



2016 Taiwan Economic Forecast: A Revision

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The Surging Risk in World Economy

Because the global economy is still sluggish, the International Monetary Fund (IMF) has revised the forecast of global economic growth for 2016 downwards from 3.4% to 3.2%. The main reason is that advanced economies (AE) including the United States and Japan were weak in the beginning of 2016. Emerging markets and developing countries (EM) are also registering growth rates that are far lower than the long-term pattern (6.52% for 2000-2007 and 6.33% for 2010-2012). Although growth of the Euro Zone is robust, it might have to work out a new economic integration after the United Kingdom voted to exit the European Union. Taking these into account, the outlook for the second half of 2016 is still full of uncertainties. As for Taiwan, the real GDP growth rate in the first quarter of 2016 was -0.68% (year-on-year) largely accounted for by negative annual growth in investment (-0.14%) and in exports sector (-4.06%). According to the latest numbers, Taiwan has faced negative (nominal) growth in exports for sixteen consecutive quarters and the overall monitoring indicator published by the National Development Council continues to show weak economic activity. Therefore, we expected growth in real GDP in 2016 to be only 0.52%.

Private consumption in the first quarter of 2016 grew 2.19% (year-on-year), which is robust compared with other sectors while the wholesale sector was subdued because of weak demand for electronic devices. Additionally, the latest data (released in May) indicated that the sales of food and beverage services and retails are weak. Taiwan consumer confidence index (CCI) has also displayed a downward pattern with a number of CCI components sliding below what was forecast in December last year. Taking these factors together, we expect that the growth of private consumption will decline slightly from 1.78% to 1.30%.

Private investment declined 0.14% in the first quarter of 2016. Although imports of capital equipment were up 8.3% in the first five months and the latest PMI (Purchasing Managers' Index) has been in the expansion territory for the last three months, export orders for electronics and information and communications products declined 4.3% and 6.1% respectively in the same period. This might reveal that the rebound of the global demand has not been significant and the outlook for manufacturing in the coming six months remains pessimistic. We therefore lower our forecast of growth from 2.09% to 0.32%. Gross fixed capital formation in real terms is expected to grow by 0.77 % in 2016 because investments in government and public utilities too are expected register strong growth.

Taiwan's exports have continued to suffer from the slowdown in China's imports as well as the weakness in global demand. Exports and imports of goods and services were down by 4.06% and 1.05% (year-on-year), respectively, in the first quarter of 2016. The latest data suggest that the trade volume might be unsatisfactory in the second quarter too. While global trade is expected to expand, growth is lower than the normal pattern. In addition, negative effects from the "red supply chain" in China are unavoidable. Accordingly, we revise the forecasts of real exports and imports of goods and services from 2.69% to -0.42% and from 3.19% to 0.56%, respectively.

Since crude oil price has stopped declining, consumer price index (CPI) was up 1.67% in the first five months. In the same period, the core price index was up nominally by 0.82%. We expect oil prices to be more stable in the second half of the year and, therefore, inflation is likely to maintain its normal pattern. We expect that the CPI would rise by 0.99% in 2016, which is higher than the previous forecast by 0.50%. In addition, since international commodities prices are still weak, the wholesale price index (WPI) is expected to decline 3.42% in 2016, sharply less than the forecast last year.

Average unemployment rate in the first five months was 3.88%, slightly higher than the number last year (3.78%). Although the latest index of confidence in job opportunities over the next 6 months is still optimistic, the overall local economy has been affected by weak global economic activities. We therefore expect the unemployment rate to rise to 4.06% in 2016. Expected estimates of annual growth of M1B and M2 are 5.30% and 4.42% respectively, because of weak demand for funds.

In sum, we believe that economic growth is likely to remain weak in the developed world and growth in emerging markets may continue to lose momentum this year. But the most important thing is that domestic exports are highly dependent upon demand from China. In the short-run, the trade sector cannot recover immediately. The rise of financial volatility caused not by the divergence of monetary policies among the world but by an issue of "Brexit", after taking these into account, our 50% interval forecast for the GDP growth of 2016 will range from -0.67% to 1.83%. We are heading for a more complicated global economy and that has implications for Taiwan's recovery. In the long run, we should focus on the development and reform of our industries to mitigate these negative effects.

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Unit: Billions of NT\$

	Annual		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Forecasts	Growth Rates (%)	Estimate	Growth Rates (%)	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)	Forecasts	Growth Rates (%)
Real GDP	15,696.95	0.52	3,764.34	-0.68	3,883.73	1.14	3,984.94	1.01	4,063.94	0.57
Private Consumption	8,705.32	1.30	2,189.28	2.19	2,158.20	0.72	2,196.62	1.86	2,161.22	0.44
Government Consumption	2,302.79	1.55	541.50	5.14	552.07	0.39	579.25	0.44	629.99	0.66
Fixed Capital Formation	3,562.67	0.77	828.67	-0.50	881.08	0.44	927.92	0.58	925.01	2.46
Private Enterprises	2,903.74	0.32	722.18	-0.14	716.54	0.10	771.29	0.04	693.73	1.37
Public Enterprises	208.98	1.71	28.56	-2.98	54.52	4.18	46.22	1.52	79.68	1.94
Government	454.86	4.24	77.66	-3.15	110.76	1.67	112.33	5.84	154.11	9.24
Inventory Change	1.73		-12.25		8.01		4.61		1.36	
Balance of trade	1,113.99	-7.80	210.31	-29.19	274.54	19.00	277.13	-4.84	352.01	-9.58
Exports of Goods & Services	11,401.40	-0.42	2,666.77	-4.06	2,828.89	0.35	2,901.98	1.23	3,003.76	0.68
Imports of Goods & Services	10,297.80	0.56	2,456.46	-1.05	2,554.45	-1.31	2,633.19	2.24	2,653.71	2.29
Price										
CPI	104.68	0.99	104.24	1.74	104.73	1.40	105.07	0.63	104.67	0.21
WPI	84.41	-3.42	84.60	-4.99	84.08	-4.19	84.38	-3.25	84.58	-1.19
Monetary Aggregate										
M1B	15,458.54	5.30	15,394.26	6.39	15,185.49	4.60	15,500.95	4.97	15,753.44	5.25
M2	40,613.28	4.42	40,270.28	5.20	40,373.55	4.07	40,733.82	4.22	41,075.48	4.20
Exchange Rates (NT\$/US\$)	32.71		33.35		32.49		32.49		32.49	

Source: Academia Sinica, Institute of Economics, June 29, 2016.