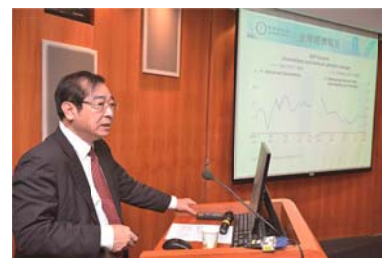


2018 Taiwan Economic Forecast - Robust Trade Growth

As a result of a surge in global demand and price rebound on raw materials, the IMF and the OECD have upgraded their estimates on global economic growth for 2017 and 2018. The economies in developed countries, including the U.S. and the Eurozone, have witnessed stronger investment growth and solid consumption due to strong global demand. In the meantime, Japan's economy is recovering moderately, supported by pickups in exports and business profits. Steady growth in China has also contributed to the world economy in 2017. In Taiwan, the rise of overseas demand for smart products has stimulated exports and related investments. Therefore, the domestic economy has boosted expansion for three consecutive quarters starting from the first quarter of 2017. Moreover, recently released PMI has shown to be above the middle level of 50% for 21 consecutive months indicating a sign of expansion. The growth of new orders has maintained positive for 16 months. All of the above suggest that in the fourth quarter of this year, the growth momentum is expected to be strong; we thus revise our forecast of the 2017 real GDP growth to 2.64%; In consideration of a more salient growth in the U.S. and the Eurozone, as well as a slightly decelerated growth in China due to ongoing reforms. Real GDP is expected to grow 2.43% in 2018.



Real private consumption grew to 2.19% in the first three quarters this year mainly due to an improvement in the job market and an increasing activeness in the stock market. The aggregated revenue for mobile product wholesalers was 5.22% higher for the first 10 months of 2017 than that of last year. Increased revenue in general merchandise was offset by a decrease in sales of information and household equipments as well as home appliances, resulting in a slight increase of 0.63% in the retail sector. We estimate that the real private consumption rate for 2017 will grow to 2.15%. Taiwan's Consumer Confidence Index (CCI) in November has also climbed to a new high this year. In addition, the government will raise wages for civil servants, teachers and military personnel by 3 percent next year, hoping to encourage a rise in wages in the private sector. As we expect commodity prices to rise and the facilitation of rising wages to take effect, the private consumption is expected to slightly accelerate to 2.12% in 2018.

Real private investment growth dropped 0.51% in the first three quarters this year. The reason for

this is because major domestic semiconductor manufacturers decreased capital expenditures, which has caused negative growth in capital equipment imports since May 2017. Therefore, real private investment growth is projected to only increase by 0.08% in 2017 while a greater increase of 2.80% in 2018 is estimated as a result of a lower basis year. In consideration of the government's infrastructure plan, growth in gross fixed capital formation will produce a year-on-year increase from 0.92% in 2017 to 3.56% in 2018.

As for foreign trade, exports and imports in Taiwan have continued to benefit from a strong global demand. Real year-on-year output and input rose 8.12% and 6.52% respectively for the first three quarters. According to the latest data from November, the nominal growth rate of exports and imports indicate that trade volume is continuously rising. After considering price effects, exports and imports of goods and services are projected to grow 7.16% and 5.78% in 2017 respectively. While there is an upward trend in global trade in 2018, our trade sector is constrained by a slower growth in China. Accordingly, we project that exports and imports of goods and services will grow 5.04% and 5.90% respectively in 2018.

The Consumer Price Index (CPI) grew 0.57% year-over-year in the first 11 months. This was mainly caused by a decrease in prices in vegetable, fruits, and eggs, which offset the impact of increase in prices in other items, such as fuel related products. In comparison to the same period last year, the core price index was up only by 0.99%. In view of a relatively high comparison base, CPI is expected to rise by 0.62% for the whole of 2017. On the other side, since the OPEC has extended the agreement on oil production cut, crude oil prices are expected to surge until 2018. Therefore, we expect next year's CPI to rise to 1.18%. In addition, an increase demand for international commodities will also be a factor influencing the climb of crude oil prices, thus the Wholesale Price Index (WPI) is expected to rise from 0.90% in 2017 to 1.21% in 2018.

The average unemployment rate of 3.77% for the first ten months of 2017 has indicated a relatively optimistic view in the job market. Hence it is estimated that the average unemployment rate will be 3.74% this year. Accordingly, we remain optimistic and expect unemployment rate to be 3.72% in 2018. As for money supply, due to an increase demand for funds in the private sector as well as the outperformance of the stock market, M1B expansion was higher than M2 in 2017. The latest numbers presented in October revealed the growth rate for M1B and M2 to be 4.61% and 3.85%

respectively. The 2018 Money supply is expected to expand modestly due to relatively strong demands, with M1B and M2 rising to 3.79% and 3.96% correspondingly.

Recent stimuli in demand, such as the improvements on global outlook and the strengthening of foreign trade, are expected to assist consumption and exports going forward. However, several aspects that could cause uncertainties in the future remain. Factors such as the unresolved high level of debt in China, trade protection policies favored by the U.S. government, the potential hike of the Fed's benchmark rate, as well as native geopolitical risks, should all be put into consideration. We estimate that the 50% confidence interval of real GDP growth in 2018 will range from 1.29% to 3.69%.