

Recent News

2015 Taiwan Economic Forecast: A Revision

Due to the rather weak recovery in global economy in the first half of this year, the International Monetary Fund (IMF) have revised forecast of global economic growth for 2015 downwards. The main reason is that the global trade volume is unusually weak, with expected growth now estimated at 3.7% compared to the previous IMF forecast of 5.0%. Moreover, growth in emerging markets and developing countries is also expected to decline to 4.3%, from earlier expectations of 5.0%, in the current year. Taiwan's real GDP growth was 3.37% in the first quarter. The overall economic indicators published by the National Development Council in April also suggested decelerated economic growth by indicating a "blue" signal. Despite the slow start to this year, however, there are signs of an economic rebound, including reversed signal from the overall economic monitoring indicators in May, together with expectations of a firmer growth in the US in the second half of this year. However, real GDP growth is expected to remain halting because of weak export and it may fall to 3.24% from 3.38% projected in the late 2014.

Private consumption in the first quarter grew 2.52% year-on-year, while there was a sharp decline in commercial sales in Jan.-May. However, growth of retail sales and food and beverage services rose, reflecting stable demand. In addition to this momentum, increase of minimum wage rate from July 1 might also stimulate consumption. Taking these together, we expect private consumption to grow at 3.07%, higher than the previous forecast of 2.84%. On the (private) investment side, the current activity is weak, which is also highlighted by a marked fall in imports of capital equipment in Jan.-May. More specifically, there has been an unusually prolonged decline in imports of machineries and electrical equipment, for four consecutive months. While the latest PMI (June) was still in an expansionary mode, the pace has decelerated, leading to a pessimistic view of private investment in the second half of this year. However, the expected acceleration of the global economy will trigger foreign investment and, therefore, we forecast private investment will expand by 3.92% year-on-year. The growth of gross fixed capital formation in real terms is just about 1.85% because of the negative growth of government and public utilities investments.

As for foreign trade, Taiwan's exports in the first quarter of this year maintained the trend in the late 2014, growing 5.93% year-on-year, whereas imports were up only 2.48% year-on-year because of weakness in investment. However, subdued global trade flows have started to drag exports in the second quarter. Furthermore, components of exports to China seem to have changed slightly due to a new economic structure in China and this also is resulting in slower growth of exports. Because of

lower prices, the robust increase in imports of consumption goods will help the overall imports. We expect exports and imports of goods and services to expand 4.53% and 2.99%, respectively, in 2015. Compared with our forecast at the end of last year, the figure is revised down by 2.31 and 3.03 percentage points, respectively. The trade surplus is expected to grow 16.37% in 2015.

As for price levels, due to a sharp fall in crude oil price, consumer price index (CPI) and the core price index in the first five months were up only -0.66% and 0.94% (year-on-year), respectively. However, currently crude oil price has firmed up, reflecting a more stable CPI in the latest reading, with a 0.24% quarterly change in May. Therefore, we expect the declining trend of CPI to vanish but still forecast the CPI to be 0.33% down during the year because of a higher base. The wholesale price index (WPI) is falling along with the downward trend in international commodities prices and is expected to decline 8.08% in 2015.

The average unemployment rate in the first 5 months was 3.62%, lower than in 2014 by 0.34 percentage point and the lowest level recently. This suggests a more optimistic view of the job market which is supported by the latest confidence index of expected sentiment on job opportunities. As new graduates enter the job market, we believe unemployment rate will rise temporarily but it will still remain at a low level, expected to be at 3.81% this year.

As for money supply, the readings of the annual growth rate of narrow money supply M1B and broad money supply M2 in the first quarter were 5.68% and 6.32%, respectively. Although the outlook for economic activity in the first half of this year is weak, we expect demand for funds to increase because of an economic rebound expected in the coming 6 months. Thus, estimates of annual growth of M1B and M2 are 7.34% and 5.39%, respectively.

In sum, in addition to a slower pace of the domestic economy in the first half of 2015, the components of contribution to the economic growth are also different from 2014. The difference comes from not only the industrial strategy but also the change of global trade flows. We believe that the growth of global economy will be broadly stable but moderate. Therefore, impacts of new threats, including a “lift-off” of policy interest rates in the US, the "red supply chain" in China and Greece's debt crisis will be relatively significant and these will affect Taiwan's economic growth as well. After considering forecast errors and the uncertainty factors, our 50% interval forecast for GDP growth of 2015 will range from 2.08% to 4.52%.

Related websites:

<http://www.econ.sinica.edu.tw/english/content/downloads/list/2013093010101097521/>