

From the Accidental Economist - Bonus update

Taiwan Business Leaders' Forum

28 April 2016

DGBAS cuts its Taiwan GDP growth forecast for 2016

The cut...

- In April the DGBAS cut its Taiwan GDP growth forecast for Q1 2016 by 0.2% from its February estimate of -0.64%...

New GDP growth figure for Q1 2016 : -0.84% y-o-y

- According to Premier-designate Lin Chuan, Taiwan is “unlikely” to achieve even 1% GDP growth in 2016.

...and its causes

- Continuing weakness in external demand – for the 14th consecutive month.

Exports fell 12.5%yoy in the first two months of 2016 from a 10.9% decline in 2015 (US\$ basis). China, which makes up about one quarter of exports, led the downturn, falling 17%yoy from a 13% 2015 decline. Exports to the ASEAN-6 and the US both fell 9-10%yoy, while those to Europe were flat. Exports will likely fall by 5%yoy in Q2'16, before returning to 2-3% growth in the rest of 2016 and 2017.

- Unexpected decline in capital formation: -2.48% y-o-y during Q1.

Taiwan's corporate sector is cautious on capital investment

However...Household consumption grew 1.84% y-o-y, thanks mainly to retail sales boosted by holiday promotional activities.

Interest rates go lower, exports may rise – but not yet

- Benchmark interest rates have already been cut 3 times since Q3'15 and the first negative economic growth. The latest cut of 12.5bp in March to a policy rate of 1.5% has led to increasing expectations of a further rate cut in June 2016.
- A low base of comparison in the second half of 2015, coupled with gradual stabilization in China's economy, implies that Taiwan's economy may resume expansion in H2 2016 on the back of improving exports. The incoming DPP government's pledge to increase public spending on housing and infrastructure will also help support economic growth.

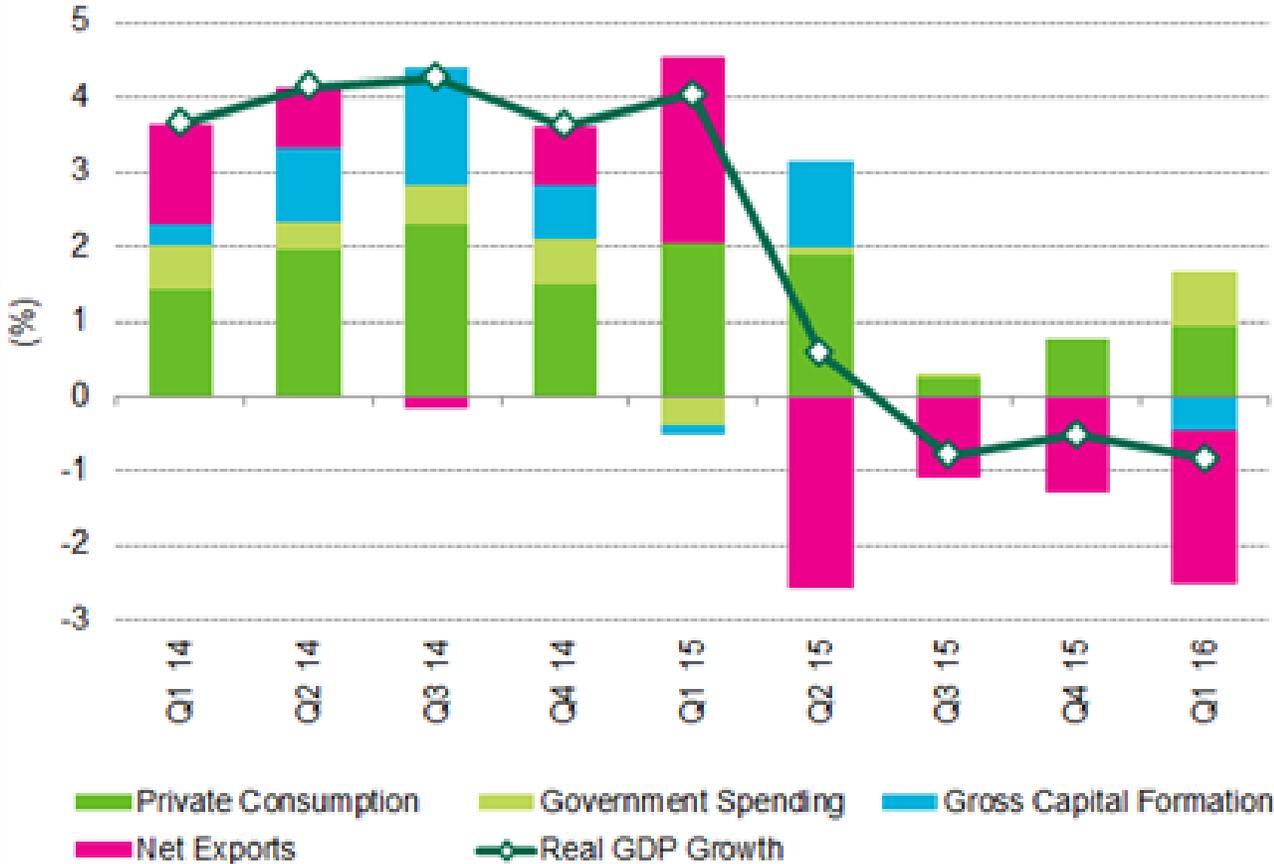
CBRE Research expresses cautious optimism on the prospects for Taiwan's economy in the near-term future.

Source: CBRE Research, IMA Asia

How the property market reflects economic sentiment

- **Offices:** Leasing momentum will be sluggish as most employers have become conservative in hiring. Landlords are less likely to raise asking rents during the coming months in view of limited growth in leasing activities. A few vendors may adjust their asking prices to attract potential buyers and accelerate transaction times.
- **Retail:** Both local and international retailers are less positive about sales performance, which will lead to weak expansionary demand in the next few quarters. F&B operators that were the most active among retailers will also slow expansion given the high rental costs in prime locations. A number of retailers are expected to resume opening new stores in Q2 2017.
- **Industrial:** Owner occupiers remain in buy mode for en-bloc industrial office buildings in Taipei City. However, transaction volume will be low in view of the limited availability of such assets for sale. Domestic manufacturers will retain a strong appetite for industrial properties outside Taipei. Average capital values for factories may be pushed up slightly.

Contributions to Taiwan's Real GDP Growth (y-o-y)



Source: DGBAS, CBRE Research, April 2016