



2017 Taiwan Economic Forecast

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2017 Taiwan Economic Forecast :

Slowly Recovering

The International Monetary Fund (IMF) had revised its forecasts of growth in global GDP and world trade volume to 3.1% and 2.3% respectively, both lower than the numbers in 2014, because of subdued global demand in 2016. Developed world economies, including the U.S. and Japan, have witnessed slower exports because of the weak global demand. However, the latest figures of the U.S. suggest that domestic demand is still strong, as evident from a lower unemployment rate and solid consumption. In the meantime, contrary to earlier expectations, Brexit has not impacted the Eurozone significantly. Besides steady growth in China too has supported performance of the World Economy in late 2016. Taiwan's economy has suffered contraction for three consecutive quarters since the third quarter of 2015. However, the rising overseas demand for smart products has stimulated exports and the related investment in the second half of this year. As a result, we expect real GDP to grow 1.23% in 2016. Considering a more salient growth in the U.S., real GDP is expected to grow 1.68% in 2017. However, uncertainties about the U.S. trade policy, fears of populist protectionism and changes in interest rates will lead to more uncertainty in the near future.

After solid growth in 2014 (3.33%), real private consumption grew only 2.23% in the first three quarters (year-on-year) this year. High-frequency data show that sales of trade and food services declined because of weak wholesale and retail sales. Retail sales of ICT (Information and Communication Technology) products and appliances also reflect weak domestic demand. Therefore, we expect private consumption to grow 2.03% in 2016 but decelerate to 1.30% in 2017 because of the rising consumer price index and a declining Taiwan consumer confidence index (CCI). Real private investment grew 1.71% in the first three quarters this year (year-on-year). While this number is not very inspiring, imports of capital equipment have grown for five consecutive months since July. We believe the possible reason is the release of the new iPhone. However, economic recovery is still uncertain because the latest PMI indicates that the Electronic & Optical industry has slowed down; growth of new orders has decelerated in the last three months. Therefore, real private investment is projected to grow 1.14% in 2017. Growth of gross fixed capital formation will remain weak at 1.04% year-on-year.

Though external trade has been a matter of growing concern since 2015, data for the third quarter show exports and imports of goods and services were up 3.59% and 5.27%, respectively. Growth of exports and imports in nominal terms were also encouraging, implying trade is trending up. After considering price effects, exports and imports of goods and services are projected to grow by 1.18% and 2.33% in 2016, respectively. In 2017, while there is an upward trend in the global trade, our trade sector is constrained by slower growth in China, as well as weak domestic demand.

Accordingly, we expect exports and imports of goods and services are projected to grow by 4.13% and 3.76%, respectively, in 2017. However, this growth comes in the wake of low performance in 2016.

Since crude oil has stopped declining, consumer price index (CPI) was up 1.36% in the first eleven months, mainly because food prices rose 5.31%. However, other components of the CPI, including fuel related prices, offset the effect of the rise in food prices. In the same period, the core price index was up only 0.84%. We expect CPI to rise by 1.29% for the whole of 2016. Crude oil prices are expected to surge in 2017 because of reduction in output. We expect CPI to remain steady at 1.13% in 2017. In addition, since international commodities prices are still weak, wholesale price index (WPI) is expected to decline 3.08% in 2016 and rise by 1.29% in 2017.

In 2015, M1B expansion was lower than M2 for the first time since 2011, reflecting weak demand for funds. This is in sync with lower growth of loans at all banks. In the first half of 2016, growth of M1B was similar to 2015, ranging from 6.11% to 6.92% while growth of M2 decelerated, ranging from 4.14% to 5.63%, though it has been below 5% since March. The latest numbers for M1B and M2 are 6.35% and 3.98%, respectively (Oct. 2016). Money supply is expected to expand modestly, with M1B and M2 growing 4.06% and 4.59% respectively in 2017, because of relatively weak demand.

Going forward in 2017, the recent stimulus for demand recently is expected to help investment and exports gain some momentum. However, the weak trade growth is still a major concern because there is no evidence of our major trade partners, including the U.S. and China, experiencing any surprising improvements, especially because of the ongoing reforms in China. Moreover, uncertainty about the effects of the change of regime in the U.S. and the continued political uncertainty in the Eurozone will lead to a more volatile financial sentiment. Therefore, after considering these factors, we expect that the 50% confidence interval of real GDP growth will range from 0.52% to 2.97%.

Table 1 2016 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	15,833.34	1.23	3,786.62	-0.23	3,893.38	1.13	4,034.15	2.03	4,119.19	1.91
Private Consumption	8,805.79	2.03	2,204.21	2.64	2,179.27	1.59	2,223.21	2.46	2,199.10	1.42
Government Consumption	2,326.75	2.43	547.43	6.34	562.32	2.03	597.38	3.56	619.61	-1.46
Fixed Capital Formation	3,628.50	1.92	835.91	-0.12	883.78	0.16	961.65	3.35	947.16	4.04
Private Enterprises	2,969.87	1.97	727.91	0.22	728.82	1.16	806.79	3.62	706.35	2.82
Public Enterprises	206.92	1.35	28.30	-5.07	50.85	-2.50	42.51	-6.38	85.26	11.03
Government	454.64	2.36	79.30	-1.70	104.09	-5.09	111.53	4.66	159.73	8.47
Inventory Change	-3.93		-25.58		18.16		-2.54		6.03	
Balance of trade	1,059.63	-8.13	221.54	-24.86	245.17	5.69	242.16	-12.20	350.76	0.00
Exports of Goods & Services	11,558.50	1.18	2,671.56	-3.88	2,801.63	0.21	2,967.06	3.59	3,118.25	4.50
Imports of Goods & Services	10,509.32	2.33	2,450.02	-1.39	2,556.47	-0.29	2,724.89	5.27	2,777.94	5.49
Price										
CPI	104.99	1.29	104.24	1.74	104.67	1.33	105.15	0.71	105.90	1.38
WPI	84.71	-3.08	84.60	-4.99	84.89	-3.27	84.25	-3.41	85.13	-0.56
Monetary Aggregate										
M1B	15,669.26	5.84	15,382.30	6.14	15,408.50	5.91	15,762.60	5.90	16,123.62	5.43
M2	40,836.63	4.42	40,412.30	4.70	40,553.10	4.65	40,766.30	3.98	41,614.82	4.34
Exchange Rates (NT\$/US\$)	32.31		33.35		32.44		31.73		31.70	

Source: Academia Sinica, Institute of Economics, Dec 22 2016.

Table 2 2017 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	16,099.45	1.68	3,871.65	2.25	3,967.99	1.92	4,093.78	1.48	4,166.03	1.14
Private Consumption	8,920.50	1.30	2,228.05	1.08	2,202.13	1.05	2,265.53	1.90	2,224.80	1.17
Government Consumption	2,328.14	0.06	534.15	-2.43	562.18	-0.03	592.40	-0.84	639.42	3.20
Fixed Capital Formation	3,666.39	1.04	875.97	4.79	904.02	2.29	959.12	-0.26	927.28	-2.10
Private Enterprises	3,003.84	1.14	760.65	4.50	745.70	2.32	799.62	-0.89	697.87	-1.20
Public Enterprises	210.51	1.73	29.01	2.50	51.78	1.82	43.56	2.47	86.16	1.06
Government	460.04	1.19	82.01	3.42	108.05	3.81	112.82	1.16	157.16	-1.61
Inventory Change	13.05		3.03		3.53		3.12		3.37	
Balance of trade	1,165.98	10.04	231.26	4.39	293.23	19.60	263.98	9.01	377.52	7.63
Exports of Goods & Services	12,036.19	4.13	2,817.06	5.45	2,991.59	6.78	3,061.79	3.19	3,165.75	1.52
Imports of Goods & Services	10,904.98	3.76	2,601.51	6.18	2,706.86	5.88	2,802.88	2.86	2,793.74	0.57
Price										
CPI	106.17	1.13	105.15	0.88	106.02	1.30	106.79	1.56	106.73	0.78
WPI	85.81	1.29	85.02	0.50	85.75	1.02	86.61	2.80	85.87	0.87
Monetary Aggregate										
M1B	16,306.13	4.06	16,217.72	5.43	16,126.80	4.66	16,241.68	3.04	16,638.32	3.19
M2	42,712.40	4.59	42,280.05	4.62	42,385.34	4.52	42,648.48	4.62	43,535.74	4.62
Exchange Rates (NT\$/US\$)	32.14		31.98		32.22		32.23		32.16	

Source: Academia Sinica, Institute of Economics, Dec 22, 2016.

