



# 2018 Taiwan Economic Forecast: A Revision

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July 27, 2018

Academia Sinica, Institute of Economics

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## **Growing with Downside Risk**

The steadily improving economy and strong global demand has helped the Taiwanese economy maintain a better than expected trade volume and high manufacturing activity. Taiwan's real GDP grew 3.02% (year-on-year) in the first quarter of 2018. This mainly reflects the expansion of high-end processed products, the rising international raw material prices and emerging demand for overseas automated mechanical equipment. High corporate profits and the improvement in the job market reflect an expanding domestic demand. According to a number of indices, the outlook for the second half of 2018 still maintains buoyant. The National Development Council's Economic Indicator in May continued to show steady economic activities. Meanwhile, the latest Taiwan's Manufacturing Purchasing Managers Index (PMI) and Non-Manufacturing Index (NMI) both remain optimistic. However, in consideration of global trade uncertainties, the forecast for the 2018 real GDP is revised to 2.65%.

Real private consumption grew to 2.73% (year-on-year) in the first quarter this year. This was a result of a recovery from the domestic economy, the improvement in wages and an increasing activeness in the stock market. The cumulative revenue for the wholesale, retail, and restaurant/food/beverage sectors in the first six months of 2018 was 4.49%, which is higher than that of last year. The cumulative turnover rate from January to June increased by 4.69%, mainly due to a rising demand for imported cars and car parts, increased buying in electronic products and home appliances as well as the continuous expansion in retail sales. At the same time, the food and beverage services also grew 4.72%. Rising profits in the private sector and the increased willingness to raise wages would help consumption expenditure. Nevertheless, the upturn of oil prices may affect domestic prices and consumers' willingness to spend. Thus, the real private consumption is expected to grow to 2.41% in 2018.

As a result of a decrease in capital expenditures by major domestic semiconductor manufacturers, real private investment growth dropped to 0.81% (year-on-year) in the first quarter of 2018. However, semiconductor manufacturing processes have been upgraded in the second quarter, resulting in an increase in capital equipment imports,

along with a boost of 0.10% in imports of capital equipment. The Taiwanese government is currently dedicated to implementing deregulation work and promoting forward-looking infrastructures to assist the growth of investments. In addition, the real private investment rate is estimated to grow 3.34% (year-on-year) because the stabilization of imports in construction equipment would cause a surge in private investments. It is also predicted that the gross fixed capital formation will produce a year-on-year increase of 3.98%, due to the expansion in government and public investments.

As for foreign trade, exports and imports in Taiwan have continued to benefit from a strong global demand. Real year-on-year output and input rose 6.69% and 6.12% respectively for the first quarter. Merchandise exports and import (in US\$ terms) in the first six months were up 10.9% and 10.8% (year-on-year), mainly because of the continuous recovery of the world economy, the solid demand for electronic components, and rising prices of raw materials. Though it is foreseen that an upward trend in global trade is still to be expected in 2018, the current trade war between countries as well as a slower economic growth in China may cause Taiwan's trade sector to decelerate significantly. In consideration of the effects of price factors and a higher basis year, exports and imports of goods and services will be expected to grow 4.03% and 4.91% (year-on-year) respectively in 2018.

The consumer price index (CPI) for the first six months had reflected a hike in international oil prices and the increase of cigarettes tax. The annual growth rate of consumer price index (CPI) and core CPI were only 1.60% and 1.40% (year-on-year), suggesting that the current price level is stable. The Wholesale Price Index (WPI) is consistent with the upward trend of international commodity prices, which has grown by 2.37% (year-on-year) in the first six months. In consideration of the continuous rise of the international oil price and raw material prices, as well as the strengthening of the U.S. Dollar, the annual CPI and WPI are estimated to grow 1.58% and 2.89% (year-on-year) respectively in 2018.

The performance of the labor market has been improved, thus, the average unemployment rate for the first six months was 3.66%. It is estimated that the unemployment rate will continue to remain around 3.70% this year. The readings of the cumulative annual growth rate of the money supply for M1B and M2 in the first six

months were 5.26% and 3.70% respectively. In view of a steady outlook in economic activities in the second half of this year, we expect the demand for funds to increase in the coming months. Thus, the estimations of the annual growths of M1B and M2 are 4.29% and 3.87% respectively.

On the whole, Taiwan's economy has shown significant improvement in the first half of 2018 due to strong exports and increased manufacturing activities. Although exports and economic growth of the second half of 2018 may be slower in comparison to the 2017 basis period, the stable labor market and optimism on a wage increase should support a sustainable growth momentum. Besides, the government is actively implementing relevant policies, such as the forward-looking infrastructure development program, energy transformation and urban renewal. These initiatives will all help boost investment and strengthen domestic demand. Despite the latest reports from the IMF and the World Bank, which projected a steady global growth for the next two years, larger downside risks were also noted. The strong global economy still poses certain risks that might disrupt the pace of recovery. The Economic Outlook made emphasis on the growing uncertainties in regards to the escalating US-China trade war, the pace of the Fed's interest rate hikes, the spread of geopolitical conflicts, the increased financial risks, and the continuous rise of oil prices. These exposures inadvertently could affect consumers' confidence and corporations' willingness to invest. On the other hand, whether the execution of the government's plan to boost investments, stimulate implementation of major public infrastructures, and strengthen the development of domestic industries maintain in progress, could also affect impact protections. After considering forecast errors and uncertainty factors, our 50% interval forecast for GDP growth of 2018 will range from 1.52% to 3.90%.

**Table 1 2018 Taiwan Economic Forecast: A Revision**

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	16,768.64	2.65	4,000.26	3.02	4,098.99	3.01	4,267.06	2.43	4,402.33	2.21
Private Consumption	9,254.38	2.41	2,305.75	2.73	2,286.45	2.68	2,336.71	2.22	2,325.47	2.00
Government Consumption	2,378.68	1.96	557.89	6.58	568.63	-0.15	605.22	0.10	646.94	1.83
Fixed Capital Formation	3,772.69	3.98	881.39	0.55	912.88	2.53	981.49	4.98	996.93	7.61
Private Enterprises	3,052.57	3.34	765.04	0.81	743.86	1.36	810.54	4.56	733.14	6.89
Public Enterprises	214.49	8.11	32.37	-4.58	53.77	15.83	44.02	2.58	84.32	12.23
Government	502.26	6.28	83.32	0.12	115.67	5.02	124.47	8.72	178.80	8.53
Inventory Change	22.55		-19.36	-	24.95	-	17.81	-	-0.85	-
Balance of trade	1,344.25	-0.18	250.20	13.50	302.06	21.25	342.22	-12.90	449.77	-7.11
Exports of Goods & Services	13,013.48	4.03	3,050.30	6.69	3,130.10	6.53	3,348.94	1.58	3,484.15	2.00
Imports of Goods & Services	11,711.05	4.91	2,800.10	6.12	2,833.79	5.38	3,025.85	4.20	3,051.32	4.08
Price										
CPI	102.21	1.58	101.51	1.56	101.81	1.65	102.39	1.58	103.14	1.54
WPI	103.82	2.89	101.94	-0.12	104.32	4.94	104.30	4.15	104.71	2.68
Monetary Aggregate										
M1B	17,037.73	4.29	16,939.67	4.57	17,032.83	5.95	17,059.65	3.59	17,118.79	3.12
M2	43,800.83	3.87	43,238.14	3.60	43,641.72	3.81	43,947.83	3.83	44,375.64	4.22
Exchange Rates (NT\$/US\$)	29.90		29.32		29.79		30.32		30.17	

Source: Academia Sinica, Institute of Economics, July 27, 2018.