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Economics Group

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Taiwanese Economy Dodges Recession in Q3

Taiwan narrowly avoided a technical recession in Q3, but real GDP declined on a year-ago basis for the first time since 2009. Weakness in the external sector appears to be seeping into other sectors of the economy.

Widespread Weakness in Q3 GDP Report

Taiwan narrowly avoided a technical recession in the third quarter, but the details of the GDP report were hardly encouraging. Specifically, the 0.1 percent sequential growth rate was not strong enough to outweigh the 1.7 percent decline in the prior quarter, as the Taiwanese economy actually contracted 1.0 percent from a year earlier in Q3. This marks the first negative year-over-year growth reading in Taiwan's economy since 2009.

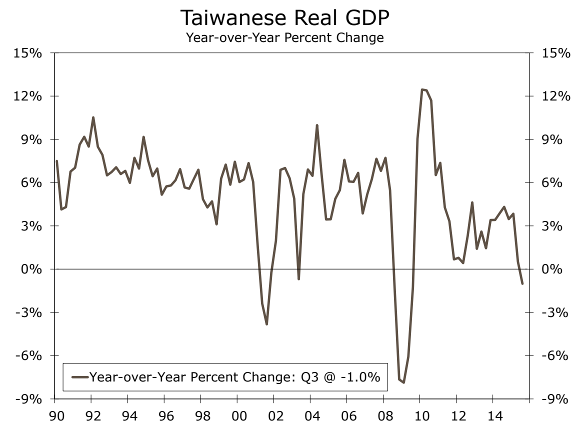
The decline was led by exports, which fell 2.0 percent in Q3 from a year earlier after a 0.9 percent decline in the prior quarter. Had it not been for the 0.9 percent drop in imports over the quarter, net exports would have shaved even more off the year-over-year headline growth rate. Export activity in Taiwan has clearly been held back by the continued slowdown in mainland China, where roughly 25 percent of Taiwan's exports are destined. Yet, while exports were the weakest component of GDP growth in Q3, weakness was seen in other areas of the economy as well.

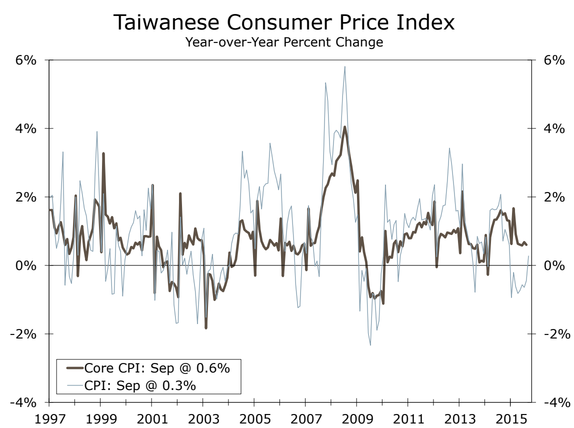
In particular, output in the public sector fell 0.1 percent from a year earlier, while gross fixed capital formation was down 0.3 percent on a year-ago basis. Meanwhile, private consumption rose just 0.5 percent, the slowest growth rate in more than two years. Looking at the production side of the economy, manufacturing output was down 3.1 percent from a year ago, consistent with the weakness in exports and fixed investment. There are few indicators available for Q4 at present, but the below-50 reading in the manufacturing PMI for September suggest growth will likely remain sluggish in Taiwan as the year draws to a close.

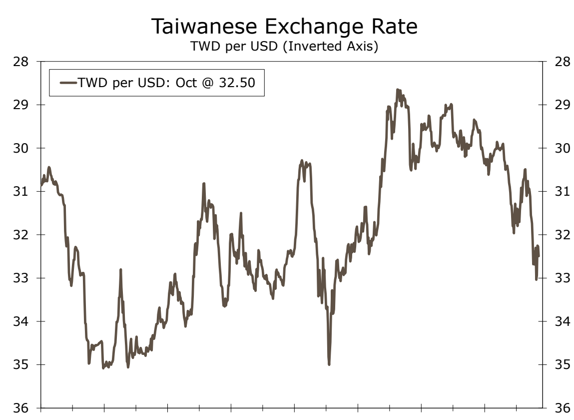
Slow Growth and Low Inflation Spur Rate Cut

The broad-based softening in Taiwanese economic activity suggests export weakness is seeping into other sectors of the economy. Meanwhile, inflationary pressures in Taiwan are largely absent at present; CPI inflation is only slightly above zero on a year-over-year basis, while the core figure has clearly weakened as well. While CPI inflation should rise as the drop in oil prices factors out of the year-over-year comparisons, softness in domestic demand will likely constrain broader inflationary pressures in the Taiwanese economy. Tepid growth amid a backdrop of disinflation gave Taiwan's central bank scope to cut its benchmark policy rate by 25 bps in September after holding it steady for more than four years.

We do not explicitly forecast Taiwanese GDP, but most forecasters expect real GDP growth will remain below 3 percent over the next few years, well below the robust rates registered in prior cycles. Given continued expectations of slow growth and low inflation, Taiwan's central bank is likely to maintain accommodative monetary policy for the foreseeable future. Thus, against the backdrop of a Federal Reserve moving nearer to a less accommodative policy stance, our currency team expects gradual declines for the Taiwan dollar vis-à-vis the dollar in the coming quarters.







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