

2015 Taiwan Economic Forecast- Continuing moderate growth

Since the middle of 2014, the International Monetary Fund (IMF), the World Bank (World Bank) and the Organization for Economic Cooperation and Development (OECD) have revised the forecast of global economic growth for 2015 downward. The key reason is that following the last recession caused by the financial crisis (2008), some countries did not recover as expected and the recovery paths were divergent. Taiwan's real GDP growth reached 3.64% (annualized) in the first three quarters, attributed largely to domestic demand. However, private consumption in the fourth quarter is expected to be hit by the food scandal. We therefore estimate the annual growth rate of GDP in 2014 to be 3.42%. Considering the significant decline in commodity prices and a stronger US dollar, we expect a robust momentum in foreign trade to be generated in 2015. However, the slowing China economic growth will also lead to weaker demand in export and investment and it is therefore expected that real GDP growth will fall slightly to 3.38% next year (2015).

Private consumption in the first three quarters grew a robust 2.86% year-on-year, probably because of the wealth effects of a boom in the stock market, and the growth in real wages. However, recent data reveal a marked decline in the food and beverage industry because of the food scandal. Therefore, we expect that the real growth of domestic demand in the fourth quarter will be slightly weaker at 2.77%. The good news is that the consumer confidence index has reverted since a fall in August. Looking forward to next year, we expect that steady strengthening of consumer confidence will result in private consumption growing 2.84% in real terms.

On the (private) investment side, imports of capital equipment in Jan.-Nov. were up 8.4% year-on-year, with imports of semi-conductors and the airline industry reporting sharp increases. Private investment in the first three quarters has grown 3.87% year-on-year, and we expect that the real annual growth rate will be 4.10% this year. The recent fall in crude oil prices may lead the transportation industry to feel more optimistic about the future. This is also expected to result in the airline industry continuing purchases of aircraft. Information and electronics industry too are expected to maintain investments due to an increasing demand. Private investment is expected to grow by 5.45% in 2015. However, investments by government and public utilities may drag the overall formation of fixed capital down and the real growth of fixed capital investment in 2015 may be only 3.04%.

While the IMF has lowered its estimate of growth in global trade for 2014 from 3.9% to 3.8%, Taiwan's exports and imports of goods and services are up 7.53% and 9.11% (year-on-year) in the third quarter of this year, respectively. Stability of the U.S. economic recovery seems to have contributed to this satisfactory performance of foreign trade. Exports and imports of goods and services are forecast to rise 5.77% and 6.05%, respectively, in 2014. In 2015, world trade growth is expected to reach 5% (IMF forecast). In addition to benefiting from the devaluation of the NT,

volume of trade in Taiwan too will grow next year. However, after considering some negative factors, such as weaker growth in China and the fall in crude oil prices, we expect exports and imports of goods and services to expand 6.84% and 6.02%, respectively, in 2015.

The consumer price index (CPI) and the core price index rose 1.26% and 1.25% (year-on-year), respectively, in the first 11 months, indicating relatively stable domestic prices. However, since the crude oil prices have fallen sharply, the CPI is expected to rise only 0.72% in the fourth quarter, while the annual rate is estimated at 1.17%. Since oil producers are not inclined to cut supply, the decline in crude oil prices is expected to continue. The CPI may rise only 0.72% next year. However, the core CPI is less susceptible to the impact of fluctuations in crude oil prices and therefore careful attention needs to be paid to it. The wholesale price index (WPI) is falling along with the downward trend in international commodities prices and we expect the WPI to decline -0.10% this year (2014) and -1.49% next year.

Unemployment in the first 11 months grew 0.21%, indicating that the domestic labor market conditions have gradually improved. The unemployment rate is expected to be 3.95% this year and 3.91% next year. Broad money supply M2 and narrow money supply M1B are continuing to expand this year, expected rates for 2014 being 5.44% and 7.71%, respectively. Looking ahead to 2015, we expect M2 and M1B to expand 4.19% and 7.61%, respectively.

Overall, the domestic economy's performance in 2014, compared to 2013, reflects some degree of acceleration and we are inclined to believe growth next year will largely depend on the extent of recovery of the U.S. economy. Though the growth momentum seems primarily centered on the U.S. at present, the Taiwanese economy is also affected by China, ASEAN, Japan and the European Union. On the one hand, in the "post high growth phase of the economy," China has experienced slower economic growth which has significantly affected Taiwan's import and export trade. On the other hand, suspension of the U.S. QE and the expectations of rates rising next summer, along with the expected easing of the monetary policy in both the Eurozone and Japan, are likely to result in increased uncertainty in financial systems of most emerging markets. Taking into consideration the prediction errors and uncertainties, our 50% interval forecast of the GDP growth rate for 2015 will range from 2.22% to 4.66%.

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