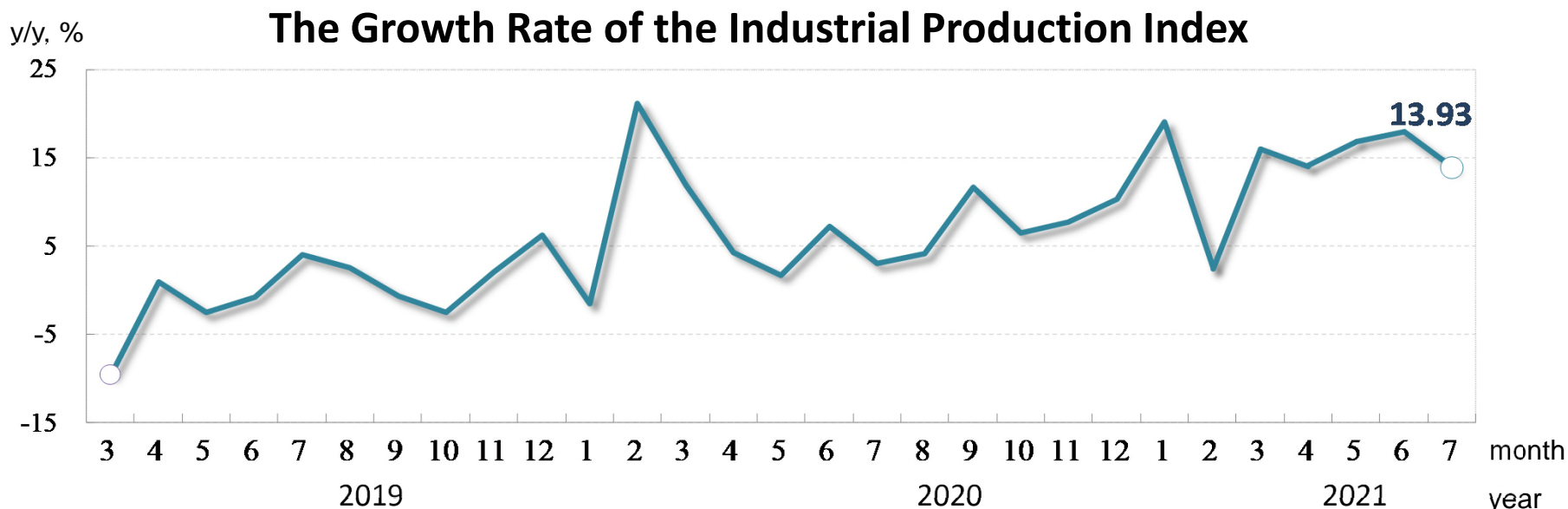
Electronic parts and components **+16.80%**



Basic metal **+28.79%**



Chemical raw material industry **+11.73%**



Source: Ministry of Economic Affairs, Aug. 2021.



Retail Trade Shows Decline

- In July 2021, as measures to contain COVID-19 outbreak reined in consumer spending, retail trade sales decreased by 10.3% year-on-year, representing the second straight month of decline.



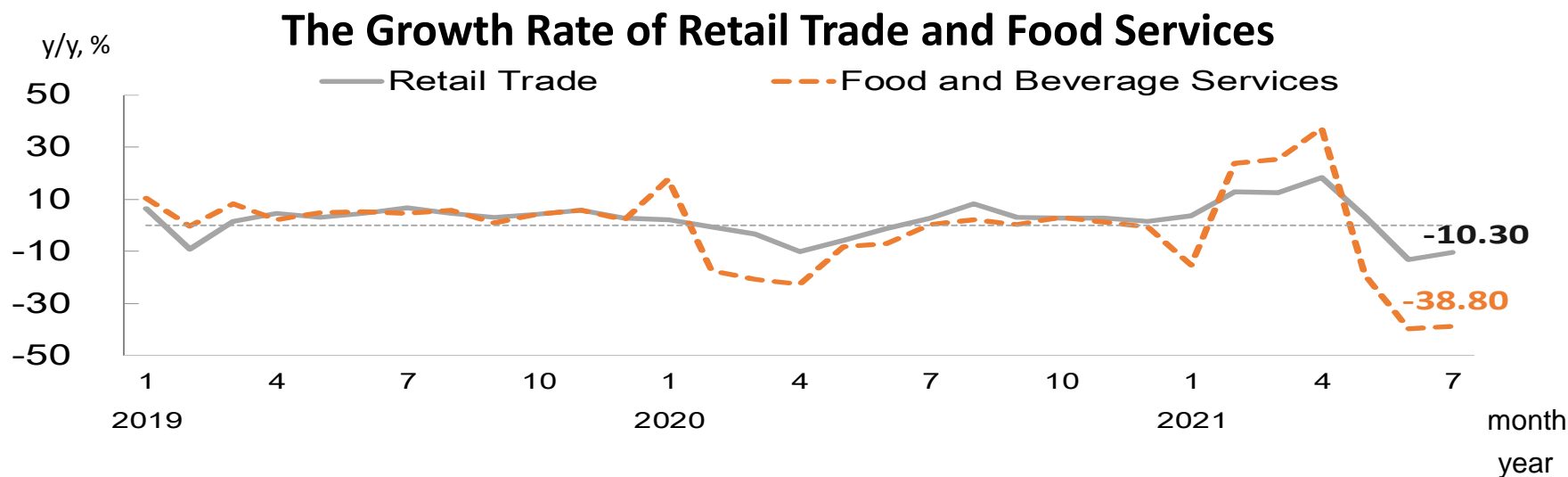
General merchandise stores **-14.7%**



Motor vehicles and motorcycles **-10.9%**



Retail sale via mail order houses or internet **+23.4%**



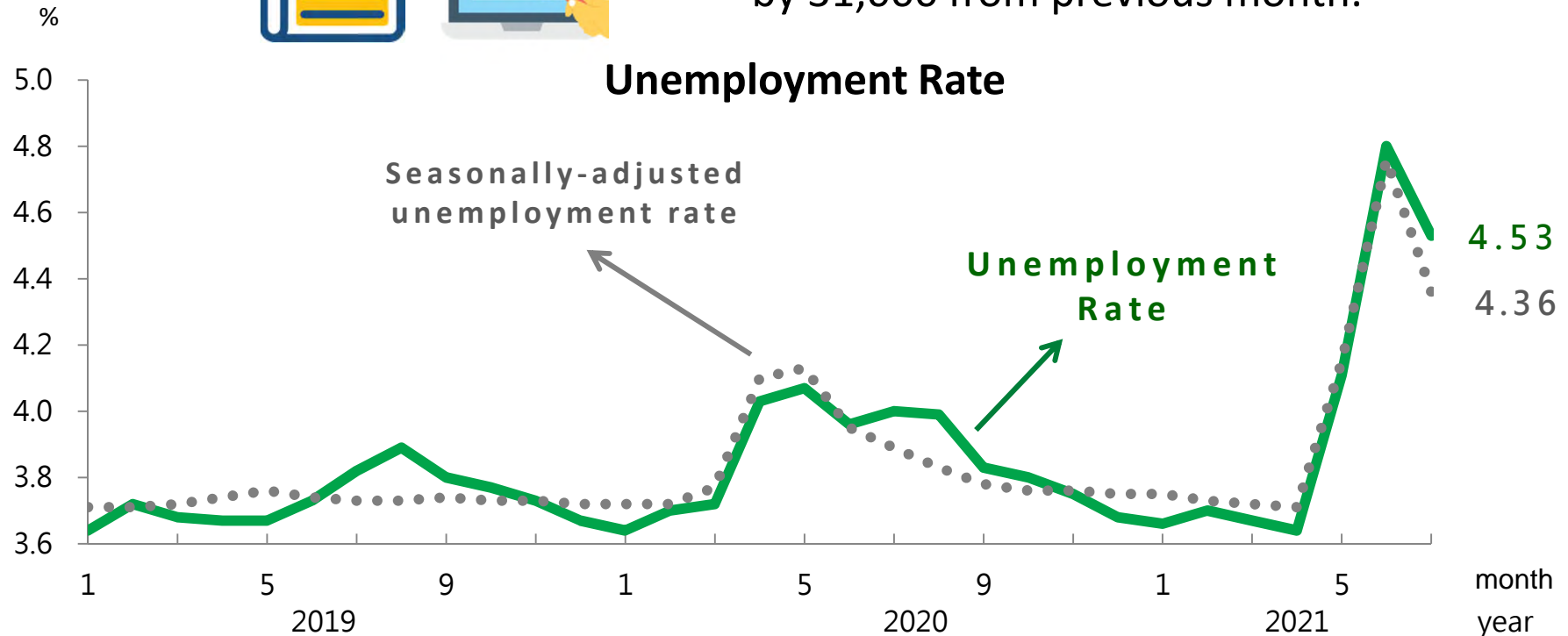


Unemployment Rate Drops Slightly

- The unemployment rate fell by 0.27 percentage points from a month earlier to 4.53% in July 2021 as the domestic outbreak of COVID-19 continued to subside.



The number of the unemployed decreased by 31,000 from previous month.



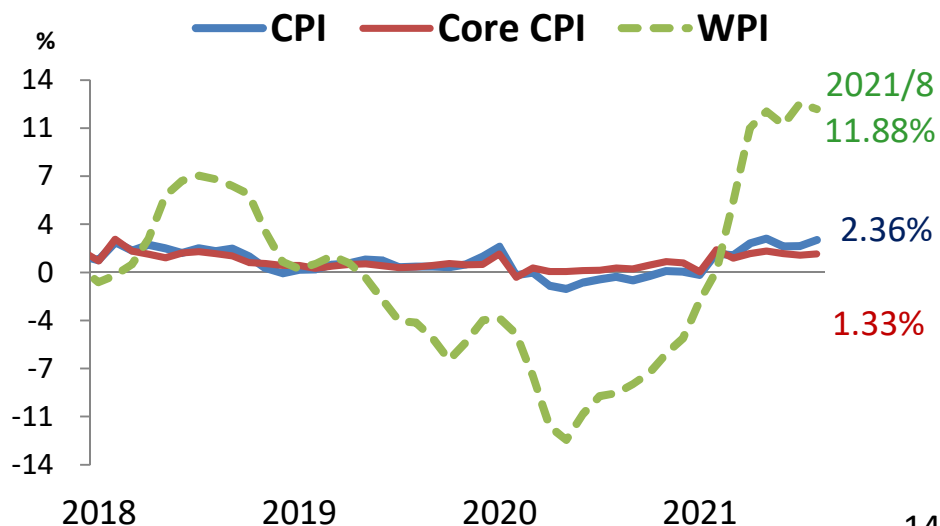
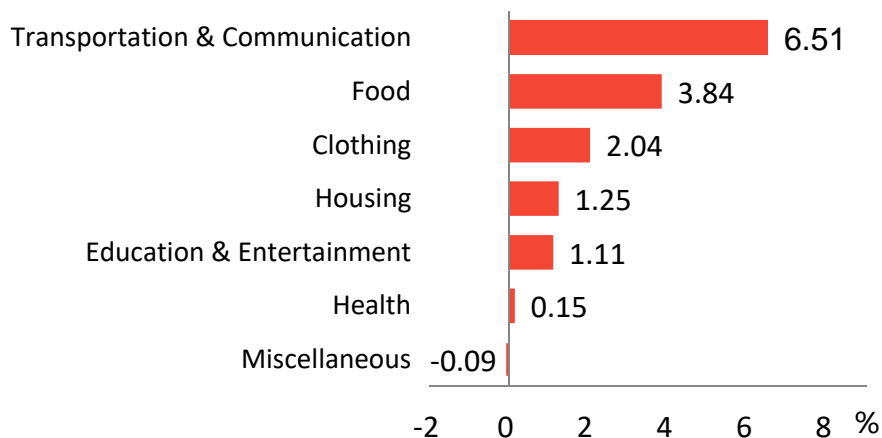
Source: DGBAS, Aug 2021.



Inflation Rose Moderately

- The CPI rose 2.36% year-on-year in August 2021, mainly because the index for fruit and vegetables rose 3.6% and 35.22% due to agricultural damage caused by heavy rain, and the index for fuel prices also rose 23.24% due to a relatively lower comparison base.
- However, the prices of fruit and vegetables are expected to stabilize with the improved weather and as the comparison base moderates. The core CPI rose 1.33%, well below 2 percent.
- The WPI in August 2021, compared with the same month of 2020, increased 11.88%.

The Annual Changes of Consumer Price Indices

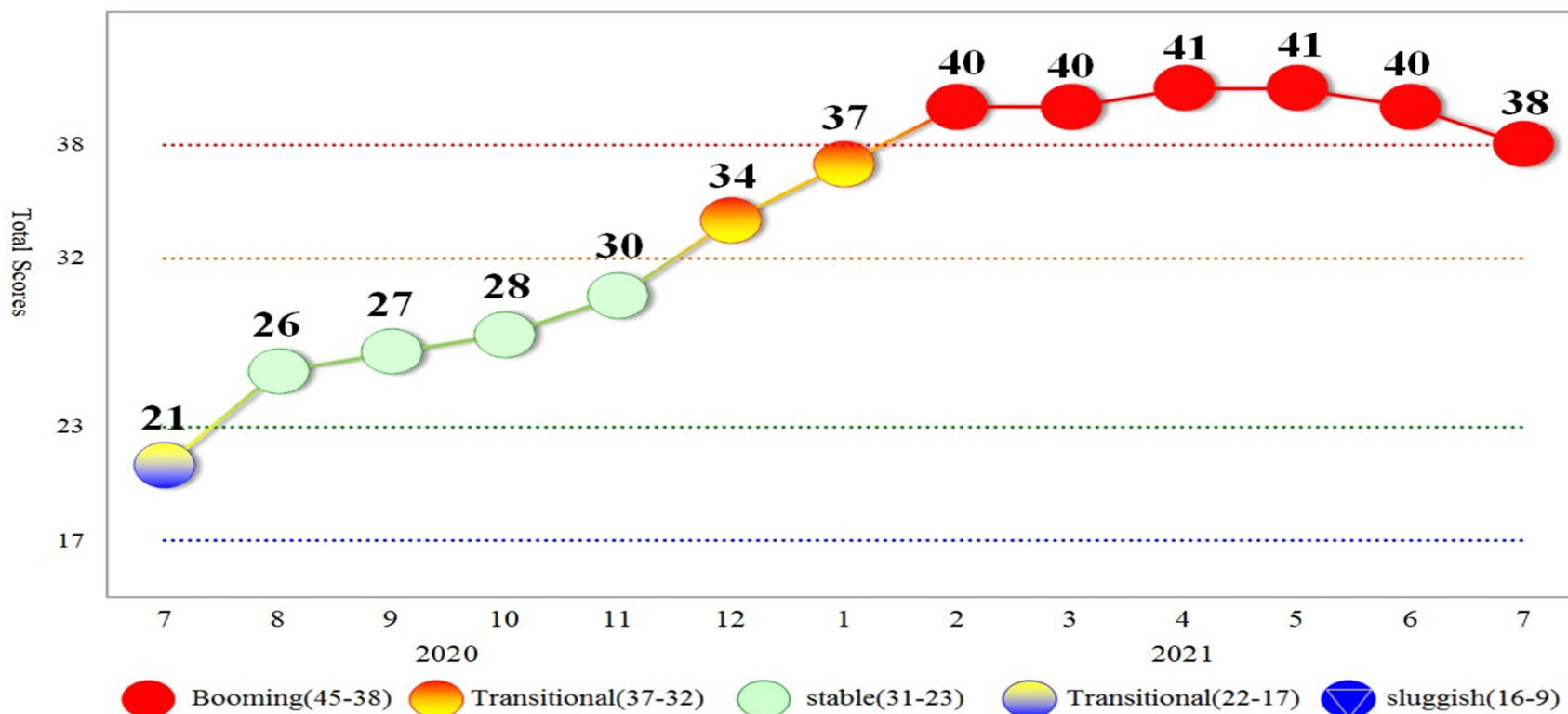




Monitoring Indicators Flash “Red” Signal

- In July 2021, the overall monitoring indicator continued to flash the “red” signal, the total score decreasing two points to 38.

Monitoring Indicators



Note: The checkpoints for each component of the monitoring indicators were changed in July 2018, since they are subject to regular review and revision every five years, but the component items remain the same. As for leading indicators, there have been some changes to the components, such as “diffusion index of export orders” being substituted for “index of export orders”. Please see the link below for more details: https://www.ndc.gov.tw/en/News_Content.aspx?n=4061A3F0B105B5AE&sms=E39F6CCF42B6E423&s=D1D76F75B2FF19C5

Source: NDC, Aug. 2021.



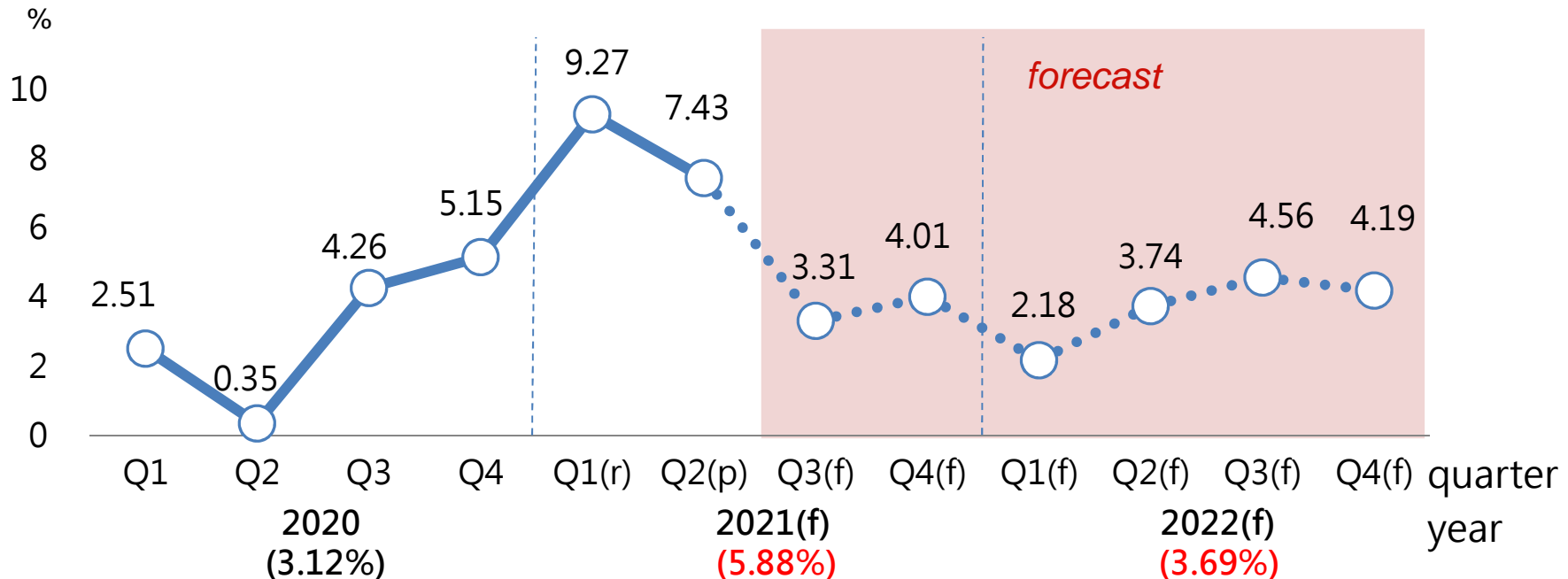
IV. PROSPECTS FOR 2021



The Economy Expected to Remain Solid

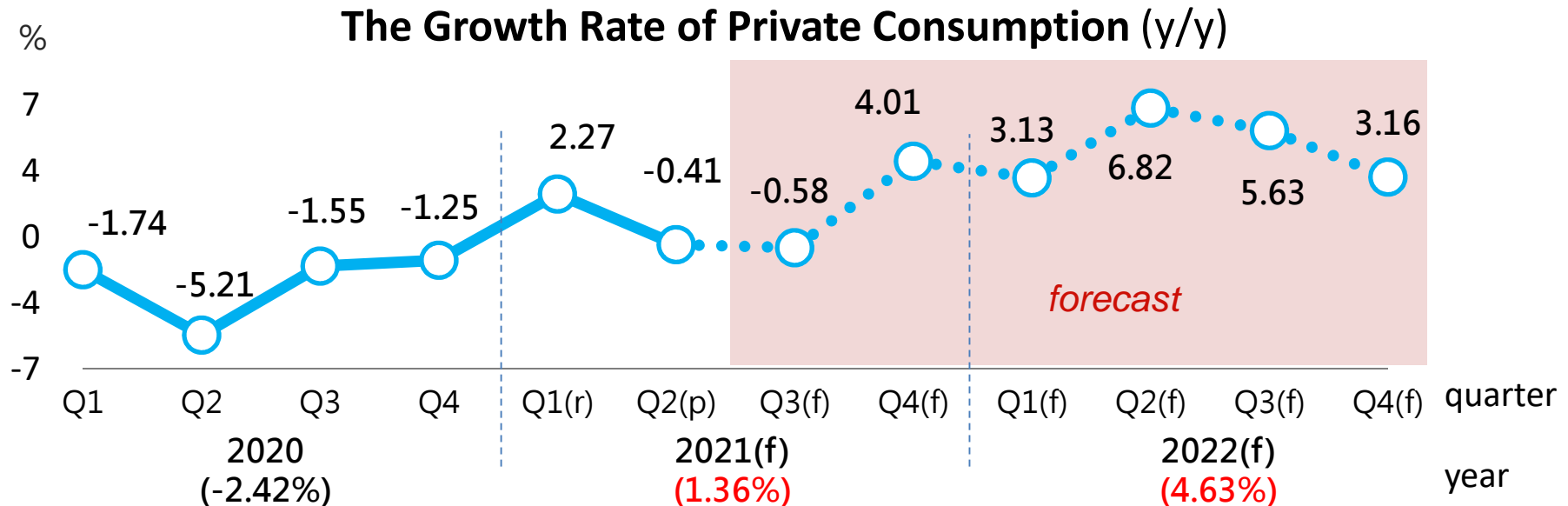
- As Taiwan's COVID outbreak is gradually coming under control and numerous relief policies take effect, private consumption is likely to recover in the second half of 2021. In addition, the resurgence of global trade, dominance in semiconductor manufacturing industry and the emerging demand for new technological applications, as well as the capacity expansion of manufacturing reshoring, will all support Taiwan's economic growth.
- According to the latest DGBAS forecast, the real GDP is predicted to grow by 5.88% and 3.69% in 2021 and 2022, respectively.

Quarterly GDP Growth Rate (y/y)



Private Consumption to Grow at a Slower Pace

- Real private final consumption fell by 0.41% in 2021Q2, mainly reflecting a slump in consumption expenditure caused by local COVID-19 outbreaks. The Nationwide Level 3 epidemic alert from mid-May led to the contraction in service consumption such as restaurants and hotels, public transportation, as well as some commodity consumption such as cars and clothing.
- As COVID-19 local pandemic is controlled, consumer spending will pick up amid easing of restrictions and the introducing of the government's relief and stimulus measures. Real private consumption is expected to grow by 1.36% and 4.63% in 2021 and 2022, respectively.



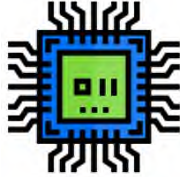


Investment Expected to Remain Robust

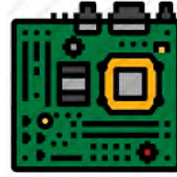
- The growth rate of fixed investment is expected to grow by 9.47% in 2021, slowing to 2.67% in 2022.



Reshoring Taiwan's overseas companies



Accelerating investment of semiconductor industry



Investment in 5G infrastructure, offshore wind energy, airline companies and container shipping companies expanding fleet capacity

The Growth Rate of Each Component of Fixed Investment

Unit: %

	Fixed Investment	Private Enterprises	Government	Public Enterprises
2019	10.17	11.00	8.35	1.75
2020	4.52	2.78	6.79	28.14
2021(f)	9.47	11.89	-4.46	6.69
Q1 (r)	11.98	13.77	-8.63	28.83
Q2 (p)	11.89	17.43	-7.03	-21.12
Q3 (f)	5.57	6.30	-4.81	19.90
Q4 (f)	8.77	10.40	-0.01	11.09
2022(f)	2.67	2.28	3.49	6.76

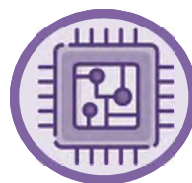


Exports to Sustain Strong Momentum

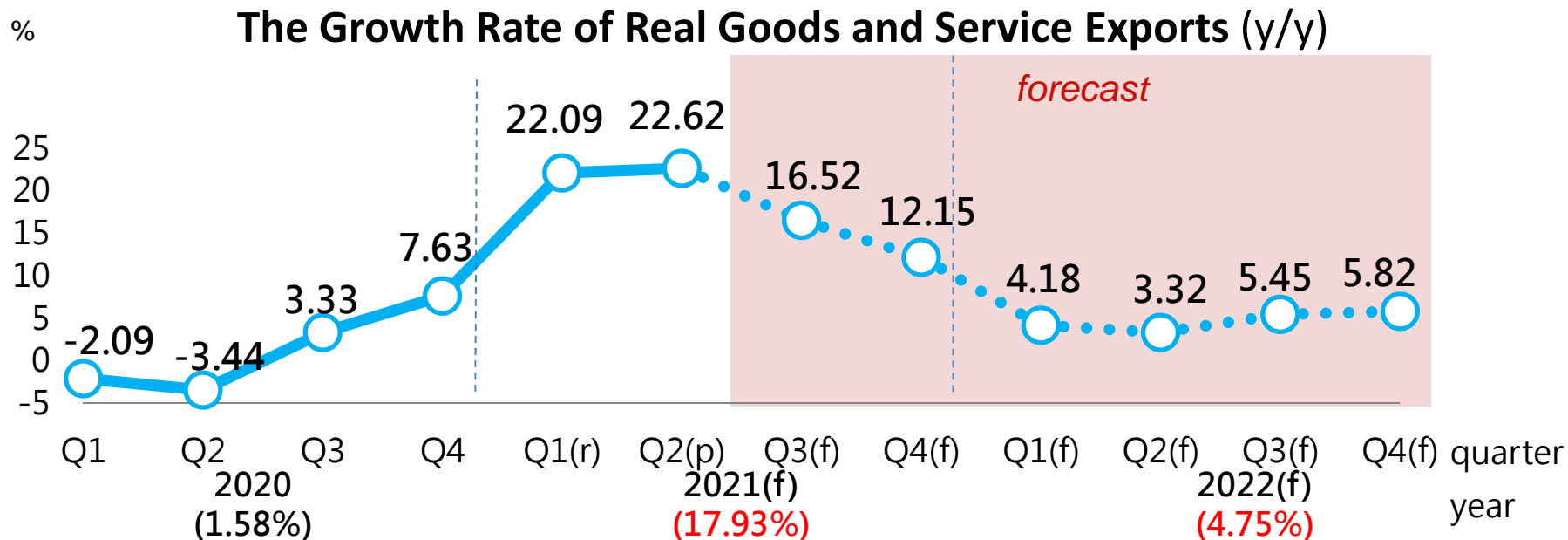
- Thanks to the resurgence of global trade and rising domestic production capacity, the real exports of goods and services are forecast to grow by 17.93% and 4.75% in 2021 and 2022, respectively.



Emerging demand for new technological applications (5G, IOT and high performance computing)



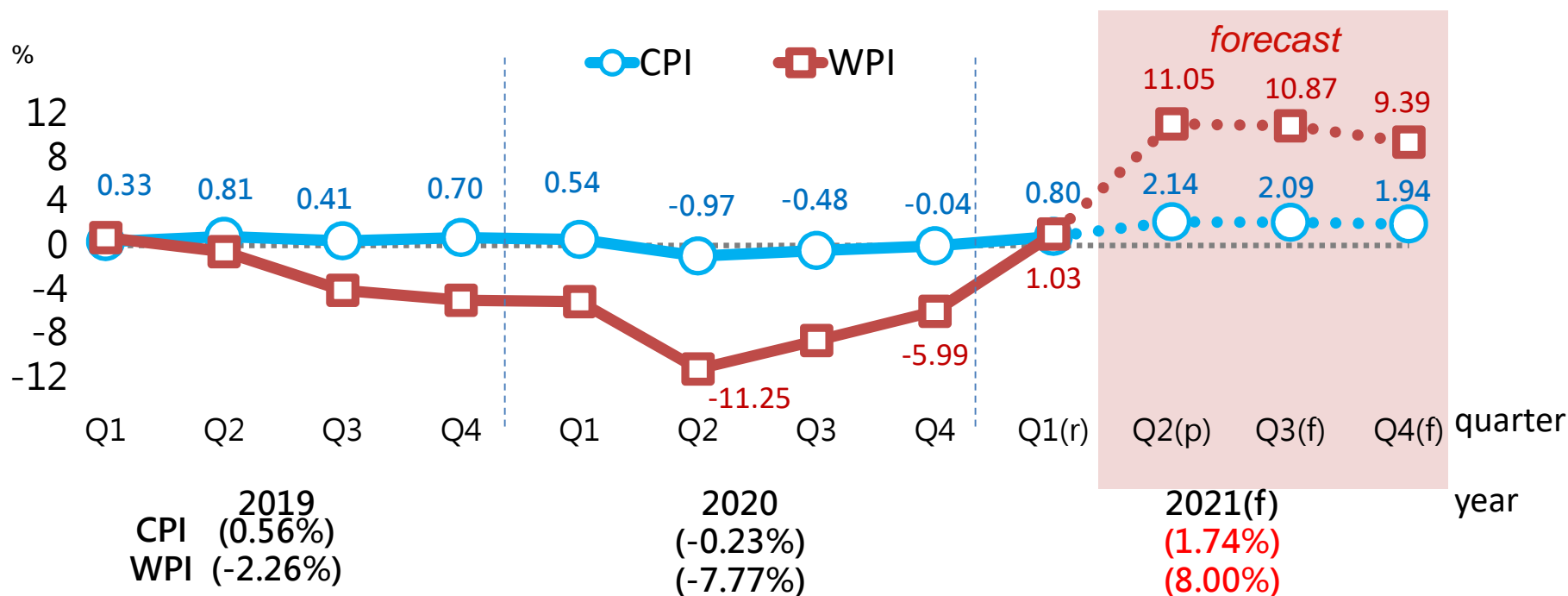
Capacity expansion brought by the massive investment of semiconductor manufacturers and reshoring overseas companies





Inflation Rate To Remain Stable

- With the continuing rise in international oil and base metals prices, the WPI is expected to increase by 8.0% in 2021, an upward revision of 3.44 percentage points from June's forecast.
- On the CPI side, it is forecast to increase by 1.74%, revised upward 0.2 percentage points from June, mainly reflecting rising gasoline and food prices.





Forecasts for Taiwan's Economy

	Real GDP (yoy, %)		Consumer Price Index (yoy, %)	
	2021 _f	2022 _f	2021 _f	2022 _f
DGBAS (2021.8)	5.88	3.69	1.74	0.89
CBC (2021.9)	5.75	3.45	1.70	0.92
IEAS(2021.7)	5.05	-	1.78	-
TIER (2021.7)	5.40	-	1.65	-
CIER (2021.7)	5.16	3.43	1.72	0.90
TRI (2021.7)	5.12	-	1.78	-
IHS Markit (2021.9)	6.0	3.2	1.74	1.47
ADB (2021.9)	6.2	3.0	1.5	1.1
IMF (2021.4)	4.7	3.0	0.9	1.2

Note:

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

2. f = forecast



V. CONCLUSION

- According to IHS Markit's latest forecast, while growth momentum is slowing with the spread of the COVID-19 Delta variant disrupting activity around the world, the global economic growth rate is expected to be 5.7% in 2021.
- On the domestic side, according to the latest DGBAS forecast, real GDP is projected to grow by 5.88% in 2021, revised upward by 0.42 percentage points from the previous forecast. The recent domestic COVID-19 outbreak took a toll on consumer activity, but failed to adversely affect the manufacturing and export sectors. In addition, The main economic institutions forecast that Taiwan's real GDP growth rate for 2021 will be 5.0%-6.2%.
- With the COVID-19 outbreak contained and the strict protocols lifted gradually in late July, the government plans to issue "Quintuple Stimulus Vouchers". It is hoped the new voucher program will stimulate the economy on a wider scale, and bring back business to help those hit hard by the pandemic.



Thank you