

Taiwan: 2Q GDP weakened notably, main drag coming from the export sector, especially tech

Taiwan's 2Q15 real GDP growth slowed notably to 0.52%*o*ya (compared to the advanced reading of 0.64%), following the upwardly-revised growth at 3.84%*o*ya in 1Q (previously: 3.37%). The Directorate General of Budget, Accounting and Statistics (DGBAS) estimates that, seasonally-adjusted, real GDP contracted 6.56% q/q, *saar* in 2Q15, following the positive growth at 2.3% q/q *saar* in 1Q.

Breakdown of 2Q GDP by expenditure highlights that the notable contraction in the economy (in %q/q *saar* terms) was mainly dragged by export sector weakness (especially for tech products). On the domestic front, GDP expenditure data showed decent growth in private consumption in 2Q, though GDP industry data suggested that consumption-related sectors, such as wholesale and retail trade, remained subdued. Meanwhile, fixed investment growth rebounded decently in 2Q, which may hint at some potential moderate recovery for the economy going into 2H15.

Watching for signs of 2H15 improvement in external demand

The significant weakness in Taiwan's 2Q GDP, with the most severe quarterly GDP contraction (in %q/q *saar* terms) since the worst moments of the global financial crisis, was mainly dragged by the export and manufacturing sectors, with the notable underperformance of the tech sector (tech IP fell significantly at 34.5% 3m/3m *saar* in June).

Looking ahead, on the external front, our global team continues to expect stronger global growth in 2H15, which will hopefully provide some support for moderate recovery in Taiwan's export and manufacturing sector. In this regards, it is with noting: (1) Taiwan's July exports improved moderately (up 3.2% m/m *sa* in real terms); (2) tech exports, following the significant weakness in 2Q, rebounded 7.7% m/m *sa* in July; (3) capital goods imports rose notably at 93.6% m/m *sa* and 13.2% m/m *sa* in July and June respectively, suggesting decent expansion in corporate capex, which in turn hints at some moderate recovery in export and manufacturing sectors in coming months.

On the domestic front, it is worth noting that the slowing in industrial activity through 2Q seemed to have gradually fed into the labor market, with employment growth losing momentum lately (in % m/m *sa* terms, total employment stopped growing in June), which could restrain private consumption outlook going into 2H15.

Overall, our forecast for Taiwan's full-year 2015 GDP growth now stands at 1.3%*o*ya, assuming moderate recovery in the sequential growth trend to average at about 3.0% q/q *saar* in 3Q and 4Q.

Meanwhile, regarding monetary policy, considering the notable weakness in latest macro data, the possibility of a potential policy rate cut, sometime during 2H15, seems to be on the rise. Besides, as the major source of recent macro weakness largely originated from the external sector, managing currency competitiveness would be an important policy tool going ahead.

For further details of the 2Q GDP report, looking at the major GDP expenditure components:

- Total exports of goods and services contracted notably by 16.5% q/q saar in 2Q, compared to the modest expansion at 1.7% q/q saar in 1Q. (In particular, monthly trade data suggested the tech sector was the main drag on 2Q export weakness, as tech exports contracted 27.0% 3m/3m saar in June.)
- Imports of goods and services expanded moderately at 3.0% q/q saar in 2Q, following the contraction at 5.5% q/q saar in 1Q (reflecting the notable rebound in 2Q domestic fixed investment).
- On the domestic front, private consumption expenditure rose 3.0% q/q saar in 2Q, following the solid gain at 4.1% q/q saar in 1Q.
- Gross fixed capital formation rebounded rather notably by 26.8% q/q saar in 2Q, following the contraction at 13.1% q/q saar in 1Q.

Regarding GDP details by industry:

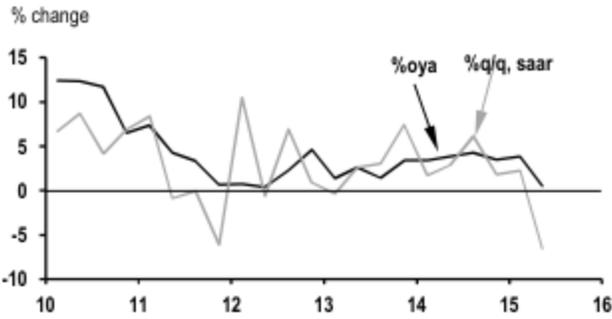
- Manufacturing production contracted 13.4% q/q saar in 2Q, following the moderate gain at 2.2% q/q saar in 1Q.
- With regard to domestic service sectors, wholesales and retail trade, which is closely related to private consumption expenditure, contracted 5.1% q/q saar in 2Q, following the decline at 3.4% q/q saar in 1Q.
- Real estate activity rose modestly at 1.2% q/q saar in 2Q, following the modest gain at 0.5% q/q saar in 1Q.
- Finance and insurance services expanded significantly at 12.9% q/q saar in 2Q, adding to the gain at 17.6% q/q saar in 1Q.
- In addition, construction activity contracted 5.3% q/q saar in 2Q, adding to the decline at 4.2% q/q saar in 1Q.

Taiwan: real GDP growth

	2014	3Q14	4Q14	1Q15	2Q15
%oya					
Real GDP	3.8	4.3	3.5	3.8	0.5
Private consumption	3.0	3.8	2.4	3.8	2.9
Government consumption	3.7	3.9	4.3	3.9	0.0
Gross capital formation	1.8	4.8	0.0	-0.2	1.3
Exports of goods & serv.	5.9	7.6	6.5	6.1	-1.3
Imports of goods & serv.	5.8	9.2	6.1	2.7	2.2
%q/q, saar					
Real GDP		6.1	1.9	2.3	-6.6
Private consumption		2.5	2.0	4.1	3.0
Government consumption		4.6	1.3	-9.8	5.7
Gross capital formation		16.6	-3.5	-13.1	26.8
Exports of goods & serv.		9.2	4.4	1.7	-16.5
Imports of goods & serv.		9.7	2.8	-5.5	3.0

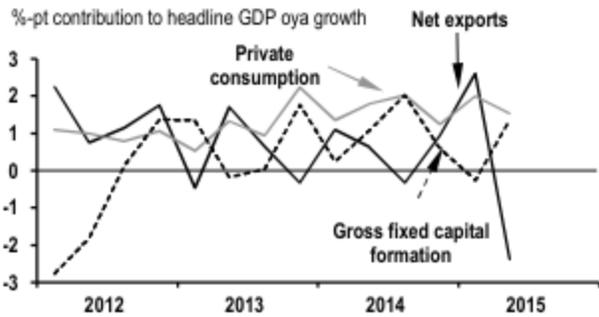
Source: DGBAS

Taiwan: real GDP growth



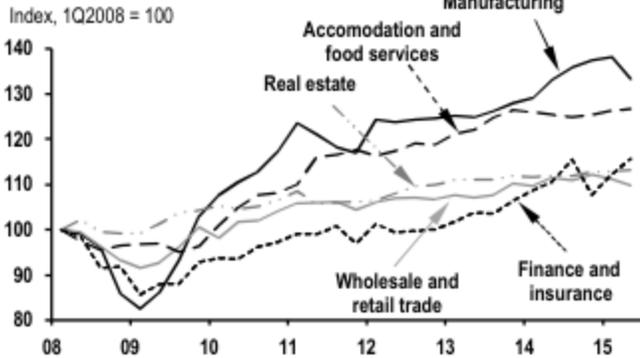
Source: DGBAS

Taiwan: contribution to GDP growth



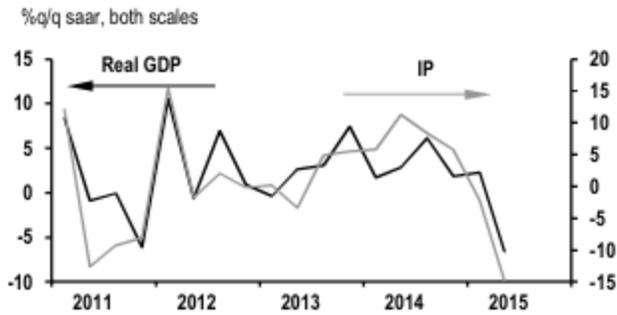
Source: DGBAS

Taiwan: GDP by industry



Source: DGBAS, [REDACTED]

Taiwan: real GDP and IP



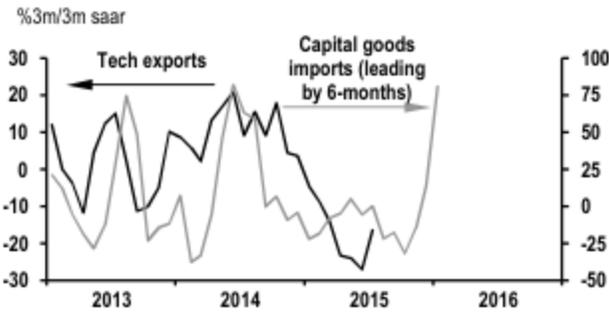
Source: DGBAS, MoEA, [REDACTED]

Global manufacturing PMI and Taiwan real export growth



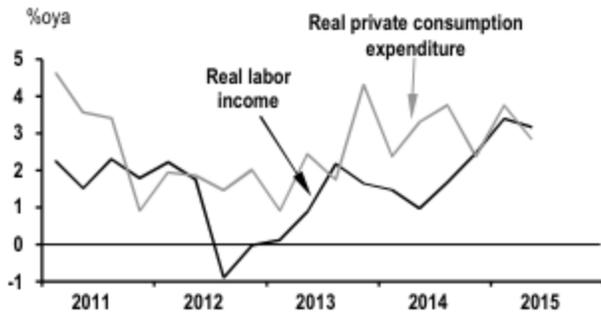
Source: MoF, DGBAS, Markit, [REDACTED]

Taiwan: tech exports and capital goods imports



Source: MoF, [REDACTED]

Taiwan: real labor income and private consumption



Source: DGBAS, [REDACTED]

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