



## 2020 Taiwan Economic Forecast

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# **2020 Taiwan Economic Forecast :**

## **Chilling Outside, Lukewarm Inside**

The heating up of China-U.S. trade conflict and weak overseas demand has softened the global economic growth significantly. In contrast, thanks to the continued strong order-transform effect, return of Taiwanese companies, and increased investments in semiconductor equipment, Taiwan's real GDP grew 2.99% (year-on-year) in Q3 2019. With a pick-up in consumption and an increase in investment, Taiwanese economic growth is expected to be 2.62% in 2019. Looking ahead to 2020, our domestic demand is expected to remain steadily growing, but the sluggish global economy may cause a drag to growth, and we expect a 2.58% real GDP growth in 2020.

Real private consumption grew 2.28% (year-on-year) in Q3 2019, mainly because of the sales increase in motor vehicles and other disposable goods. The retail food industry revenue hit multiple record highs during the first 10 months; however, the decline in wholesale industry caused by the trade friction offset the improved domestic demand; the revenue from wholesale, retail and catering industries combined from January to October declined 1.07% compared with that of last year. As the year-end, the traditional peak season of consumption, approaching, the drop could be mitigated, and the real private consumption growth is projected to remain at 1.99% in 2019. With the recovery of domestic demand and rebounding consumer confidence, real private consumption is projected to grow 2.01% in 2020.

Private investment grew at an annualized rate of 7.59% in the first three quarters in 2019 because of larger investments in equipment by companies in the midst of the recent expansion of semiconductor production capacity by adoption of advanced processes. The 2019 growth rate of real private investment will rise by 7.42% in 2019 and 3.67% in 2020 due to the continuing supply chain transfer effect. In the meantime, the government-motivating forward-looking infrastructure and the public green-power initiative help the fixed capital formation rate to grow by 7.63% in 2019, then decelerate to 4.11% in 2020 because of the higher base.

As for the foreign trade, exports and imports of real goods and services rose 0.33% and -2.31%, respectively in Q3 2019, due to manufacturing lines moving back to Taiwan and the peak-season deliveries, promoting the growth in telecommunication products and electronic parts in exports, yet imports clearly diminished as the Taiwan-returning production increases. The exports and imports of goods and services are thus projected to grow by 0.73% and -0.31%, respectively in 2019. With the rapid development in emerging technology application and 5G infrastructure, the exporting momentum will keep up next year, yet it is worth notice that the U.S.-China trade aftermath and China's stagnating growth could

discourage domestic real exports and imports. Including both price level and base period, the real exports and imports of goods and services are projected to grow by 2.56% and 2.52%, respectively in 2020.

The price level, affected by soften prices in the international commodity market, the annual rise in Consumer Price Index (CPI) was only 0.51% for the first 11 months and the core CPI was only 0.49%, mildly increases in a stable way. The Wholesale Price Index (WPI), influenced by low crude oil and raw materials prices as well, accumulating the first 11 months, declined by 2.14% compared with that of last year. The CPI and WPI in 2019 are therefore estimated to rise 0.52% and -2.16%, respectively. Under a low-interest environment, inflation next year is expected to remain steady, and if the global commodity market price level stays low, the CPI and WPI in 2020 are estimated to rise 0.73% and -1.25% (year-on-year), respectively.

The labor market, an average of 3.74% unemployment rate for the first 10 months this year, indicates a satisfactory employment condition. However, the recent sharp increase in unpaid leave should be of concern, and the estimated unemployment rate in 2019 and 2020 will remain at about 3.75%. Seeing that a booming stock market and a rising demand for funds domestically, and the money supply is in the expansionary stage, the respective annualized growth in M1B and M2 in the first ten months was 7.09% and 3.32%, showing abundant liquidity in the market. Anticipating the domestic economic growth to be more modest next year, but companies are still requiring more capital, the 2020 estimated growth of M1B and M2 will be at 4.60% and 3.46%, respectively.

Looking forward, the IMF and the OECD have lowered their forecasts of global economic growth and world trade volume for the year of 2020 yet again, mainly because the trade war ties into a key component in global economic growth, meaning they are poised to be cautious about future growth. Notwithstanding the U.S.-China trade negotiation having reached a new positive sign, the intellectual property rights, technological competition, and other trade structure issues remain tough to resolve properly in the short term. In addition, since the US economy has entered the cyclical slowdown, and China is reforming its economy structure and the risks exposed by the municipal debts lingers, the international political and economic situation is still considered grim, which may cause corporate holding back on investment and undermine consumer confidence. As the manufacturing PMI has returned to the expansion trajectory, and the decline in export orders has gradually shrunk, the domestic economy is likely to rebound moderately. Nonetheless, the effectiveness of the returning businesses, whether the private investment continue progressively, the government's efforts in advancing critical forward-looking projects, and the facilitation of industrial development on transformation and upgrading are all key supports for Taiwan's economic growth momentum. Given the aforementioned factors and bearing prediction errors, the 50% interval forecast GDP growth in 2020 will range from 1.47% to 3.81%.

**Table 1 2019 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	19,122.23	2.62	4,519.68	1.84	4,697.10	2.60	4,872.55	2.99	5,032.91	2.97
Private Consumption	9,707.36	1.99	2,412.79	1.75	2,393.96	1.61	2,436.55	2.28	2,464.05	2.32
Government Consumption	2,577.47	0.23	575.39	-3.06	626.39	-2.58	656.82	3.77	718.87	2.38
Fixed Capital Formation	4,208.01	7.63	984.32	6.55	1,044.52	11.44	1,086.95	4.32	1,092.23	8.49
Private Enterprises	3,444.29	7.42	860.48	6.88	870.84	11.44	914.85	4.79	798.13	6.89
Public Enterprises	227.11	5.81	32.71	4.62	51.07	11.08	44.09	-9.67	99.24	12.01
Government	536.36	9.71	91.09	4.29	122.57	11.59	127.66	6.25	195.04	13.69
Inventory Change	-39.97	-	13.89	-	-20.99	-	-24.85	-	-8.02	-
Balance of trade	2,643.46	4.91	529.66	0.26	647.99	5.79	713.17	10.96	752.64	2.22
Exports of Goods & Services	12,515.15	0.73	2,913.05	0.88	3,063.26	1.42	3,239.57	0.33	3,299.26	0.35
Imports of Goods & Services	9,874.12	-0.31	2,383.40	1.02	2,415.27	0.31	2,526.40	-2.31	2,549.06	-0.09
Price										
CPI	102.51	0.52	101.84	0.32	102.71	0.81	102.90	0.41	102.60	0.54
WPI	102.30	-2.16	102.65	0.69	103.67	-0.58	102.61	-3.97	100.27	-4.67
Monetary Aggregate										
M1B	18,414.26	7.03	18,034.32	6.46	18,294.43	7.41	18,644.85	7.42	18,683.44	6.81
M2	45,127.01	3.38	44,556.72	3.05	45,117.75	3.39	45,281.31	3.38	45,552.27	3.68
Exchange Rates (NT\$/US\$)	30.96		30.83		31.15		31.21		30.65	

Source: Academia Sinica, Institute of Economics, Dec. 18, 2019.

**Table 2 2020 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	19,614.74	2.58	4,655.70	3.01	4,824.28	2.71	4,995.85	2.53	5,138.91	2.11
Private Consumption	9,902.70	2.01	2,465.24	2.17	2,445.25	2.14	2,483.13	1.91	2,509.08	1.83
Government Consumption	2,627.05	1.92	590.45	2.62	633.60	1.15	667.58	1.64	735.41	2.30
Fixed Capital Formation	4,381.12	4.11	1,037.51	5.40	1,077.00	3.11	1,151.20	5.91	1,115.42	2.12
Private Enterprises	3,570.86	3.67	895.83	4.11	889.60	2.15	960.38	4.98	825.05	3.37
Public Enterprises	265.56	16.93	38.76	18.51	59.52	16.56	55.86	26.69	111.41	12.26
Government	557.66	3.97	94.99	4.28	127.98	4.41	133.41	4.50	201.29	3.21
Inventory Change	-38.43	-	9.40	-	-5.68	-	-38.15	-	-4.01	-
Balance of trade	2,700.75	2.17	539.62	1.88	668.40	3.15	724.69	1.61	768.04	2.05
Exports of Goods & Services	12,836.15	2.56	3,033.07	4.12	3,129.58	2.17	3,314.26	2.31	3,359.24	1.82
Imports of Goods & Services	10,122.90	2.52	2,488.67	4.42	2,458.50	1.79	2,585.24	2.33	2,590.49	1.63
Price										
CPI	103.26	0.73	102.64	0.79	103.16	0.44	103.62	0.69	103.60	0.98
WPI	101.02	-1.25	101.57	-1.05	100.84	-2.73	101.23	-1.34	100.43	0.16
Monetary Aggregate										
M1B	19,260.86	4.60	19,022.83	5.48	19,174.08	4.81	19,420.21	4.16	19,426.30	3.98
M2	46,688.51	3.46	46,193.89	3.67	46,605.44	3.30	46,813.40	3.38	47,141.30	3.49
Exchange Rates (NT\$/US\$)	30.73		30.78		30.80		30.67		30.68	

Source: Academia Sinica, Institute of Economics, Dec. 18, 2019.