



2017 Taiwan Economic Forecast: A Revision

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Revival in External Demand

In the first half of 2017, the global economy continued to recover at a steady pace because of a rise of global demand as well as a more stable price. Specifically, advanced economies (AE), including the U.S. and the Eurozone, experienced robust economic growth stimulated by elevated investment, driven by a rising demand. Japan also had unexpected growth as a weak yen resulted in strong net exports. As for emerging markets and developing economies (EMDE), they are benefitting from stable commodity prices. These economies are expected to remain on track, with normal growth. The International Monetary Fund (IMF) has revised its forecasts of growth in global GDP and world trade volume to 3.5% and 3.8% respectively, higher than the numbers for 2016. Taiwan has reported promising numbers for the first quarter of 2017 because of the strong performance in respect of capital spending and exports. However, stagnating real wages weigh on the growth of private consumption. In the second half of this year, while we have had disappointing Taiwan Business Indicator for two consecutive months, we believe it is temporary and therefore we revise upward our GDP growth rate forecast to 2.18%.

Real growth of private consumption was 1.95% (year on year) in the first quarter, higher than the forecast. However, it is lower than the average over the last three years as well as the average over 2000 to 2007 (before the financial crisis). The downward spiral of consumer confidence index (CCI) also reflects the fact that real wage has stagnated. As a result, the recovery of real private consumption is tepid. We expect that the real private consumption will grow by only 1.80% in 2017. Private investment grew 3.10% (year on year) in the first quarter reflecting buoyant imports of capital equipment, which have grown for twelve consecutive months. However, the latest data show that the pace of growth has been slowing. This is reflected by the PMI also, which indicates that the growth of investment is stable but not too strong. Therefore, the predicted growth rate of real private investment has reached 2.36% in 2017, partly because of the high base last year. The real fixed capital spending is expected to grow by 2.57% year-on-year, with robust contributions from rising government and public investments.

After solid growth in the late 2016, data for the first quarter show exports and imports of goods and services were up 7.36% and 7.67% (year-on-year), respectively, in 2017. Nominal exports and imports have grown for nine and ten consecutive months,

respectively, reflecting a recovery in external sector (in US dollars). But this strong growth is partly attributable to a lower base last year. The average monthly growth over the first half of this year in exports and imports has been 0.34% and -0.45%, respectively, lower than the numbers for the second half of 2016 (2.32% and 1.84%), showing a much slower pace. Consequently, we expect that exports and imports of goods and services shall grow by 4.23% and 4.04% respectively in 2017. The net exports of goods and services is projected to grow by 7.62%.

The consumer price index has been subdued, which is attributed to the decline of prices of vegetables and eggs. The price of food was up by only 0.01% in the first six months, and clothing prices dropped 0.01% while transportation and communication rose 2.30% in the same period. Therefore, the inflation rate was 0.67% and the core price index was up by 0.97%. Since crude oil price is expected to remain stable because of the OPEC agreement for cut in supply, we predict inflation rate of 0.93% for 2017. The wholesale price index should rise 0.82% because of the rising global demand.

Average unemployment rate in the first five months was 3.75%, lower than in the same period last year. Considering a tight labor market and a higher unemployment rate in July, we expect the unemployment rate in 2017 will be 3.82%, which is better than 2016. M1B and M2 expanded at slower rates of 3.69% and 3.49% respectively in April, showing weak demand for funds. In 2017, M1B and M2 are projected to be up by 3.96% and 3.41% respectively.

On the whole, Taiwan's economy shows that the improvement has intensified in the first half, driven by strong global demand. However, subdued domestic demand, especially private consumption, is the main reason why the pace of growth is not back to the pre-financial crisis levels. The uncertainty of external factors including trade protectionism and geopolitical issues may affect the only engine driving growth and that makes our economy more fragile and vulnerable. Internal political issues such as "one fixed day off and one flexible rest day" and "pension reform" would definitely have a short-term effect on consumption. Taking all into account, we expect that the 50% confidence interval of real GDP growth will range from (1.02%, 3.47%).

Table 1 2017 Taiwan Economic Forecast: A Revision

Unit: Billions of NT\$

	Annual		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Forecast Numbers	Growth Rates (%)	Numbers	Growth Rates (%)	Forecast Numbers	Growth Rates (%)	Forecast Numbers	Growth Rates (%)	Forecast Numbers	Growth Rates (%)
Real GDP	16,218.39	2.18	3,885.18	2.60	3,971.25	2.00	4,120.88	2.06	4,241.09	2.07
Private Consumption	8,982.41	1.80	2,247.19	1.95	2,228.65	2.27	2,266.19	1.69	2,240.52	1.29
Government Consumption	2,339.15	-0.15	521.31	-4.77	568.27	1.06	598.37	0.35	651.21	2.28
Fixed Capital Formation	3,741.55	2.57	870.42	4.13	905.47	2.45	982.83	1.90	982.83	2.01
Private Enterprises	3,068.99	2.36	750.50	3.10	746.67	2.45	824.96	1.89	746.86	2.04
Public Enterprises	209.77	5.95	33.86	19.64	51.48	1.23	43.85	3.16	80.58	5.57
Government	463.23	2.53	85.32	7.60	107.20	2.99	113.17	1.47	157.55	0.41
Inventory Change	-6.71		1.17		5.66		-14.20		0.66	
Balance of trade	1,124.48	7.62	230.04	3.84	261.29	6.58	276.77	14.21	356.38	6.12
Exports of Goods & Services	12,157.65	4.23	2,868.08	7.36	2,973.07	6.12	3,077.38	3.65	3,239.12	0.54
Imports of Goods & Services	11,047.81	4.04	2,638.04	7.67	2,728.93	6.75	2,804.32	2.85	2,876.52	-0.32
Price										
CPI	106.08	0.93	105.05	0.78	105.56	0.86	106.50	1.28	107.20	0.82
WPI	85.50	0.82	86.55	2.30	85.07	0.21	84.72	0.57	85.66	0.22
Monetary Aggregate										
M1B	16,246.71	3.96	16,180.93	5.07	16,043.95	4.09	16,295.33	3.57	16,466.61	3.13
M2	42,068.02	3.41	41,780.40	3.53	41,881.37	3.37	42,092.25	3.14	42,518.04	3.60
Exchange Rates (NT\$/US\$)	30.39		31.10		30.27		30.08		30.10	

Source: Academia Sinica, Institute of Economics, July 19, 2017.