

Taiwan Economic Outlook

November 15, 2016

The economy continues to show resilience as the year draws to an end. Preliminary Q3 data showed a further strengthening of the economy largely driven by domestic demand. Exports of goods and services also rebounded notably, though net exports were a drag on overall economic growth as imports accelerated more rapidly than exports. Continued improvements in manufacturing and exports should ensure positive momentum in the final quarter of the year as exports improved again in October and the manufacturing PMI rose to the highest level in more than two years.

Taiwan Economy Data

	2011	2012	2013	2014	2015
<u>Population (million)</u>	23.2	23.3	23.4	23.4	23.5
<u>GDP per capita (USD)</u>	21,044	21,344	21,894	22,696	22,469
<u>GDP (USD bn)</u>	489	498	512	532	528
<u>Economic Growth (GDP, annual variation in %)</u>	3.8	2.1	2.2	3.9	0.8
<u>Consumption (annual variation in %)</u>	3.1	1.8	2.3	3.3	1.5
<u>Investment (annual variation in %)</u>	-1.1	-2.6	5.3	1.8	1.5
<u>Industrial Production (annual variation in %)</u>	4.4	-0.3	0.7	6.4	-1.8
<u>Retail Sales (annual variation in %)</u>	5.2	0.5	1.3	2.5	0.7
<u>Unemployment Rate</u>	4.4	4.2	4.2	4.0	3.8
<u>Fiscal Balance (% of GDP)</u>	-2.1	-2.4	-1.4	-0.8	-1.5
<u>Public Debt (% of GDP)</u>	33.2	34.1	33.8	32.8	32.6
<u>Money (annual variation in %)</u>	4.8	3.5	5.8	6.1	5.7
<u>Inflation Rate (CPI, annual variation in %, eop)</u>	2.0	1.6	0.3	0.6	0.1
<u>Inflation Rate (CPI, annual variation in %)</u>	1.4	1.9	0.8	1.2	-0.3
<u>Inflation (WPI, annual variation in %)</u>	4.3	-1.2	-2.4	-0.6	-8.9
<u>Policy Interest Rate (%)</u>	1.88	1.88	1.88	1.88	1.63
<u>Stock Market (annual variation in %)</u>	-21.2	8.9	11.9	8.1	-10.4
<u>Exchange Rate (vs USD)</u>	30.28	29.05	29.83	31.63	32.83
<u>Exchange Rate (vs USD, aop)</u>	29.40	29.57	29.68	30.31	31.76
<u>Current Account (% of GDP)</u>	8.2	9.5	10.4	12.0	14.4
<u>Current Account Balance (USD bn)</u>	39.9	47.3	53.1	63.8	76.2
<u>Trade Balance (USD billion)</u>	24.9	29.1	33.4	38.2	48.1
<u>Exports (USD billion)</u>	313	306	311	320	285

	2011	2012	2013	2014	2015
<u>Imports (USD billion)</u>	288	277	278	282	237
<u>Exports (annual variation in %)</u>	12.6	-2.1	1.6	2.8	-10.9
<u>Imports (annual variation in %)</u>	12.4	-3.7	0.2	1.4	-15.8
<u>International Reserves (USD)</u>	386	403	417	419	426
<u>External Debt (% of GDP)</u>	25.1	26.3	33.2	33.5	30.1

<http://www.focus-economics.com/countries/taiwan>

Taiwan - Inflation

Inflation jumps in October due to bad weather conditions

In October, consumer prices jumped 1.45% over the previous month, coming above the 0.46% increase recorded in September. The Directorate-General of Budget, Accounting & Statistics (DGBAS) commented that typhoons and heavy rains prompted prices for fresh food, particularly fruit and vegetables, to increase substantially over the previous month. In addition, the end of the government's subsidy to summer electricity fares prompted electricity prices to jump in October.

Inflation jumped to 1.7% in October, increasing from the 0.3% recorded in September and marking the highest reading since April. Meanwhile, annual average inflation inched up from 1.0% in September to 1.1% in October.

Core consumer prices, which exclude prices for electricity and fresh food, rose 0.5% over the previous month in October, which was up from the 0.1% increase in September. Core inflation remained stable at September's 1.0% in October. The government foresees inflation of 1.1% in 2016. Focus Economics Consensus Forecast panelists also expect inflation of 1.2% in 2016, which is unchanged from last month's forecast. For 2017, the panel sees inflation inching up to 1.2%, which is also unchanged from last month's forecast.

China - Investment Data- Growth maintains strength in Q3

Despite tentative signs that the fading of policy support could hurt growth, the Chinese economy showed its strength again in Q3 and expanded at a steady rate of 6.7% for the third consecutive quarter. The print was in line with market expectations and puts the economy on track to comfortably attain this year's 6.5%-7.0% growth target. Post-flood reconstruction works, a burgeoning real estate market and solid gains in private consumption likely shored up growth in Q3.

Although the National Bureau of Statistics (NBS) does not provide a breakdown of GDP by expenditure, additional data suggest that growth in private consumption improved in Q3 as [retail sales](#) accelerated to a 10.5% increase in that period (Q2:+10.2% year-on-year). Conversely, [investment growth](#) continued to decelerate. Investment among state-owned and state-holding units remained strong in Q3, though it decelerated on waning policy support. Private investment remained weak in the same period, highlighting the fragility of China's quality of growth as the main drivers remain traditional government-led sectors. Improving financing conditions for private firms and implementing more market-friendly initiatives are key to rebalancing investment towards a healthier trajectory. As a result, urban fixed-asset investment—which covers infrastructure and factory construction—expanded 8.2% in the first nine months of the year, which was below the accumulated 9.0% rise in H1.

On the external side of the economy, weak global demand continued to drag on nominal merchandise exports despite the weakening of the yuan. Overseas shipments declined 6.2% in Q3 (Q2: -5.0% yoy). The stabilization in [commodities prices](#), coupled with improving Chinese demand, prompted imports to contract a softer 4.6% annually in Q3 (Q2: -6.9% yoy). A [steeper drop in exports](#) combined with a softer decline in imports may have contributed negatively to the external sector. Sequential data show that GDP in Q3 adjusted for seasonal factors increased 1.8%, slightly down from the 1.9% expansion registered in Q2. Moreover, overall nominal GDP grew 7.8% in Q3, which was above the 7.3% increase in Q2.

As growth is no longer a major concern, the focus has now shifted to [China's booming housing market and soaring private debt](#). The [increase in housing prices](#) comes after years of relaxing conditions to revamp China's property market. Some cities have recently started to unveil measures in order to cool soaring prices, including increasing down payments and restricting home purchases, particularly in top cities. While the economic spillovers are still unclear, city-specific measures could be an effective instrument to slowly burst the property bubble. As Tao Wang, Head of China Economic Research at UBS, states:

“Policy makers have so far avoided applying a blanket nationwide property tightening program, likely for fear of overdoing policy cooling to trigger a sudden property sentiment reversal or sharp sales deceleration. As such, property policy tightening remains differentiated; targeting areas where the sales/price/leverage rally has been most concentrated. [...] On balance, we think these measures will have a moderate cooling effect in the coming months.”

An accommodative monetary policy stance and government-fueled growth via [cheap credit prompted](#) private sector debt, which includes household and corporate borrowing, to skyrocket from around 115% of GDP in 2008 to 210% of GDP in Q1 this year. The State Council unveiled a raft of measures on 10 October to cut private-sector leverage, including swapping bad debt for equity and

facilitating the bankruptcy of zombie firms. However, analysts are skeptical about the plan as it does not address structural problems, such as how to prevent companies from incurring bad debt again in the future.

The Chinese government set a growth target of between 6.5% and 7.0% for 2016. FocusEconomics Consensus Forecast panelists expect GDP to expand 6.6% in 2016, which is unchanged from last month's estimate. In 2017, the panel sees economic growth coming in lower at 6.3%, which is also unchanged from last month's estimate.

China - Investment Data

	2011	2012	2013	2014	2015
Investment (annual variation in %)	24.0	20.6	19.6	15.7	10.0

China: Investment growth hits four-month high in October

November 14, 2016

In the first ten months of the year through to October, urban fixed-asset investment (FAI), excluding rural households, expanded 8.3% from the same period last year, which was above the 8.2% expansion in September. The reading was slightly above the 8.2% increase that markets had expected and represented a four-month high. A month-on-month comparison shows that investment in urban fixed assets rose a seasonally-adjusted 0.58% in October, which was slightly above the 0.52% increase in September.

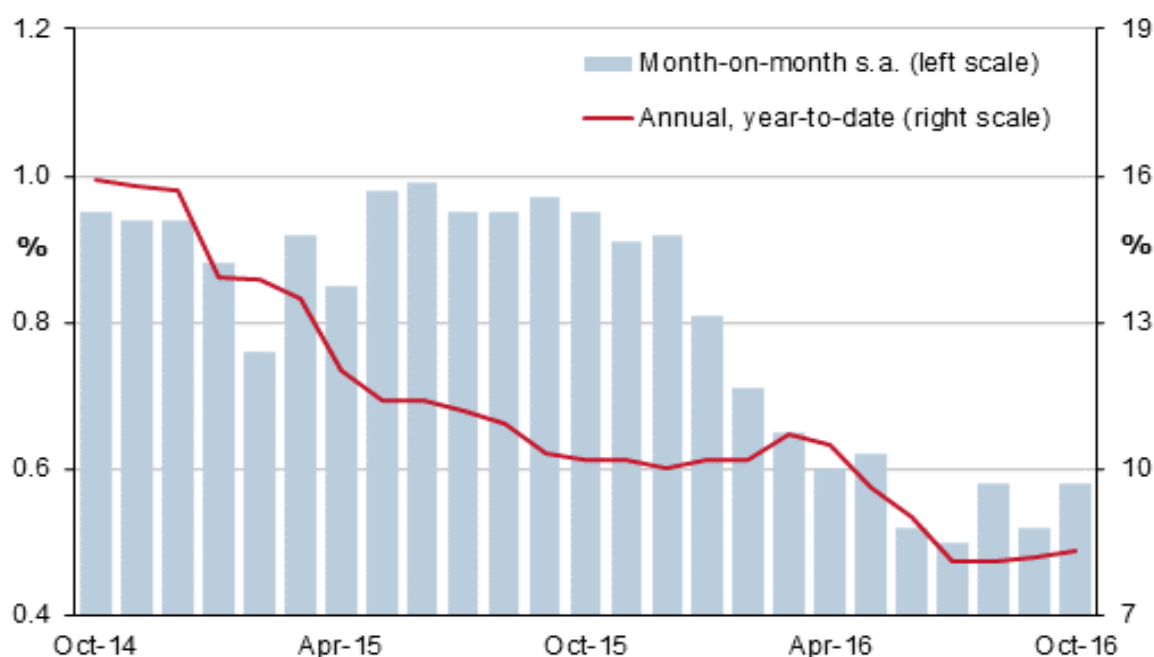
The improvement observed in October reflected an acceleration in the primary and the tertiary sectors. Conversely, growth in the secondary sector decelerated in the same month. The closely-watched real estate development indicator gained steam in October and hit a five-month high. In response to the tightening measures implemented in some top cities at the start of October, developers have sped up their investment projects. However, property investment growth will likely weaken in the coming months.

Analyzing October's data from the ownership side, investment growth among state-owned and state-holding units moderated to an eight-month low, although it still expanded a strong 20.5%. Activity among private companies accelerated in October and expanded a mild 2.5%. This combination of stronger private sector activity and a moderation among public-related companies bodes well for China's economic transition. That said, the wide gap between the two sectors is still casting doubt on the quality of this economic rebalancing.

FocusEconomics Consensus Forecast participants expect fixed-asset investment to grow 8.8% in 2016, which is down 0.1 percentage points from last month's Consensus. In 2017, the panel sees fixed-asset investment growth at 8.5%, which is also down 0.1 percentage points from last month's estimate.

<http://www.focus-economics.com/countries/china/news/investment/investment-growth-hits-four-month-high-in-october>

China Investment Chart



Note: Month-on-month changes of seasonally adjusted urban fixed-asset investment index and annual growth rate (year-to-date) in %.

Source: National Bureau of Statistics of China (NBS).

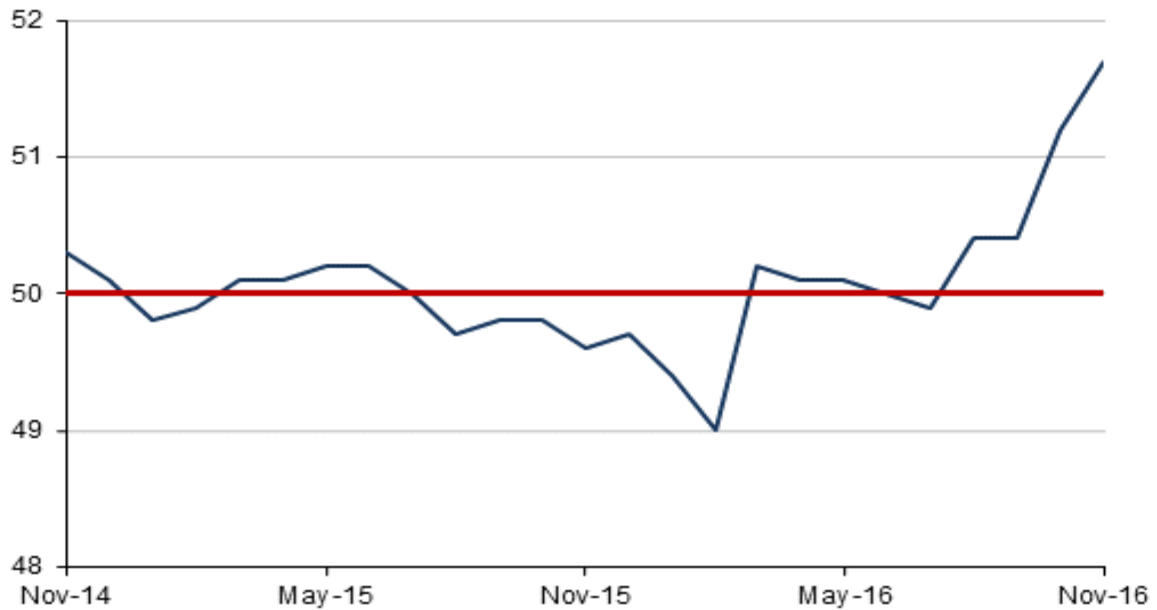
China: Upward trend in manufacturing PMI remains intact in November

December 1, 2016

The Purchasing Managers' Index (PMI) ticked up from October's 51.2% to 51.7% in November, according to the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing (CFLP), which publish the index. The reading, which was the highest since July 2014, overshot the 51.0% that market analysts had expected and was further above the 50% threshold that separates expansion from contraction in the manufacturing sector.

November's reading reflected an overall improvement as all but one of the main sub-categories of the index gained ground from October's print. In particular, employment prospects climbed to a three-year high, while production and new orders jumped to a 28-month high. On the downside, the suppliers' delivery time category tumbled to a nearly four-year low in the same month. Input prices—a reliable leading indicator for producer prices—jumped to the highest point since early-2011, signaling tighter supply conditions and suggesting that overall inflationary pressures are on the rise. New exports rebounded to expansionary territory in November, painting a brighter outlook for global trade.

China PMI Chart



Note: Purchasing Managers' Index. Readings above 50% indicate an expansion in the manufacturing sector while readings below 50% indicate a contraction.

Source: National Bureau of Statistics of China (NBS) and the China Federation of Logistics and Purchasing (CFLP).

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