

2014 Taiwan Economic Forecast: A Revision

Since April (2014), the International Monetary Fund (IMF), World Bank (World Bank) and the Organization for Economic Cooperation and Development (OECD) have cut their estimates on global economic growth in their latest issues of world economic outlooks. The most important reason for such revisions is that the U.S. and China's performances in the first quarter were not as good as expected. Even though, these organizations all agree that the pace of global economic growth this year will exceed last year. As the IMF indicated in its world economic outlook, in the second half of this year the pace of recovery will speed up. Taiwan's first quarter performance was quite good. Real GDP annual growth reached 3.14%, which was higher than all domestic institutions' forecasts. Private consumption and net foreign demands were two drivers for the growth.

Monitoring Indicator, published by the National Development Council, has shown the green light for 4 consecutive months. Recently released June PMI also has been higher than the middle level of 50% for 16 consecutive months, which indicates a sign of expansion. All of above suggest that in the second half of this year, the growth momentum is expected to be strong. We thus revise our forecast of real GDP growth up to 3.31%, from 2.89% in the end of last year.

For private consumption, sales of trade and food services have grown since the fourth quarter of last year and their performances have continuously improved in the second quarter of this year. Consumer's purchase intentions also reflect in the level of the consumer confidence index, which hit a record high in June. These indicate that Taiwanese consumers hold optimistic views for future growth. Our estimate of real private consumption annual growth is 2.62% this year, an increase of 0.63% from our forecast of 1.99% in the end of last year. For private investment, due to the relatively high base last year and incomplete recovery of the economy, private investment is expected to show a moderate growth. Also due to the slowdown of foreign investments from other countries and mainland China, our estimate of real private investment annual growth is 4.46% this year. Comparing with our forecast in the end of last year, the figure is revised down slightly by 0.05%. As for public investment, its performance is still sluggish. After including government and public utilities investments, our estimate of gross fixed capital formation growth is 2.93%.

As for foreign trade, exports showed a solid growth this year. Net exports in the first quarter grew 10.39%. Due to recovery of major advanced countries, benefits to Taiwan's

export markets will gradually reveal. Last month the OECD said global trades will gradually grow quarter by quarter and reach 4.4% growth this year, indicating that foreign demands in the second half of this year are more robust than in the past two years. Although the slowdown of Mainland China's economy could affect our export performances, recent Chinese PMI data suggests that Mainland China's growth may remain robust. We thus expect the negative impact to be not severe. The new goods orders and new export orders in PMI index also are stable in the expansion phase. We keep an optimistic view on the trade performances in the second half of this year. After considering price factor adjustments, our estimates of real goods and services export and import growths are 4.25% and 4.23% respectively and 4.31% for the trade surplus growth.

As for price levels, rises of food prices have caused significant price increases of 17 important daily necessities. Since decline in durable consumer goods prices offset part of rise in consumer price index (CPI), overall CPI only grew 0.80% in the first quarter. But due to higher weights of non-durable consumer goods, CPI will continue to rise in the third quarter. Our forecast of annual CPI growth is 1.52%, an increase of 0.23% from our previous forecast. As for the wholesale price index (WPI), the global economy is expected to continue to recover and demands for raw materials are expected to rise. In addition, some geopolitical conflicts, such as the civil war in Iraq, could push the WPI level up. Although the euro-zone countries currently are facing deflationary pressures, a series of the ECB's monetary policies is expected to stabilize the price volatility. Our forecast of annual WPI growth is 0.91%.

As for money supply, due to increasing demands from private sector and stable performance of the stock market, liquidity of domestic funds have been significantly better than last year. It is worth noting that cumulative amount of currency issued is now at the lowest level of this year. Thus the money supply growth is expected to slow down. Our estimates of annual growths of M1B and M2 are 7.48% and 5.64% respectively. For employment, as the job market condition continues to improve and job vacancy rate increases, unemployment rate hit six-year low of 3.85% in May. However since new graduates will enter the job market, the unemployment rate will rise slightly. Our estimate of annual average unemployment rate is 3.98%.

The global economy is recovering from the Great Recession. Although the crisis has been gradually away, the global economy is still accompanied by new threats: the low inflation facing by Eurozone countries, the possible outbreak of the financial crisis in China, and the problem of sustaining growth in emerging economies. These uncertainties will affect

Taiwan's growth in the second half of this year. After considering forecast errors and the uncertainty factors, our 50% interval forecast for the GDP growth of 2014 ranges from 2.12% to 4.62%.

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