

Economics Group

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Taiwanese Economy Expands at Modest Pace in Q2-2017

Real GDP growth in Taiwan downshifted a bit in Q2. With inflation benign and growth likely to remain modest, the central bank probably will maintain an accommodative policy stance for the foreseeable future.

Deceleration in Investment Contributes to Slower GDP Growth

Data released today showed that real GDP in Taiwan rose 2.1 percent on a year-ago basis in Q2-2017 (top chart). Most analysts had looked for a modest slowdown relative to the 2.6 percent growth rate that was registered in Q1, but the outturn came in a bit lower than the consensus forecast of 2.2 percent growth. In short, the Taiwanese economy continues to expand, albeit at an uninspired pace.

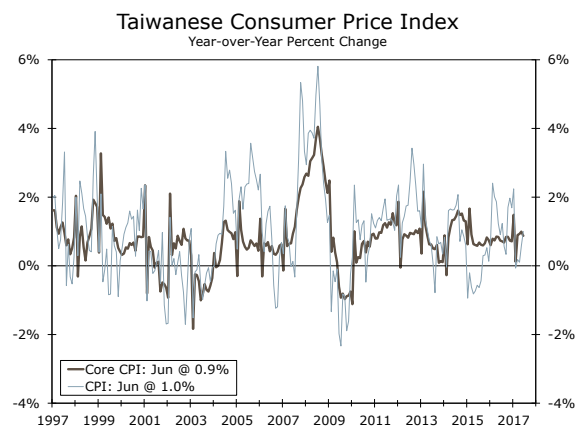
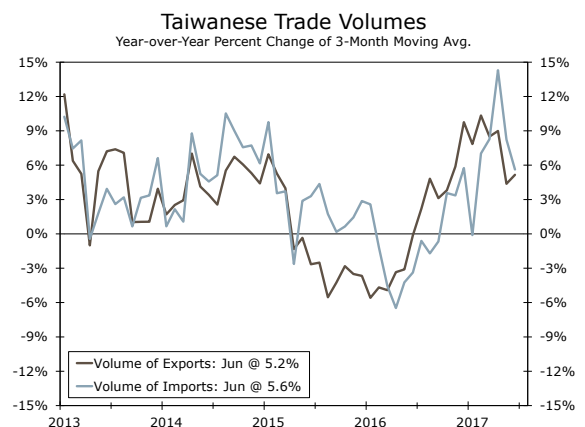
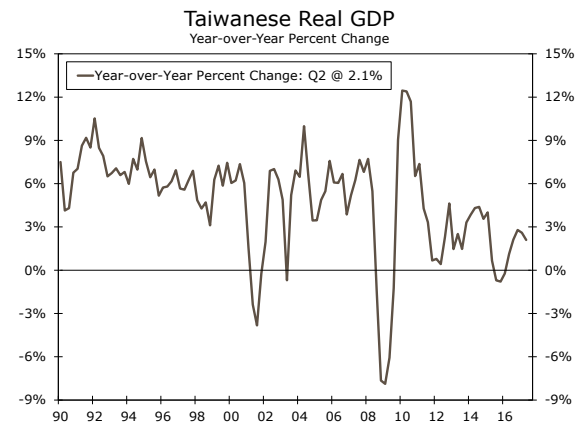
A breakdown of the real GDP data into its underlying demand components shows that growth in real personal consumption expenditures continued to chug along at the 2 percent pace that has prevailed over the past few quarters. But there was notable deceleration in fixed investment spending where the year-over-year growth rate downshifted from 7.7 percent in Q1 to only 0.1 percent in Q2. After growing strongly in the second half of 2016 and early this year, growth rates in real exports and real imports also slowed (middle chart).

Like many other Asian economies, international trade is critically important to Taiwan. Indeed, exports and imports are each equivalent to roughly 70 percent of GDP in Taiwan. (Comparable ratios in the United States are on the order of only 10 percent to 15 percent.) A decade ago, real exports in Taiwan consistently grew at double-digit rates. Although global trade has strengthened this year, a return to the supercharged growth rates of the past decade just does not appear to be in the cards anytime soon. Consequently, the Taiwanese economy will not be able to rely on strong external demand as much as it once did. We do not explicitly forecast real GDP growth in Taiwan, but the consensus looks for the Taiwanese economy to grow roughly 2 percent per annum in real terms in both 2017 and 2018. These forecasts seem reasonable to us.

Lack of Inflation = Continued Policy Accommodation

Rates of CPI inflation in Taiwan are running at only 1 percent at present (bottom chart). With economic growth likely to remain lackluster for the foreseeable future, CPI inflation in Taiwan probably will remain benign. Due in part to the low inflation environment, the Central Bank of the Republic of China reduced its main policy rate in four steps from 1.88 percent in September 2015 to 1.38 percent in June 2016 and subsequently has maintained it at this lower level. Most analysts look for the central bank to keep policy on hold for the foreseeable future.

The Taiwanese dollar has appreciated about 7 percent versus the U.S. dollar since the beginning of the year in the context of broad-based greenback weakness. Looking forward, our currency strategy team expects that the Taiwanese dollar will strengthen modestly further against the U.S. dollar as the greenback continues to lose ground vis-à-vis most other currencies.



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