



2020 Taiwan Economic Forecast: A Revision

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- Bustling under the Great Lockdown

In the first half of 2020, the global economy was severely affected by the outbreak of the new coronavirus disease (COVID-19). This is mirrored in the decrease in consumption, investment, production and trade. All economic activities contracted rapidly, and businesses encountered shrinking manpower, declining orders and plummeting revenue. Stagnant overseas demand and weak domestic consumption had caused Taiwan economy to register a GDP growth of 1.59% in the first quarter. As the virus continues to spread, the global damages in human lives and economy worsens significantly. The International Monetary Fund (IMF) has predicted in June that global economy is likely to shrink 4.9% this year, which implies a precarious external environment for Taiwan. Looking forward to the second half of the year, the global economy is slowly recovering from the setback caused by outbreak of the disease, which had dampened export momentum in the first half. However, with the thriving high-tech industries and expansion of government spending, Taiwanese economy is expected to recover gradually. Therefore, the real economic growth rate for 2020 has been revised to 1.15%.

The real growth of private consumption has been negative (-1.58%) year-on-year in the first quarter, mostly attributable to the downturn in the economy; consumer spending on discretionary expenses such as traveling, lodging and entertainment have been slow and that has prompted sales to plunge significantly. Compared to the figures last year, retailing and catering turnover was down by 3.59% and 9.95% respectively in the first five months of 2020. As the pandemic has been under control to a large extent, consumer confidence index (CCI) recovered in June and with multiple stimuli injected by the government, this is expected to result in a rise in expenditure in the second half of the year. Nevertheless, the job market has not recovered fully and that will impact the vigor in spending. Thus the real private consumption in 2020 is anticipated to decline 0.30%.

Real private investment has risen 1.89% in the first quarter, mainly because of ramping up of manufacturing equipment by the semiconductor industry, and investments by companies bringing their manufacturing facilities back to Taiwan. In addition to the returning businesses and foreign investments, local companies have proactively adjusted their production lines in response to the pandemic, so that the real private investment is expected to grow by 2.05% in 2020. With the strengthening of execution of public infrastructure projects by the government and the public sector units, it is estimated that the fixed capital formation will grow 4.11% in 2020.

The first-six-month nominal exports and imports decreased by 2.55% and 3.38% respectively, which was mainly caused by the outbreak of the disease leading to low demand for basic materials. However, new businesses like remote working and 5G have accelerated and are breaking records in terms of ICT orders. Owing to the US-China trade

war, and lower consumption of traditional goods, foreign trade continues to lose momentum. On the other hand, the pandemic has hit the travel and leisure industry hard, which has adversely affected services. Exports and imports of goods and services are expected to be down by 3.72% and 4.13% respectively.

The consumer price index (CPI), dragged down by the falling energy prices, was down by 0.22%, compared to the first six months of last year. The core CPI, the index disregarding energy and food prices, was up 0.25% compared to the same period of last year, showing overall prices are still balanced. The wholesale price index, affected by the low price of crude oil and lower demand for basic materials, was down by 8.75% compared to the same six months of last year. It is projected that the oil price will rebound and the demand for commodities will recover in the second half of the year, which shall halt the decline. CPI and WPI are expected to be cut by 0.18% and 6.19% respectively.

Average rate of unemployment in the first five months of the year was 3.83%, which is higher than the same period of last year. The pandemic is considered as the main culprit, having resulted in fewer recruitments and more workers being sent on leave without pay. The third quarter is expected to see new graduates entering the job market and unemployment rate may rise in the second half of the year, leading to unemployment to be around 4.0% in the full year. Thanks to the active trading in the stock market and lowering of the policy rate in the first quarter, the liquidity in the market is appropriately eased. Demand for money may continue to rise, driven by investments by domestic companies in the second half of year, and therefore M1B and M2 are expected to be up by 7.43% and 4.36% respectively.

Looking forward to the second half of the year, economic recovery is a major concern depending on the pandemic. Although many countries have gradually lifted restrictions imposed earlier, the post-pandemic world is still unclear on its development; prospects for a global economic recovery are still grim. Overall, Taiwan has successfully fought the pandemic, Taiwanese businesses are bringing manufacturing back to Taiwan, and fiscal measures of the government continue to be supportive, accelerating public investments. Therefore, the gradual recovery in the local economy. As the global situation becomes capricious, US-China conflict intensifies, the new geopolitical risks ascends, and that high debts threatens the health of the financial market, we could not clearly read how the future will turn out, necessitating us to pay close attention to the succeeding development. Considering all factors, we expect that at the 50% confidence interval of the real GDP growth will be in the range of 0.07% to 2.33%.

Table 1 2020 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	19,360.24	1.15	4,591.62	1.59	4,705.83	0.19	4,933.06	1.21	5,129.73	1.61
Private Consumption	9,698.94	-0.30	2,374.68	-1.58	2,341.22	-2.20	2,471.79	1.20	2,511.25	1.29
Government Consumption	2,646.81	2.86	594.50	3.32	633.94	1.20	670.94	2.15	747.43	4.59
Fixed Capital Formation	4,439.10	4.11	1,019.87	3.61	1,084.32	3.81	1,161.04	7.44	1,173.88	1.69
Private Enterprises	3,594.48	2.05	876.71	1.89	890.81	2.29	967.66	6.52	859.29	-2.65
Public Enterprises	264.33	21.56	38.41	17.41	61.98	21.36	55.40	25.50	108.55	21.24
Government	580.47	10.90	104.77	15.02	131.66	7.42	137.78	7.92	206.26	13.26
Inventory Change	-11.33	-	36.17	-	7.64	-	-36.50	-	-18.65	-
Balance of trade	2,553.50	-1.49	554.64	4.72	638.18	-1.51	653.60	-7.73	707.08	0.14
Exports of Goods & Services	12,103.47	-3.72	2,843.95	-2.37	2,824.58	-7.79	3,118.61	-3.39	3,316.33	-1.52
Imports of Goods & Services	9,567.24	-4.13	2,289.31	-3.95	2,198.53	-8.97	2,468.22	-2.04	2,611.19	-1.88
Price										
CPI	102.37	-0.18	102.39	0.54	101.70	-0.98	102.53	-0.36	102.86	0.10
WPI	95.88	-6.19	97.40	-5.11	92.00	-11.26	96.93	-5.49	97.18	-2.73
Monetary Aggregate										
M1B	19,851.12	7.43	19,433.40	7.36	19,704.08	7.77	20,050.82	7.37	20,216.18	7.22
M2	47,115.94	4.36	46,628.47	4.52	46,904.05	4.17	47,166.08	4.36	47,765.18	4.39
Exchange Rates (NT\$/US\$)	30.00		30.15		29.94		29.96		29.96	

Source: Institute of Economics, Academia Sinica. July 15, 2020.