

Taiwan's political economy: the state of play

Taiwan Business Leaders' Forum

21 May 2015



Global view: the new mediocre

The IMF forecasts global GDP growth at 3.5%.

- Global growth remains moderate, with uneven prospects across the main countries and regions.
 - North America growing strongly
 - South America tepid growth (Chile) or flatlining (Brazil)
 - EU patchy growth (UK, Poland), flat or recession
 - Asia ex Japan ASEAN strong, China slowing
- Relative to last year, the outlook for advanced economies is improving.
- Growth in emerging markets and developing economies is projected to be lower - primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.
- The changed energy equation has created winners, losers and hybrids.
- BRICS are mixed.
- Risk of long-term secular stagnation – low growth, investment, inflation.

Regional view: not that bright

The IMF says that with < 4% GDP hike Taiwan will be AP's fastest-growing advanced economy in 2015, ahead of HK, Korea, Singapore, Australia, NZ and Japan.

- Bad politics – India, Malaysia, Australia, Thailand - and/or lame ducks (Philippines, Taiwan) impeding economic growth and reform.
- Consumer demand nobbled by high debt levels (Malaysia, Thailand, Korea, Singapore) and/or weather effects (Indonesia, Thailand, India, NZ).
- Energy and/or commodities exporters hit by falling demand and prices
- Not an immediate threat, but the TPP is in trouble.
- Japan stumbling along – PM Abe out of arrows?

Taiwan's Q1: not a bad start

2014's GDP growth of 3.74% bodes well for at least achieving the 2015 full year forecast of 3.5% - just upped to 3.78%.

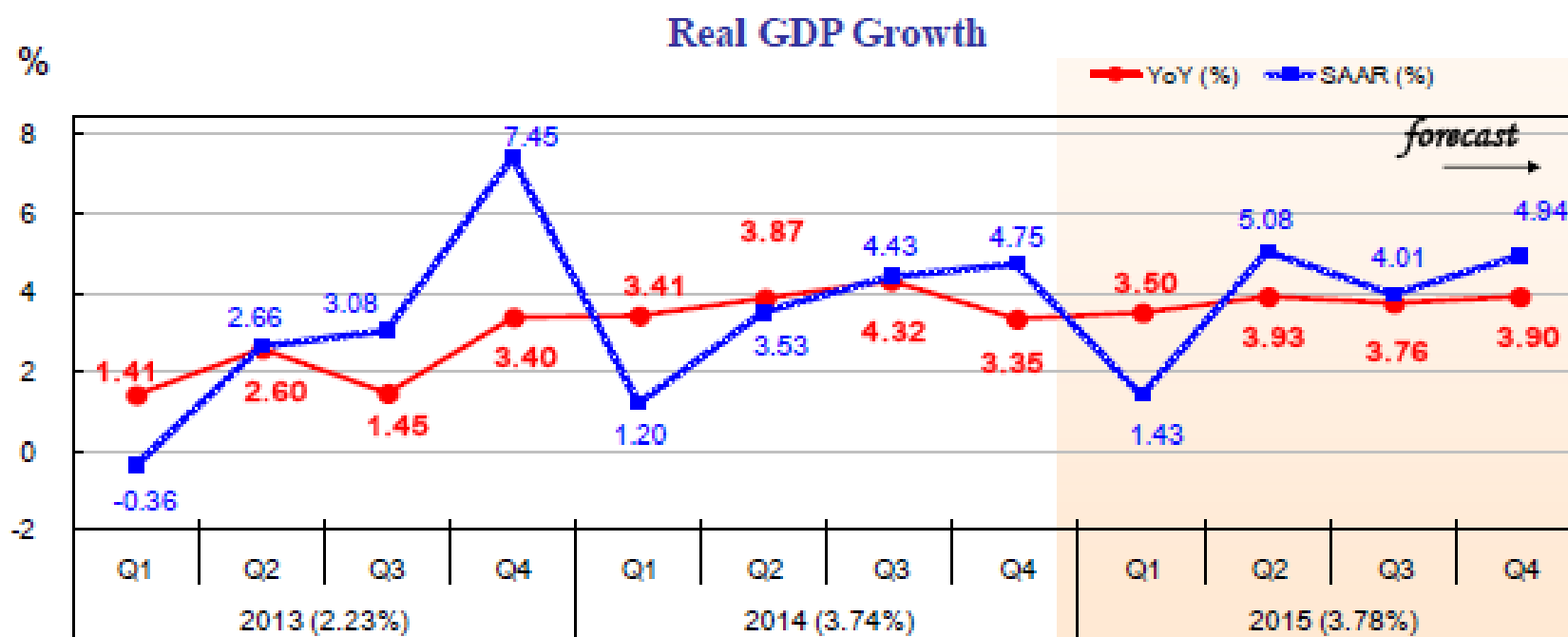
- YoY growth in Q1 (est. by DGBAS) was 3.46% - 1.10% QoQ.
- Private consumption grew a solid 2.51% - fuelled by transport and recreation/culture.
- Exports of goods and services grew 5.88% - driven by semiconductors and electronics.
- Imports grew only 2.27% and GFCI showed negative at (1.12%) – indicating some caution.
- Manufacturing grew 7.03% - semis, computers, machinery.
- Wholesale/retail grew 1.32%, finance/insurance 2.38%.
- Car sales 13% up yoy; HSBC PMI in March 51.0.

II. CURRENT DOMESTIC SITUATION

Economic Growth

⇒ Real GDP increased by 3.35% year on year in Q4 2014, driven by moderate expansion in exports and private consumption. The seasonally adjusted annual rate (SAAR) was 4.75%.

⇒ GDP is projected to grow at 3.78% in 2015.

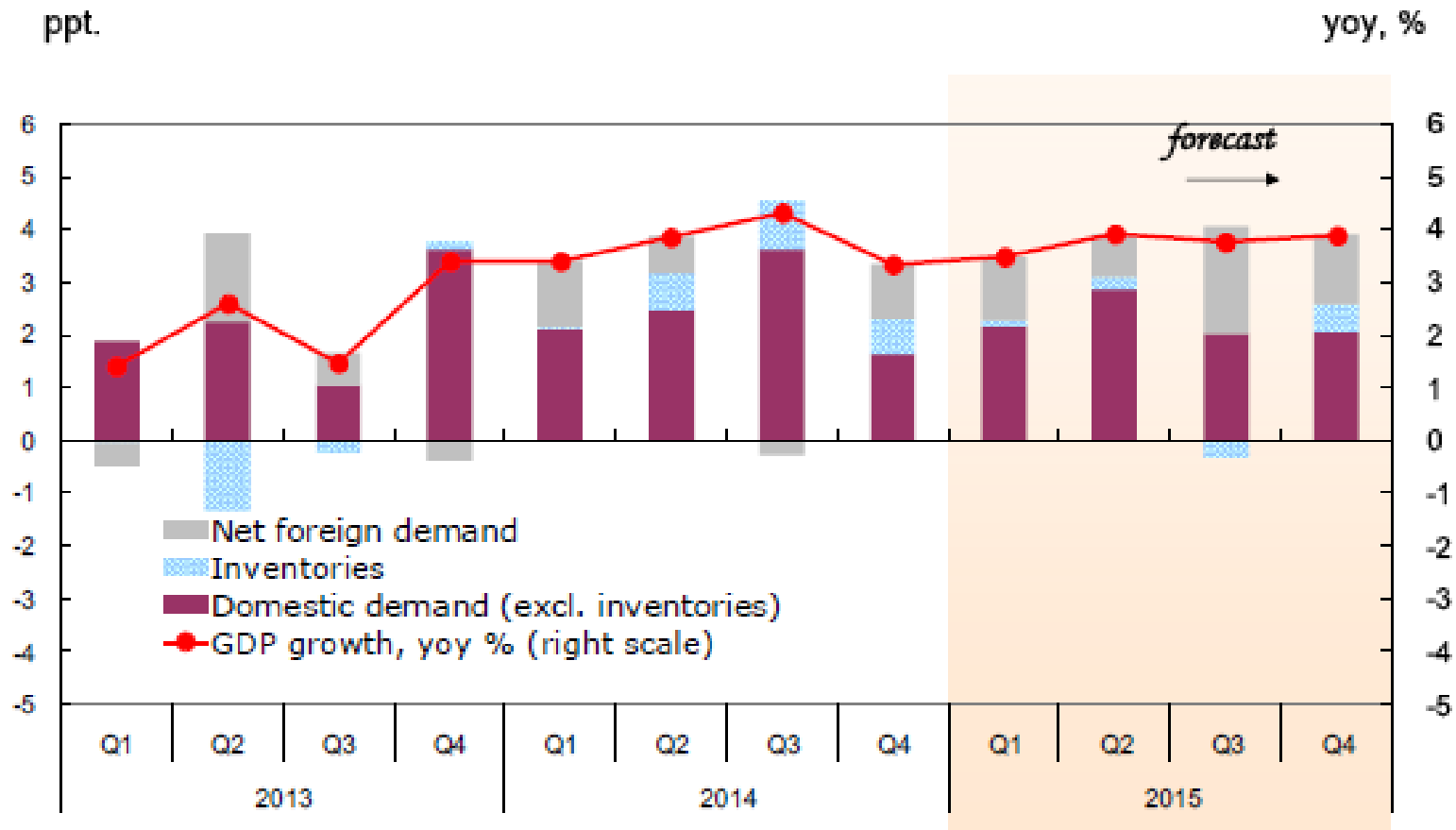


Note: : DGBAS also revised the national accounts for Q3 of 2014.

Source: Directorate-General of Budget, Accounting and Statistics (DGBAS), Feb. 2015.

II. CURRENT DOMESTIC SITUATION

Contributions to GDP Growth (in percentage points)



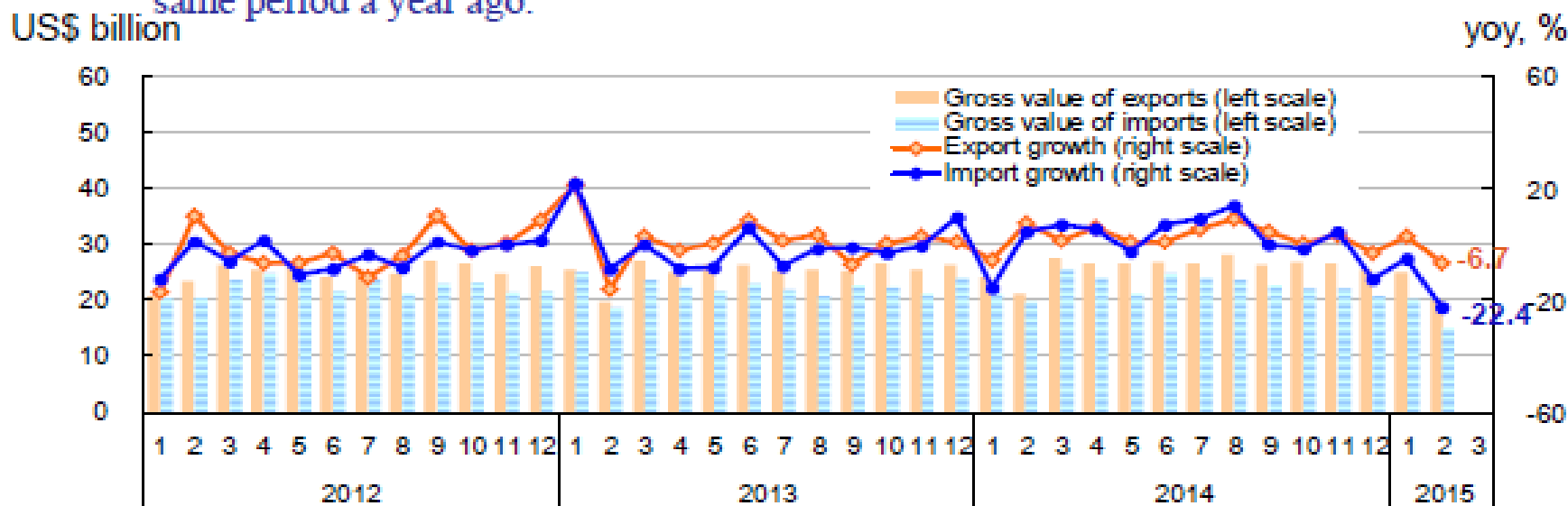
Source: Directorate-General of Budget, Accounting and Statistics (DGBAS), Feb. 2015.

II. CURRENT DOMESTIC SITUATION

Foreign Trade

⇒ Total exports contracted by 6.7% year on year in February 2015, mainly due to decreased export of chemicals, and plastics & rubber and articles thereof. Imports fell by 22.4% from a year earlier, with mineral products to be the main contributors to the decrease. The month's foreign trade yielded a balance of about US\$4.56 billion in Taiwan's favor.

⇒ Exports for the January through February 2015 period were down 1.3% from the same period a year ago.



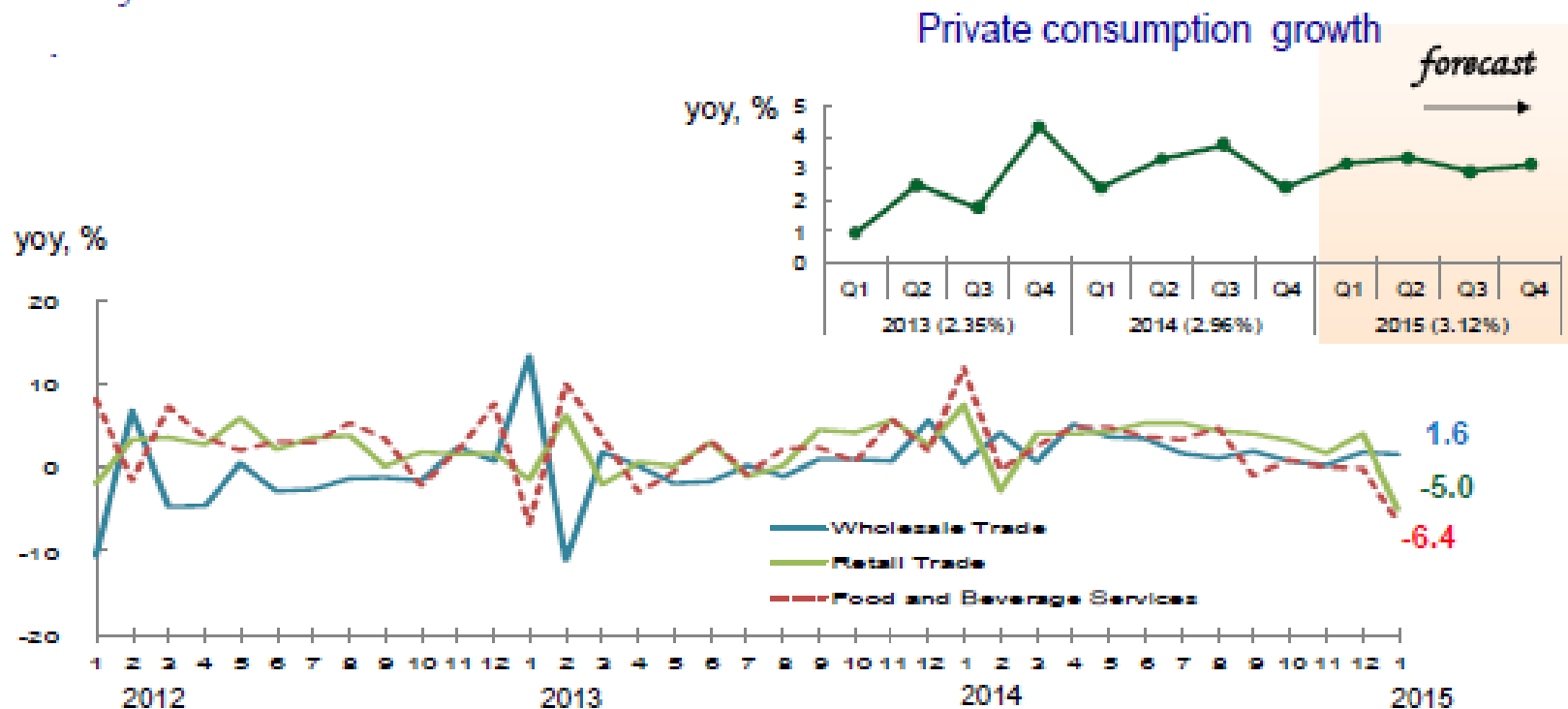
Note: Trade data adjusted according to the United Nations DMTS Compilers Manual (2004). Total exports include "exports" and "re-exports," and total imports include "imports" and "re-imports."

Source: Ministry of Finance, Mar. 2015.

II. CURRENT DOMESTIC SITUATION

Domestic Consumption

- ⇒ Private consumption grew 2.39% from a year earlier in Q4 2014, yet was lower than 3.76% in Q3, resulting from food-safety crisis dampening consumers' sentiment. Government consumption increased by 3.05% year on year.
- ⇒ Sales of trade and food services posted an annual decrease of 0.6% in January 2015, with a decrease in retail trade and food & beverage services, which partially offset by a rise in wholesale trade.

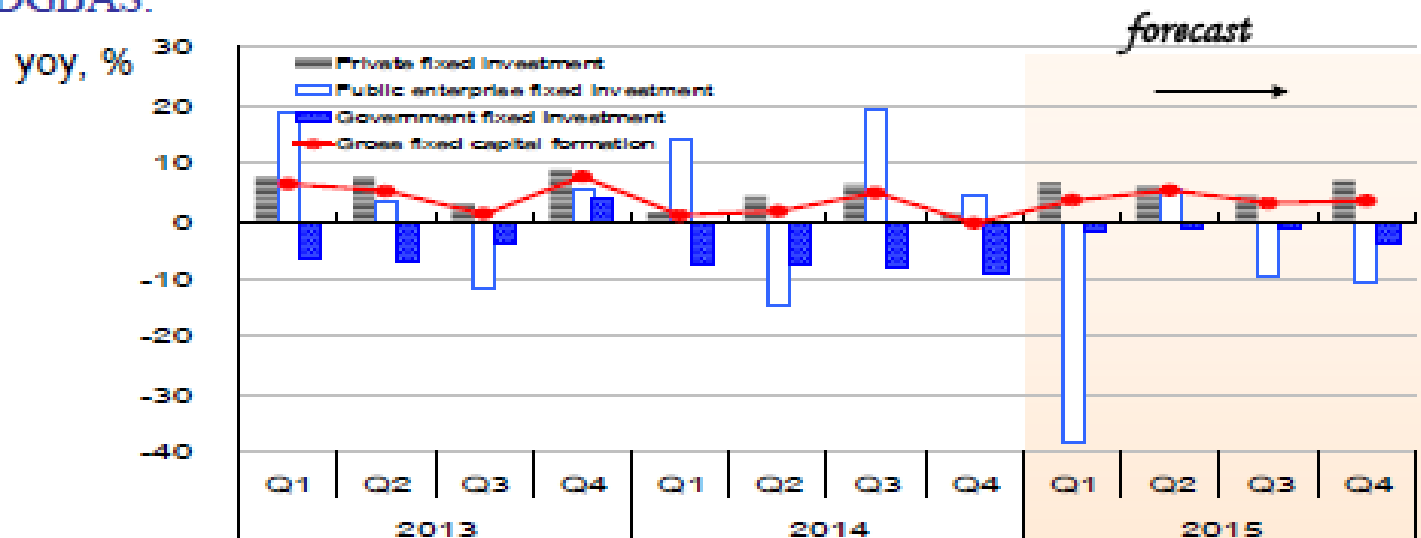


Source: Ministry of Economic Affairs, Mar. 2015.

II. CURRENT DOMESTIC SITUATION

Domestic Investment

- ⇒ Gross fixed capital formation fell by 0.42% year on year in Q4 2014, with private enterprise gross fixed capital formation increasing by 1.28%, which was lower than 6.27% in Q3, due to new investment in semiconductor production, 4G network building, and aircraft purchases in Q2 and Q3.
- ⇒ Gross fixed capital formation is expected to increase by 3.76% in 2015, according to DGBAS.



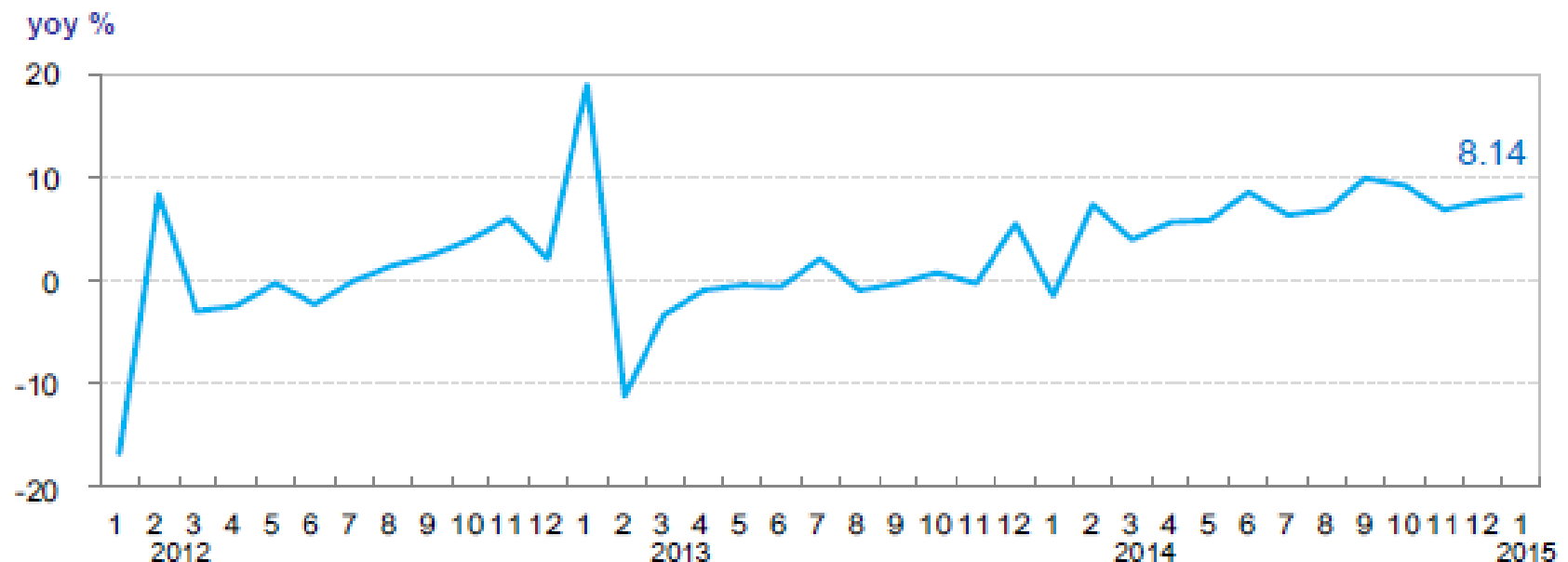
	2013	2014	2015
Total	4.98	1.74	3.76
Private enterprises	6.67	3.36	5.98
Government	-2.70	-8.22	-2.20
Public enterprises	2.96	4.40	-12.72

Source: DGBAS, Feb. 2015.

II. CURRENT DOMESTIC SITUATION

Industrial Production

- ⇒ The industrial production index (IPI) posted an annual increase of 8.14% in January 2015, following an increase of 7.76% in December 2014.
- ⇒ Manufacturing output, which made up more than 90% of the IPI, rose by 9.7% year on year in January, growing for the twelfth consecutive month. The growth came largely from increasing demand for computers, electronics & optical products, electronic parts & components, and machinery & equipment.



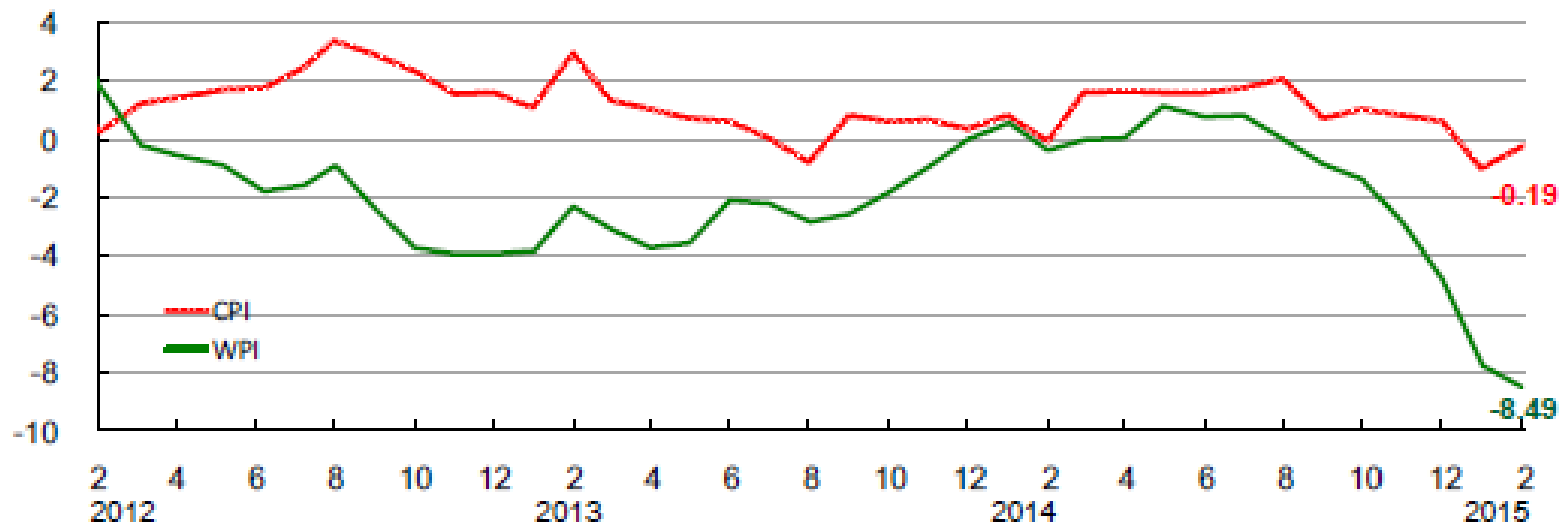
Source: Ministry of Economic Affairs, Mar. 2015.

II. CURRENT DOMESTIC SITUATION

Prices

- ⇒ Taiwan's CPI in February 2015 moved down 0.19% from the same month last year, mainly due to the 28.11% decrease of fuels and lubricants index. In addition, Taiwan Power's electricity refund plan brought the index of water, electricity, and gas supplies down by 19.83%. Core prices (excluding fruit, vegetable and energy prices) increased by 1.78%.
- ⇒ WPI decreased by 8.49% year on year, due to the decline in indexes for petroleum and coal products; however, indexes for electronic parts and components rose.

yoy %



Source: DGBAS, Mar. 2015

And for the rest of the year? Headwinds...

Although scoring regional #1 in the BMI short-term economic ratings, 2015-16 forecasts could be upset by...

- Moderate private investment due to political uncertainty (?)
- Hiatus in further development of trade ties with China
- China slowing and rebalancing: will Taiwanese firms cope?
- China property: 15% of GDP. A correction would hurt.
- Taiwan is very vulnerable to shifts in global demand – especially the electronics business cycle.
- Export growth heavily dependent on smartphones, electronics

...and tailwinds

Taiwan has more going for it than people might realise.

- Big winner from the fall in energy prices - <USD10-15bn off the bill.
- Strong outlook for private consumption – helped by lower energy costs and real wages continuing their rise from 2014.
- Consumption also helped by stronger spending power – now the 4th largest market by value for Scotch.
- Leadership (or near) position in vibrant industry sectors
- Finance sector booming – could see 10% growth - driven by RMB hub (nearly #2), insurance, stocks, trade services.
- Productivity on the rise – 2.72% in 2014 and R&D nearing 3% of GDP.
- Tourist numbers up– 7.7% in Q1 - and the Chinese FIT cohort growing.

Forecasts for Taiwan's Economy

	Real GDP (yoy, %)		Consumer Prices Index (yoy, %)	
	2014 _p	2015 _f	2014	2015 _f
DGBAS (2015.2)	3.74 [3.51]	3.78 [3.50]	1.20 [1.18]	0.26 [0.91]
TIER (2015.1)		3.67 [3.48]		0.91 [1.17]
CIER (2014.12)		3.50 [3.53]		0.89 [1.54]
Yuanta-Polaris (2014.12)		3.45 [3.49]		1.18 [1.50]
TRI (2014.12)		3.43		0.85
IEAS (2014.12)		3.38		0.72
Global Insight (2015.3)		3.7 [3.6]		0.1 [0.4]
EIU (2015.3)		4.1 [4.0]		0.4 [0.4]
IMF (2014.10)		3.8 [3.9]		2.0 [2.0]
ADB (2014.12)		3.6 [3.3]		1.5 [1.5]

DGBAS = Directorate-General of Budget, Accounting and Statistics, ROC (Taiwan); TIER = Taiwan Institute of Economic Research, Taipei; CIER = Chung-Hua Institution for Economic Research, Taipei; IEAS = Institute of Economics, Academia Sinica; Yuanta-Polaris = Yuanta-Polaris Research Institute; TRI = Taiwan Research Institute; EIU = Economist Intelligence Unit; IMF = International Monetary Fund; ADB = Asian Development Bank.

[] Indicates the value of previous forecasts.

P = preliminary; f = forecast

III. PROSPECTS FOR 2015

Taiwan's Economy Posting Moderate Growth

- ⇒ Real GDP growth in 2015 is forecast to be 3.78%, according to DGBAS's latest estimation, up 0.28 percentage point from November's forecast, mainly due to the more positive outlook for domestic demand.
- ⇒ Per capita GNI is projected to increase to US\$23,640 in 2015.



Source: DGBAS, Feb. 2015.

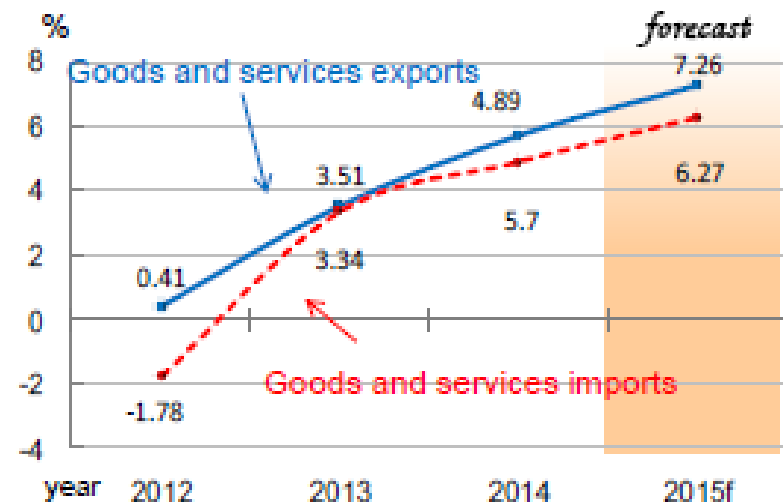
III. PROSPECTS FOR 2015

Exports Expected to Gradually Gain Traction

- ⇒ Taiwan's export growth is expected to remain buoyant, with the global economic growth rate expected to be higher in 2015 than in 2014, the semiconductor manufacturing's continuing to promote its advanced technology, and increasing business opportunities in the Internet of Things (IOT).
- ⇒ However, the volatility of oil and raw materials of industries prices have weighed on the exports of petrochemical industry. In addition, exports of information & communication and petrochemical products are also constrained by strong competition from global market and Mainland China's active development of local supply chains.

⇒ Nominal goods exports are projected to increase by 1.02%, while good and services exports in real terms are projected to rise by 7.26% in 2015.

⇒ Nominal goods imports are expected to decreased by 2.07%, due to falling oil prices, while real goods and services imports are projected to grow by 6.27%.

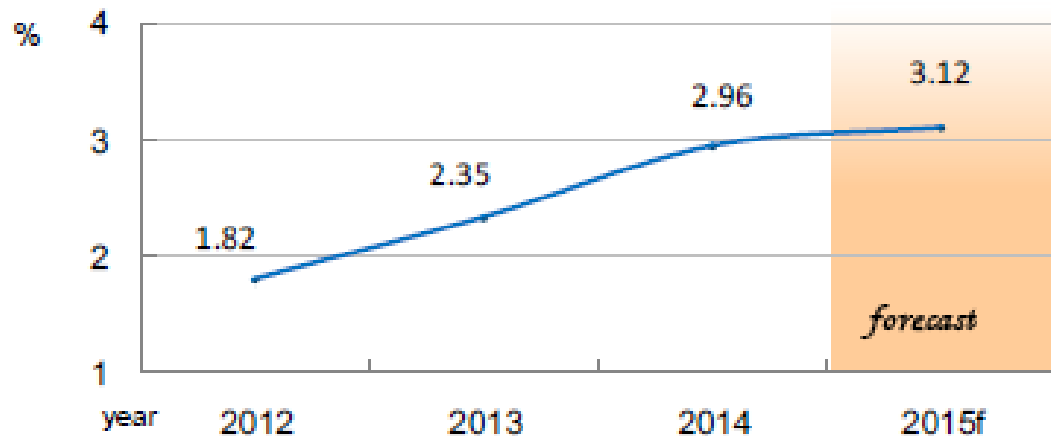


Source: DGBAS, Feb. 2015.

III. PROSPECTS FOR 2015

Private Consumption Picking up Steam

- ⇒ Employment and salaries are expected to rise further, with improved profits and the resulting increase in hiring demand by domestic enterprises. Furthermore, the combined effects of these and low oil prices and continuous launches of consumer electronic products are expected to boost private consumption.
- ⇒ Private consumption is projected to rise by 3.12% in 2015, higher than 2.96% in the previous year.



Source: DGBAS, Feb. 2015.

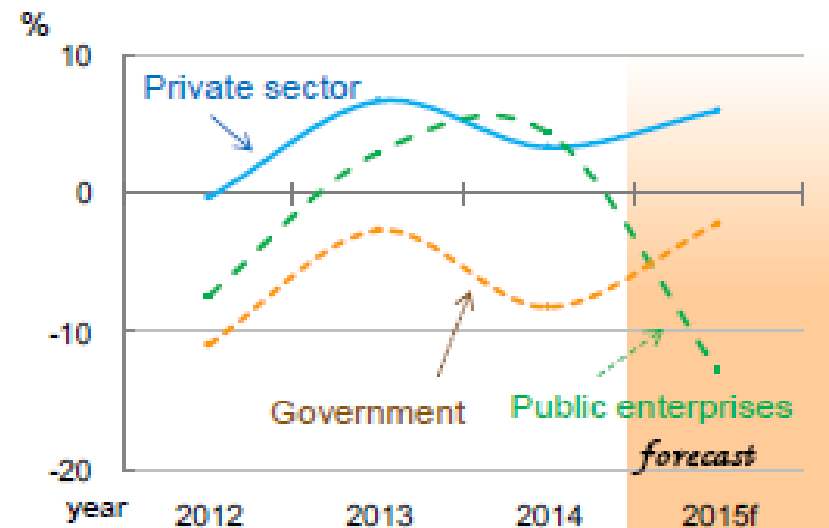
III. PROSPECTS FOR 2015

Domestic Investment Maintaining Moderate Growth Pace

⇒ Semiconductor manufacturers are likely to continue to invest in advanced technologies, driven by mobile devices' eager demand for advanced chips, business opportunities involving the Internet of Things (IOT) and big data applications. In addition, airline industry are expanding purchases of aircraft. Due to these combined factors, private fixed investment is projected to increase by 5.98% in 2015, the third consecutive year of positive growth.

⇒ Government and public enterprises' fixed investment are projected to decline in 2015 by 2.20% and 12.72%, respectively.

⇒ Total fixed investment by the private sector, government and public enterprises is forecast to rise by 3.76% in 2015.



Source: DGBAS, Feb. , 2015.

A note on R&D investment

A billion here, a billion there...pretty soon you're talking serious money. Look at the money (USD) spent in 2014.

- TSMC: 1.82 bn, up 18% yoy
- Hon Hai: 1.63 bn
- MediaTek: 1.44 bn 20% of revenue
- UMC: 456 m
- Wistron: 446 m

Aggregated revenues: 23.42 trillion

Aggregated NOP: 1.25 trillion 5.3%, up 26% yoy