



# **2016 Taiwan Economic Forecast**

Ching-Cheng Chang

Yi-Ting Chen

Ray Y. Chou

Kamhon Kan

Shin-Kun Peng

Wen-Jen Tsay

December 24, 2015

Academia Sinica, Institute of Economics



# **2016 Taiwan Economic Forecast :**

## **Great Challenges in the New Year**

Because of an unexpectedly weak recovery in the global economy, the IMF has revised forecasts of global economic growth for 2015 downwards several times. The latest forecast for global GDP growth is only 3.1% which is lower than the actual growth in 2014. The main reason is that emerging markets and developing countries (EM) are registering growth that is far lower than the long-term pattern. Furthermore, lower prices of crude oil and raw materials have resulted in a divergence between advanced economies (AE) and EM, which may drag the economic growth down next year. But fortunately, a more solid growth in AE is expected, which suggests a better outlook in 2016 compared with this year, even if it is still sluggish. Taiwan, suffering from weak domestic investment and exports, registered real GDP growth of only 1.26% year-on-year for the first three quarters and even more important is the fact that the number was negative for the third quarter. The subdued volume of goods exports in Nov. suggests that there are no good signs this year and therefore the real GDP growth in 2015 is projected at only 0.75%. In 2016, rate increases by the US Fed and QE in Euro Zone, along with lower oil prices may dampen the performance in EMs because of the fragile financial conditions. Furthermore, the rise of “red supply chain” in China will continue to restrict the recovery in Taiwan’s economy and, therefore, a weak real GDP growth is expected in 2016 (1.74%).

Private consumption grew 2.57% year-on-year in the first three quarters but the number for the third quarter was 0.50% (y-o-y). Despite a steady growth in sales of food and beverage services, negative growth in wholesale and retail suggests a weaker domestic demand. The latest Taiwan consumer confidence index (CCI) also indicates that the consumer confidence in the context of buying durable goods declined for consecutive five months. Taking these factors together, we expect private consumption to grow 2.50% this year and it may decelerate further to only 1.78% in 2016 because of the rise in prices.

A sudden drop in (private) investment in the first half of this year reflects the concern for the weak external scenario. Although we expect the semi-conductor industry to complete inventory clearance, growth of imports of machineries and the index of export orders (electronics) are still struggling, declining by 5.18% and 4.0% respectively in November. In addition, foreign investment has fallen by 6.77% in the first ten months. Therefore we expect real private investment to grow by 2.35% in 2015. In 2016, since the latest PMI (Purchasing Managers' Index) has fallen into the contraction territory and outlook manufacturing in the next half year is pessimistic, real private investment is expected to register a lower growth of 2.09% in 2016. The growth of gross fixed capital formation in real terms is just about 1.18% in 2015 because

of the negative growth of government and public utilities investments and though it is expected to rise to 2.16% in 2016.

As for foreign trade, Taiwan's exports this year have continued to suffer from the slowdown in China's imports as well as the weakness in ASEAN countries; growth was only 0.60% year-on-year for the first three quarters in real terms whereas growth of imports was only 1.28% year-on-year in the same period because of weak investment. The latest data suggest that the trade volume was still subdued in Nov. After considering the effects of prices, we expect exports of goods and services to decline by 0.48% and imports of goods and services to grow by 0.69% in 2015. While global trade is expected to expand, negative effects of economic reform in China and the lifting of the US Fed rate are unavoidable and these shall restrain the recovery of this sector. We expect real exports and imports of goods and services to expand 2.69% and 3.19%, respectively, in 2016.

Because of the sharp fall in crude oil price, consumer price index (CPI) declined by -0.35% and the core price index was up nominally by 0.79% in the first eleven months. Continually dropping oil prices are leading to a possible deflation in Taiwan but we expect oil prices to be more stable in the coming year and, therefore, inflation is likely to be back to the normal, particularly because of the two consecutive cuts in policy rate. CPI is expected to register a negative growth of -0.30% in 2015 and it may rise 0.49% in 2016. The wholesale price index (WPI) is falling along with the downward trend in international commodities prices and is expected to decline 8.54% in 2015 but will gradually accelerate in 2016 (0.30%).

Average unemployment rate in the first ten months was 3.76% and the lowest level was recorded in May, which provides a relatively optimistic view of the jobs market. It is expected to be 3.73% this year. In 2016, a tight job market is expected, according to the latest confidence index of job opportunities over the next 6 months. Accordingly, we expect unemployment rate to be 3.89% in 2016.

The narrow money supply M1B and broad money supply (M2) expanded 6.05% and 6.19%, respectively, in the first three quarters of 2015. However, growth of M1B was smaller than M2 in all the three quarters, reflecting weak demand for funds. Expected estimates of annual growth of M1B and M2 are 6.00% and 6.45%, respectively. Assuming a modest recovery, we expect annual growth of M1B and M2 to be 6.60% and 4.99%, respectively, in 2016.

In sum, the almost no growth in the domestic economy in 2015 reveals the fragile structure of Taiwan's economy. We believe these effects will persist and, therefore, after considering the uncertainty of rise in US Fed rate and a possible hard-landing in China and forecast errors, the 50% interval forecast for the GDP growth of 2016 will range from 0.58% to 3.02%.

**Table 1 2015 Taiwan Economic Forecast: A Revision**

Unit: Billions of NT\$

	Annual		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Forecasts	Growth Rates (%)	Realized	Growth Rates (%)	Realized	Growth Rates (%)	Estimate	Growth Rates (%)	Forecasts	Growth Rates (%)
Real GDP	15,632.34	0.75	3,789.92	4.04	3,839.95	0.57	3,952.15	-0.63	4,050.32	-0.66
Private Consumption	8,606.39	2.50	2,142.32	3.73	2,142.67	3.55	2,157.04	0.50	2,164.36	2.28
Government Consumption	2,260.39	-0.65	515.01	-2.71	549.93	0.54	572.49	-0.44	622.95	-0.13
Fixed Capital Formation	3,533.95	1.18	832.87	-0.44	877.22	0.60	921.31	3.10	902.55	1.34
Private Enterprises	2,883.14	2.35	723.16	1.33	715.85	-0.64	770.08	5.11	674.04	3.68
Public Enterprises	207.40	-6.06	29.43	-30.02	52.34	21.83	45.25	-6.30	80.38	-8.11
Government	444.41	-2.53	80.19	-1.32	108.95	0.60	106.06	-5.96	149.21	-2.86
Inventory Change	30.03		1.43		33.75		-3.79		-1.36	
Balance of trade	1,196.99	-9.33	297.01	44.36	230.70	-31.68	305.64	-9.02	363.64	-17.51
Exports of Goods & Services	11,412.75	-0.48	2,779.64	6.13	2,819.09	-0.74	2,862.75	-3.01	2,951.26	-3.45
Imports of Goods & Services	10,217.15	0.69	2,482.63	2.87	2,588.39	3.43	2,557.11	-2.24	2,589.02	-1.03
Price										
CPI	103.66	-0.30	102.45	-0.59	103.29	-0.70	104.41	-0.26	104.47	0.34
WPI	87.70	-8.54	89.04	-8.50	87.76	-9.42	87.21	-9.48	86.80	-6.69
Monetary Aggregate										
M1B	14,665.89	6.00	14,469.21	5.68	14,517.05	6.04	14,766.38	6.05	14,910.91	6.22
M2	38,936.57	6.45	38,279.39	6.32	39,083.09	6.62	39,590.97	6.19	38,547.21	6.68
Exchange Rates (NT\$/US\$)	31.96		31.59		30.99		32.21		33.03	

Source: Academia Sinica, Institute of Economics, Dec 24, 2015.

**Table 2 2016 Taiwan Economic Forecast**

Unit: Billions of NT\$

	Annual		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)
Real GDP	15,904.04	1.74	3,784.27	-0.15	3,946.44	2.77	4,067.02	2.91	4,106.31	1.38
Private Consumption	8,759.73	1.78	2,186.35	2.06	2,169.34	1.24	2,211.14	2.51	2,192.91	1.32
Government Consumption	2,298.36	1.68	528.39	2.60	556.33	1.16	581.03	1.49	632.62	1.55
Fixed Capital Formation	3,610.46	2.16	846.83	1.68	890.83	1.55	934.34	1.41	938.46	3.98
Private Enterprises	2,943.30	2.09	731.61	1.17	728.54	1.77	777.75	1.00	705.40	4.65
Public Enterprises	214.87	3.60	32.71	11.14	52.35	0.03	46.76	3.33	83.05	3.32
Government	460.39	3.60	82.29	2.62	111.48	2.33	112.34	5.92	154.28	3.40
Inventory Change	29.00		-1.32		12.57		9.79		7.96	
Balance of trade	1,210.88	1.16	225.83	-23.97	311.70	35.11	335.36	9.72	337.99	-7.05
Exports of Goods & Services	11,719.82	2.69	2,726.42	-1.91	2,947.70	4.56	3,018.28	5.43	3,027.41	2.58
Imports of Goods & Services	10,543.15	3.19	2,512.82	1.22	2,640.69	2.02	2,691.41	5.25	2,698.22	4.22
Price										
CPI	104.16	0.49	103.73	1.25	104.09	0.78	104.52	0.11	104.29	-0.18
WPI	87.97	0.30	87.12	-2.15	87.79	0.04	88.39	1.35	88.58	2.04
Monetary Aggregate										
M1B	15,633.98	6.60	15,705.65	8.55	15,465.41	6.53	15,640.57	5.92	15,724.30	5.45
M2	40,879.15	4.99	40,573.32	5.99	40,596.17	4.65	41,008.53	4.93	41,338.56	4.41
Exchange Rates (NT\$/US\$)	33.03		33.03		33.03		33.03		33.03	

Source: Academia Sinica, Institute of Economics, Dec 24, 2015.