

*Developments in
the Real Economy*



I. Developments in the Real Economy

1. Overview

In 2019, Taiwan's economy continued to gain its momentum primarily from domestic demand, as external demand was hampered by world trade conflicts (see Box 1 for more). For the year as a whole, the annual GDP growth rate was 2.71%, only marginally lower than that of the previous year by 0.04 percentage points. A continued current account surplus and a net asset increase in the financial account pointed to a healthy balance of payments. The consumer price index rose by 0.56%, as fuels and lubricants price declines and communication fee reductions partially offset the increases in tour group fees and fruit and vegetables prices. The average unemployment rate edged up by 0.02 percentage points to 3.73%, the second lowest rate since 2001. Meanwhile, monthly real earnings per non-farm worker averaged NT\$52,323 for the year, representing a 1.82% rise that led it to a historical high.

Steady Economic Growth

Over the course of 2019, Taiwan's economic growth accelerated further each quarter, spurred by mild private consumption growth, stronger private investment momentum as semiconductor firms stepped up high-end process development and information and communication (infocom) companies augmented production capacity in Taiwan, and moderate export expansion. Benefitting from the uptrend, the annual GDP growth rate reached 3.31% in the fourth quarter and registered 2.71% for the year as a whole, only slightly below the 2.75% of the previous year.

Among the GDP expenditure components, private investment grew steadily and fixed capital formation expanded further. Domestic demand growth thus gathered pace to 2.62%, making a significant contribution of 2.33 percentage points to overall GDP growth. Despite strains from international trade conflicts, exports were able to attain modest growth thanks to domestic capacity expansion by infocom firms and a trade diversion effect. As a result, net external demand contributed 0.39 percentage points to GDP growth.

In terms of the excess saving ratio, it decreased from the previous year's 13.23% to 11.62% owing to a greater increase in gross domestic investment than that in gross national saving.

Healthy BOP Surplus

Taiwan continued to post a healthy balance of payments. The current account registered a surplus of US\$64,350 million, the financial account had a net asset increase of US\$52,857 million, and the Bank's reserve assets recorded an increase of US\$16,658 million.

In terms of the current account, the goods trade surplus shrank to US\$57,753 million because of a larger decline in exports than in imports; notwithstanding, it remained the largest source of the current account surplus. The services account deficit narrowed to US\$5,184 million, mainly owing to increases in travel receipts and income from professional and management consulting services. Meanwhile, an increase in domestic bank interest receipts and a decrease in direct investment income payments to nonresidents combined to bolster the primary income surplus to US\$14,663 million. The secondary income deficit decreased to US\$2,902 million. For the year as a whole, the ratio of current account surplus to GDP dropped from the 11.6% of the previous year to 10.5%.

In terms of the financial account, portfolio investment showed a net asset increase of US\$46,288 million. Among the components, portfolio investment abroad by residents expanded by a net amount of US\$54,764 million, mainly because onshore funds and domestic insurers built up greater positions of foreign securities. Local portfolio investment by nonresidents returned to positive territory with a net increase of US\$8,476 million as foreign investors increased local stock holdings. In terms of direct investment, which recorded a net asset increase of US\$3,648 million, the amount of residents' direct investment abroad shrank to US\$11,861 million while inbound direct investment by nonresidents rose further to the second highest record at US\$8,213 million. In terms of other investment, it posted a net asset increase of US\$420 million, mainly because banks' deposits with overseas branches and lending to foreign banks both increased.

Mild Inflation

In 2019, global economic growth was disrupted by US-China trade friction, and international prices of crude oil and other raw materials trended lower. Against this backdrop, the wholesale price index fell by 2.27% year on year.

The consumer price index (CPI) went up by 0.56% on average for 2019 as a whole. This was because rises in tour group fees, rent, fruit and vegetables prices, and away-from-home food prices were partially offset by reductions in domestic fuels and lubricants prices amid an international oil price slump and continuously lower communication fees. The core CPI (excluding fruit, vegetables, and energy items) rose by 0.49%. In sum, domestic inflation was mild in 2019.

Slightly Higher Unemployment Rate; Slower Wage Growth

Labor market conditions were stable in 2019. By month, seasonal factors, including employees changing jobs after the Lunar New Year and graduates entering the job market, drove the unemployment rate up in February and June through August. However, in the other months of the year, the unemployment rate dropped. It averaged 3.73% for the year as a whole, only slightly higher compared to the previous year's 3.71% and the second lowest since 2001. The average labor force participation rate ticked up by 0.18 percentage points to 59.17%.

On average, employment reached 11.50 million persons in 2019, increasing by 66 thousand or 0.58%. The services sector accounted for the most of this increase, with an additional hiring of 59 thousand persons or 0.87%. Industrial employment increased the second most, by nine thousand or 0.21%, whereas agricultural employment shed two thousand persons, or 0.20%.

In terms of wages, average non-farm (industrial and services sectors) monthly earnings per employee gained by 2.39% to NT\$53,657. It did not grow as fast as the previous year's 3.82% mainly because reduced corporate profits led to slower growth in non-regular earnings such as bonuses. Meanwhile, real monthly earnings (adjusted for inflation) rose by 1.82% to NT\$52,323, the highest in history. Labor productivity indices of the industrial sector and the manufacturing industry edged down by 0.06% and 0.15%, respectively. Unit labor costs increased by 0.87% in the industrial sector and 0.95% in the manufacturing sector, reflecting an increase in total earnings relative to a decrease in production.

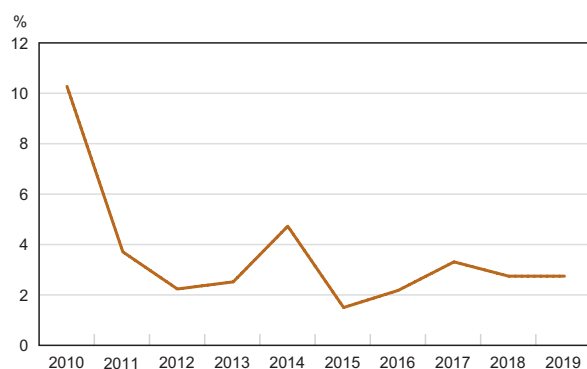
2. National Output and Income

In 2019, Taiwan's economy expanded at an annual rate of 2.71%, slightly lower than the 2.75% of the previous year. Domestic demand continued to serve as the leading force for economic expansion and contributed 2.33 percentage points to real GDP growth. This was in part due to a steady increase in private consumption as well as a remarkable expansion in fixed capital formation. In terms of external demand, despite weak global demand and escalating trade tensions, net exports grew mildly and contributed 0.39 percentage points to real GDP growth. In the meantime, nominal GNI (gross national income, in US dollars) rose by 0.63% and per capita GNI increased from US\$26,376 to US\$26,528 over the year 2019.

In the first quarter, real GDP experienced the lowest level of growth over the year at 1.84%. Private consumption grew moderately and private investment expanded at a solid pace because of higher demand for machinery and equipment investment. Government consumption, on the contrary, contracted owing to a higher base effect resulting from the public sector wage increase in the previous year. Meanwhile, a gradual global economic slowdown weighed on export growth, thereby posing a headwind to domestic economic growth. In the second quarter, real GDP growth picked up from its lowest point and reached 2.60%. Although government consumption remained constricted, private investment continued to gain growth momentum from machinery and equipment investment. Growth in private consumption and exports provided additional support to real GDP growth.

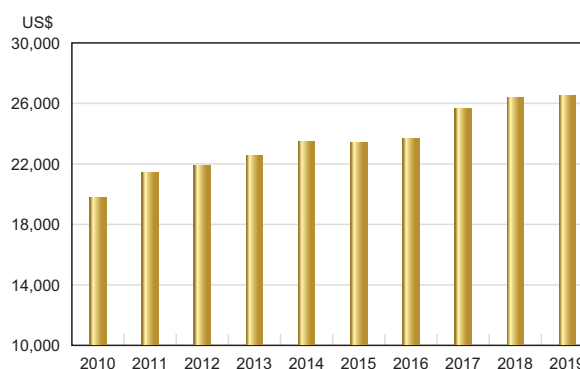
In the third quarter, real GDP expanded at an annual rate of 3.03%. Of note, government consumption exhibited positive growth after two consecutive quarters of contractions. Private consumption growth was buoyed by an increase in vehicle sales and higher demand for overseas

Real Growth Rate of GDP



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2020.

Per Capita GNI



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2020.

travel. Growth in private investment was relatively soft, reflecting slower build-ups of construction investment and machinery and equipment investment. Exports suffered from weak global demand and fell slightly from the previous year. In the fourth quarter, a number of positive factors emerged, pushing real GDP growth to the highest level over the year at 3.31%. Higher vehicle sales and stock trading volumes bolstered private consumption growth; an expansion in machinery and equipment investment resulted in another quarter of strong growth for private investment; the enhancement of production capacity in the IT sector helped prop up export growth.

Expenditure Components of GDP

All expenditure components of GDP recorded positive growth in 2019. Among all the components, gross fixed capital formation was the primary source of economic growth and contributed 1.99 percentage points to real GDP growth for the year. Private consumption, on the other hand, contributed 1.12 percentage points to real GDP growth. Meanwhile, exports of goods and services and government consumption contributed to real GDP growth by 0.83 and 0.02 percentage points, respectively. With respect to shares of GDP, exports of goods and services accounted for the largest share of GDP at 64.10%, followed by private consumption at 52.22% and gross fixed capital formation at 23.44%.

GDP by Expenditure

Unit: %

	2019			2018		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	52.22	2.13	1.12	52.39	2.04	1.06
Government Consumption	13.99	0.11	0.02	14.30	4.03	0.56
Gross Fixed Capital Formation	23.44	9.13	1.99	21.76	2.95	0.62
Change in Inventory	-0.14	-	-0.80	0.46	-	0.78
Exports of Goods and Services	64.10	1.24	0.83	66.62	0.69	0.46
(Less : Imports of Goods and Services)	53.61	0.79	0.44	55.52	1.37	0.74
Expenditure-based GDP	100.00	2.71	2.71	100.00	2.75	2.75

Note: * Percentage point.

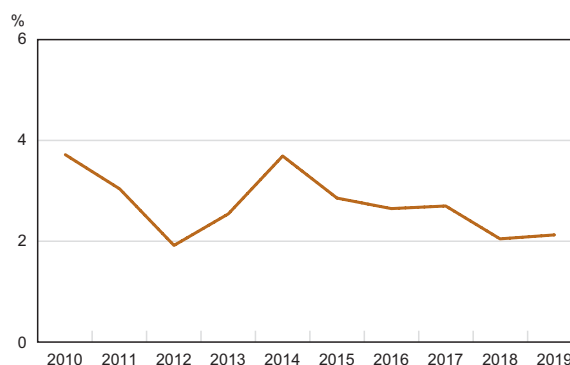
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2020.

(1) Steady Growth in Private Consumption

In general, growth in private consumption was weak in the beginning of the year, but improved significantly in the second half of 2019. For the year as a whole, private consumption posted an annual growth rate of 2.13%, slightly higher than the 2.04% of 2018, and contributed 1.12 percentage points to real GDP growth.

In the first half of the year, the US-China trade dispute led to high volatility in global financial markets, thereby adversely affecting consumer confidence. Private consumption growth was further restrained by a subpar performance in vehicle sales and a downturn in stock trading value. Yet, the employment condition remained stable and wages continued to rise steadily. Against this conflicting backdrop, private consumption grew at 1.75% and 1.61% in the first two quarters, respectively. In the second half of the year, the US-China trade dispute eased and the Taiwan stock market reached a 29-year high, thereby helping private consumption regain its growth momentum. Furthermore, vehicle sales improved over the second half of 2019, leading to stronger retail sales, and the number of outbound travelers also experienced notable growth, both providing an additional boost to private consumption. As a result, private consumption grew robustly at 2.52% and 2.63% in the third and fourth quarters, respectively.

**Real Growth Rate
of Private Consumption Expenditure**



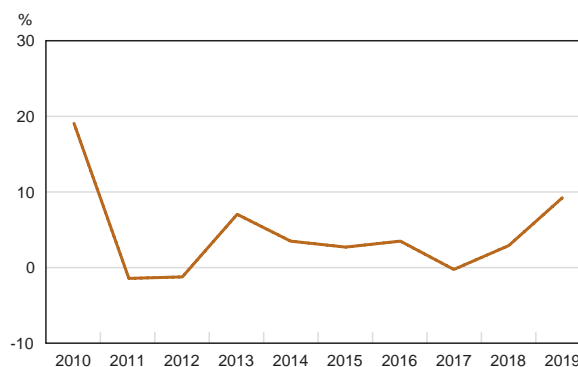
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2020.

(2) Robust Expansion in Fixed Capital Formation

Fixed capital formation grew at a solid rate of 9.13% for the entire year and contributed 1.99 percentage points to real GDP growth, the highest level of contribution since 2010. This marked expansion was attributed to a growing trend in manufacturing reshoring, the active development in offshore wind power, and an accelerating rate of investment growth in advanced process technologies in the semiconductor industry.

In the first and second quarters of 2019, fixed capital formation expanded by 6.55% and 11.44%, respectively, supported by an increase in machinery and equipment investment and a rise in transportation investment. However, as machinery and equipment investment cooled off in the third quarter, the growth rate of fixed capital formation slipped to 3.71%, the lowest level over the year. In the fourth quarter, imports of semiconductor equipment surged and construction and transportation investments both grew steadily; growth in fixed capital formation thus rebounded from the weak patch and reached 14.97%, the highest level over the year.

**Real Growth Rate
of Fixed Capital Formation**



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2020.

In terms of the type of capital formation, construction investment grew at a steady pace, with an annual growth rate of 1.93% in 2019. On the other hand, transportation investment shrank by 1.80% for the entire year owing to a higher base effect. A substantial expansion appeared in investment in machinery and equipment throughout the year, with each quarter growing at above 20%, except for the third quarter. As a result, machinery and equipment investment expanded by 23.80% for the entire year. Lastly, investment in intellectual property remained relatively stable and increased by 3.53% in 2019.

(3) Mild Upturn in Real Exports and Imports

In 2019, Taiwan's exports confronted some crosscurrents such as weak global demand and the US-China trade dispute, yet also benefitted from the resulting trade diversion effects. Overall, exports of goods and services increased at a mild pace of 1.24% and contributed 0.83 percentage points to real GDP growth.

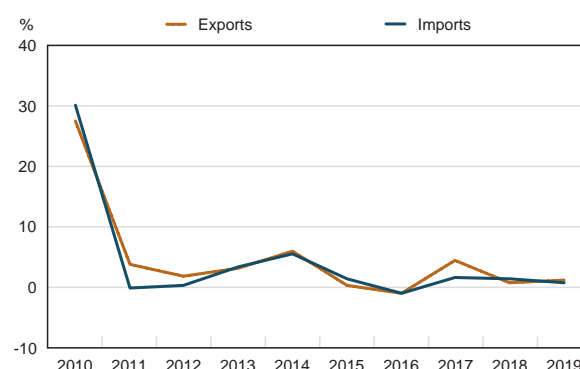
In the first quarter, influenced by a slowdown in global economic growth and a higher base effect, exports grew softly by 0.88%. In the second quarter, growth in exports increased to 1.42%, which was supported by the effects of production relocation and trade diversion. Export growth continued to be dampened by the US-China trade dispute in the third quarter and fell sharply to -0.03%. In the fourth quarter, benefiting from a number of favorable conditions, such as an easing of trade tensions, rising demand for 5G applications, and an improvement in production capacity, exports advanced by 2.64%, the highest growth over the year.

Turning to the imports of goods and services, a significant increase in imports of capital equipment mitigated the decline in export-derived demand and caused real imports to rise slightly by 0.79% for the entire year.

Moderate Decline in Excess Saving Ratio

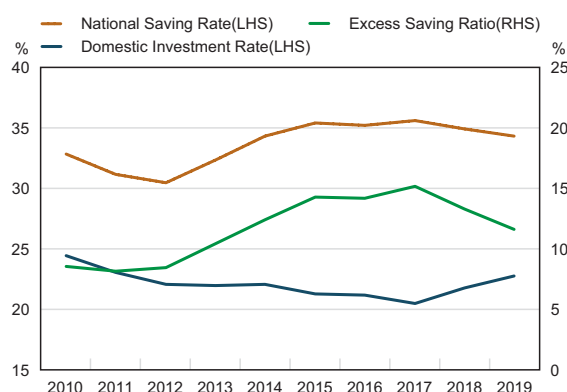
Domestic investment expanded on the back of a growing trend in manufacturing reshoring,

Real Growth Rates of Exports and Imports



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2020.

National Saving Rate, Domestic Investment Rate, and Excess Saving Ratio



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2020.

the active development in offshore wind power, and an accelerating rate of investment growth in advanced process technologies in the semiconductor industry. As a consequence, domestic investment as a share of GNI moved upward by a small margin, from 21.73% in 2018 to 22.75% in 2019. Meanwhile, the national saving rate (the ratio of national saving to GNI measured at current prices) fell slightly from 34.96% in 2018 to 34.37% in 2019. Overall, the excess saving ratio, defined as the excess of gross national saving over gross domestic investment to GNI, slid from 13.23% in 2018 to 11.62% in 2019.

Box 1 Implications of US-China Trade Relations for Taiwan

1. Trade Diversion Effects Helped Temper the Impact of Soft External Demand

In 2019, most major Asian economies suffered negative export growth as the US-China trade conflict continued to flare and the global economy faltered. By contrast, Taiwan was able to benefit from companies' tariff mitigation strategies such as production relocations and order transfers, which cushioned the blow to external demand. As a result, Taiwan's exports, though contracting by 1.4% compared to 2018, did not decline as sharply as those in Singapore, South Korea, Japan, Malaysia, and Thailand.

Over the course of the trade war, new tariffs imposed by the Trump administration were added to an increasingly longer list of Chinese goods and drove up average import tariffs. One of the most drastic hikes took effect on May 10, 2019, raising the additional tariffs from 10% to 25% on approximately US\$200 billion worth Chinese goods that included information, communication, and audio-video products ranging from servers and routers, to memory modules. Given this escalation, Taiwanese information and communication product firms, who had manufactured 89.7% of their export orders in China and shipped more than 30% of them directly to the US, began to expedite production relocations to other countries.

In addition to the battle front of tariffs, the US and China also fought for technological supremacy and, around the world, information security was given greater priority. As a result, multinationals became keener on moving advanced technologies, products, and related supply chains out of China. This presented an opportunity for Taiwan, which boasts an integrated, comprehensive semiconductor industrial cluster with high-end product capabilities, to be the nexus of the reconfigured supply chains.

In 2019, the proportion of overseas production in total export orders increased modestly by 0.2 percentage points over the previous year. However, the fact that the share of information

and communication products manufactured overseas dropped 2.2 percentage points showed that domestic production was gaining ground. While Taiwan's total exports shrank by 1.4% in 2019, exports of information, communication, and audio-video products recorded a positive growth rate of 20.8%, with those bound for the US soaring by 59.5%, easing the shock from sluggish external demand.

2. Taiwanese Investment in China Fell and US Corporate Direct Investment in Taiwan Rose

In recent years, China's lure as a cost-effective production base has faded as its labor costs and tax burdens surged and environmental laws strengthened. Combined with the trade war effects, these considerations added to the catalysts for production relocation out of China. Investment in China by Taiwanese firms slid from US\$8.5 billion a year earlier to US\$4.17 billion in 2019, declining markedly by 50.9%. The manufacturing sector alone scaled down its China-bound investment by 59.7% year on year to US\$2.41 billion, with the largest cutback, of US\$1.22 billion, coming from the manufacturers of electronic parts and components.

Meanwhile, multinationals, especially US-headquartered corporations, stepped up their investment in Taiwan for emerging technologies such as 5G network, artificial intelligence, Internet of Things, and cloud computing and data storage. In 2019, US businesses invested US\$0.36 billion in Taiwan, a new high since 2014. If investment through establishments in third countries (e.g., Micron, through its Dutch subsidiary, and Google, via fund flows from British Virgin Islands) is included, Taiwan-bound investment by the US high-tech industry would exceed US\$3.0 billion in 2019, bolstering Taiwan's further involvement in the integration of software and hardware supply chains.

3. Despite the US-China "Phase One" Trade Deal, COVID-19 Impact on Trade Should Be Closely Monitored

While US-China trade tensions continued to heighten uncertainties over global investment and trade in 2019 with adverse implications for Taiwan's economy and trade, they also spurred high-tech corporate investment flows into Taiwan. Increased development of high-end processes and production, if carrying on, would strengthen the inter-industry linkage effects in Taiwan, thereby promoting exports and consumption, creating jobs, and boosting economic growth.

After the US and China signed a "phase one" trade deal on January 15, 2020, which took effect on February 14, it removed some of the uncertainties over the global economy and trade. Before breathing a reprieve, the world took another hit with the coronavirus (COVID-19) pandemic breaking out in China in January and spreading to the world, wreaking havoc on economic growth where it struck. In this view, it would be crucial to remain watchful of China's follow-up efforts in keeping its trade deal promises and to monitor the potential implications for Taiwan.

Finally, it is worth noting that the trade war could add to the challenge of trade-related talks between Taiwan and the US. For one thing, Taiwan's current account surplus to GDP ratio exceeded the 2% threshold set by the US Treasury in determining currency manipulation of its trading partners, which was because of a chronically large excess of saving. For another, trade diversion as a result of the US-China trade spat also caused an increase in Taiwan's exports to the US. According to US Customs statistics, the US ran a trade deficit of US\$23.04 billion with Taiwan in 2019, also above the US Treasury's threshold of US\$20 billion. These developments alongside the trade war could in turn lead pressures to mount for Taiwan in its trade-related talks with the US.

3. Balance of Payments

In 2019, Taiwan's current account surplus shrank to US\$64,350 million, which accounted for 10.5% of nominal GDP, down from 11.6% in the previous year. The financial account posted a net asset increase of US\$52,857 million. The reserves and related items recorded a surplus of US\$16,658 million, which was reflected in the increase in foreign reserve assets held by the Bank.

Balance of Payments

Unit: US\$ Million

	(1) 2019	(2) 2018	(1)-(2)
A. Current Account	64,350	70,843	-6,493
Goods: credit (exports)	330,910	345,495	-14,585
Goods: debit (imports)	273,137	278,461	-5,324
Balance on Goods	57,773	67,034	-9,261
Services: credit (exports)	51,811	50,209	1,602
Services: debit (imports)	56,995	56,831	164
Balance on Services	-5,184	-6,622	1,438
Primary income: credit	39,114	39,051	63
Primary income: debit	24,451	25,299	-848
Balance on primary income	14,663	13,752	911
Secondary income: credit	8,239	7,643	596
Secondary income: debit	11,141	10,964	177
Balance on secondary income	-2,902	-3,321	419
B. Capital Account	-3	63	-66
C. Financial Account	52,857	54,220	-1,363
Direct investment: assets	11,861	18,058	-6,197
Equity and investment fund shares	10,834	17,431	-6,597
Debt instruments	1,027	627	400
Direct investment: liabilities	8,213	6,998	1,215
Equity and investment fund shares	8,087	7,195	892
Debt instruments	126	-197	323
Portfolio investment: assets	54,764	68,853	-14,089
Equity and investment fund shares	-2,584	2,376	-4,960
Debt securities	57,348	66,477	-9,129
Portfolio investment: liabilities	8,476	-15,175	23,651
Equity and investment fund shares	8,114	-14,385	22,499
Debt securities	362	-790	1,152
Financial derivatives: assets	-15,490	-16,748	1,258
Financial derivatives: liabilities	-17,991	-18,386	395
Other investment: assets	7,417	-20,082	27,499
Other investment: liabilities	6,997	22,424	-15,427
D. Net Errors and Omissions	5,168	-4,187	9,355
E. Reserves and Related Items*	16,658	12,499	4,159

Note: * Excluding valuation changes in exchange rates.
Source: *Balance of Payments*, CBC, February 2020.

Narrowing Current Account Surplus

The current account consists of four major items, namely goods, services, primary income, and secondary income.

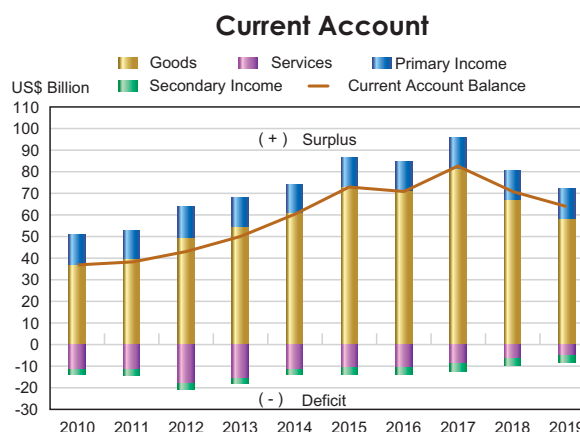
(1) Goods

Because of slower global economic growth and lower international raw material prices, Taiwan's external merchandise trade experienced a slowdown in 2019, with the value of exports, on a BOP basis, decreasing by 4.2% to US\$330,910 million from 2018. Among its components, net exports of goods under merchanting declined by 5.1% to US\$10,803 million. The value of imports decreased by 1.9% to US\$273,137 million. Overall, as the decrease in exports exceeded that in imports, the trade surplus narrowed from US\$67,034 million to US\$57,773 million in the year. The top five trading partners of Taiwan in 2019 were Mainland China including Hong Kong (hereafter in this chapter referred to as Mainland China), ASEAN,¹ the US, Europe, and Japan.

In terms of Taiwan's trade with Mainland China, the value of exports amounted to US\$132,228 million in 2019, 4.1% lower than the previous year. As a manufacturing center of the world, Mainland China remained Taiwan's largest export market, though its share of total exports shrank to 40.2%. Among major export products, plastics and rubber and articles thereof and chemicals contributed the most to this negative growth in Taiwan's exports to Mainland China, owing to a broad downtrend in international raw material prices. However, exports of electronic parts and components to Mainland China increased by 3.2%, because the US-China trade conflict drove Mainland China to strengthen its pursuit of technological self-reliance and to seek non-US suppliers. Imports from Mainland China grew by 5.9% to US\$58,443 million in 2019, comprising a larger share of 20.4% in total imports. The increase mainly came from electronic parts and components and information, communication and audio-video products as a result of stronger export-derived demand. In sum, the trade surplus with Mainland China decreased to US\$73,785 million in 2019 but still remained the largest source of Taiwan's trade surplus.

Exports to the ASEAN economies decreased to US\$53,920 million in 2019, down by 7.2% with a weak export performance of mineral products. Imports from the ASEAN economies increased by 1.4% to US\$35,028 million, accounting for 12.3% of total imports, as imports of electronic parts and components rose. Overall, the trade surplus with the ASEAN economies declined to US\$18,892 million.

¹ Association of Southeast Asian Nations, including Brunei Darussalam, Cambodia, Indonesia, Laos, Myanmar, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.



Source: Balance of Payments, CBC, February 2020.

Singapore, Vietnam, and the Philippines were the third, fourth, and fifth largest sources of Taiwan's trade surplus, respectively.

In 2019, Taiwan's exports to the US grew 17.2% to US\$46,268 million, comprising a higher share of 14.0% in total exports. Among the exported goods, information, communication and audio-video products posted a 59.5% increase. This was mainly because a hike (from 10% to 25%) in additional US tariffs in May on imports from China of such goods as servers, routing apparatus, and memory modules, as well as information security concerns which prompted some production relocation to Taiwan. As for imports from the US, the amount rose by 5.2% to US\$34,814 million, with its share in total imports climbing to 12.2%. The major products leading the growth were machinery and mineral products. The trade surplus with the US expanded to US\$11,454 million for the year, ranking second among Taiwan's surplus sources.

Exports to Europe decreased by 4.8% to US\$29,775 million, with its share of total exports decreasing to 9.0%. The major products contributing to this contraction were base metals & articles thereof and electronic parts and components. Imports from Europe increased by 5.7% to US\$36,539 million, with the share of total imports increasing to 12.8%, mainly because imports of machinery (especially semiconductor equipment) sharply rose by 71.7%. In all, Taiwan's trade deficit with Europe expanded to US\$6,765 million in 2019.

Exports to Japan increased by 2.1% to US\$23,286 million as its share in Taiwan's total exports increased to 7.1%. Of all major products exported to Japan, electronic parts and components and

Trade in Goods by Country

Unit: %

	2019			2018		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
Mainland China (including Hong Kong)	132,228	40.2	-4.1	137,899	41.3	6.1
ASEAN	53,920	16.4	-7.2	58,126	17.4	-0.7
US	46,268	14.0	17.2	39,490	11.8	7.4
Europe	29,775	9.0	-4.8	31,278	9.4	8.7
Japan	23,286	7.1	2.1	22,801	6.8	10.8
Rest of the World	43,842	13.3	-1.3	44,414	13.3	8.5
Total	329,320	100.0	-1.4	334,007	100.0	5.9
Imports						
Mainland China (including Hong Kong)	58,443	20.4	5.9	55,199	19.4	7.1
Japan	44,035	15.4	-0.3	44,151	15.5	5.3
US	34,814	12.2	5.2	33,105	11.6	16.6
Europe	36,539	12.8	5.7	34,580	12.1	10.4
ASEAN	35,028	12.3	1.4	34,549	12.1	11.4
Rest of the World	76,979	26.9	-7.5	83,207	29.2	14.0
Total	285,839	100.0	0.4	284,792	100.0	10.7

Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R.O.C. (Taiwan).

information, communication and audio-video products contributed the most to the growth. Imports from Japan decreased slightly by 0.3% to US\$44,035 million, despite a 23.5% increase in machinery imports, and its share of total imports remained at 15.4%. Japan remained Taiwan's second largest source of imports in 2019. Overall, the trade deficit with Japan shrank to US\$20,749 million.

(2) Services

In 2019, services receipts increased by US\$1,602 million to US\$51,811 million. Services payments increased by US\$164 million to US\$56,995 million. In all, the services deficit continued narrowing to US\$5,184 million.

Of the various components of the services account, receipts of manufacturing services on physical inputs owned by others, reflected by the receipts of a resident providing a nonresident with the services of processing, assembly, labeling, or packing of goods owned by the nonresident, increased by US\$433 million to US\$3,214 million in 2019. On the debit side, payments for manufacturing services, namely a resident's payments to a nonresident for providing these services for the resident who is also the owner of the goods concerned, decreased by US\$779 million to US\$1,947 million. In total, net manufacturing receipts increased from US\$55 million to US\$1,267 million.

In terms of maintenance and repair services n.i.e. (not included elsewhere), which covers maintenance and repair work for or by nonresidents on ships, aircraft, and other transport equipment, the receipts declined by US\$141 million to US\$1,389 million owing to decreased receipts from aircraft repairs. On the other hand, the payments were US\$924 million, approximately the same as the previous year. Overall, the surplus on this account narrowed from US\$606 million to US\$465 million.

Transport receipts decreased by US\$496 million to US\$10,455 million, reflecting decreases in international freight proceeds received by domestic carriers. Transport payments decreased by US\$675 million to US\$11,775 million as a result of decreases in passenger fares paid to foreign airlines. Overall, net transport payments decreased from US\$1,499 million to US\$1,320 million in the year.

Travel receipts increased by US\$669 million to US\$14,373 million, mainly because of a larger number of inbound visitors. Meanwhile, travel payments increased by US\$1,079 million to US\$20,507 million, a new historical level as the number of outbound travelers mounted. The numbers of inbound visitors and outbound travelers both reached record highs, increasing by 7.2% and 2.7%, respectively. However, as the average length of stay of inbound visitors declined, the deficit on the travel account widened to US\$6,134 million, the largest on record.

Other services receipts grew by US\$1,137 million to US\$22,380 million, mainly attributable to increases in receipts from professional and technical services (which is under other business services), computer and information services, and financial services. Other services payments rose by US\$539 million to US\$21,842 million, owing to increases in payments for computer and information services, financial

services, and construction. In all, other services exhibited a surplus of US\$538 million in 2019, reversing the deficit in the previous year.

(3) Primary Income

Primary income consists of compensation of employees, investment income, and other primary income. In 2019, primary income receipts slightly increased by US\$63 million to US\$39,114 million, mainly because of increasing interest received by banks. Meanwhile, primary income payments amounted to US\$24,451 million, US\$848 million less than the previous year. This was mostly attributable to a decrease in direct investment income paid to nonresidents. Consequently, the surplus on the primary income account rose to US\$14,663 million for the year of 2019.

(4) Secondary Income

For the year of 2019, secondary income receipts amounted to US\$8,239 million, reflecting increases in inward family support allowances and workers' remittances. Secondary income payments amounted to US\$11,141 million, mainly owing to increases in gifts and samples and net premiums paid to nonresidents. As a whole, the deficit on secondary income narrowed to US\$2,902 million in 2019.

Capital Account Deficit

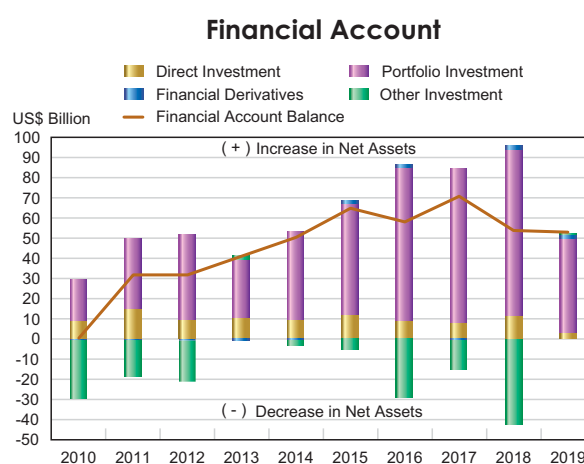
The capital account includes capital transfers and the acquisition and disposal of non-produced, non-financial assets. In 2019, the balance of the capital account turned from a surplus to a deficit of US\$3 million.

Net Asset Increase in Financial Account

In 2019, the financial account showed an increase of US\$52,857 million in net assets. In terms of sub-categories, direct investment, portfolio investment, financial derivatives, and other investment exhibited increases of US\$3,648 million, US\$46,288 million, US\$2,501 million, and US\$420 million in net assets, respectively.

(1) Direct Investment

Direct investment abroad by residents exhibited an increase of US\$11,861 million in assets. Direct investment in Taiwan by nonresidents showed an increase of US\$8,213 million, the highest on record except for 2016.



Source: *Balance of Payments*, CBC, February 2020.

(2) Portfolio Investment

In 2019, portfolio investment abroad by residents increased by US\$54,764 million mainly because onshore funds and insurance companies expanded their investment abroad. Equity and investment fund shares decreased by US\$2,584 million, and debt securities increased by US\$57,348 million.

On the other hand, local portfolio investment by nonresidents increased by US\$8,476 million as foreign investors increased holdings of Taiwanese stocks. Equity and investment fund shares increased by US\$8,114 million, and debt securities increased by US\$362 million.

(3) Financial Derivatives

Assets in financial derivatives decreased by US\$15,490 million, principally because of gains on transactions of financial derivatives received by other financial corporations.

Liabilities in financial derivatives decreased by US\$17,991 million, mainly because of losses on transactions of financial derivatives paid by other financial corporations.

(4) Other Investment

In 2019, other investment abroad by residents increased by US\$7,417 million. Of the components, currency and deposits increased by US\$8,117 million as a result of growing banks' due from overseas branches; loans exhibited an increase of US\$4,442 million because of an increase in interbank loans; trade credit decreased by US\$4,442 million; other accounts receivable decreased by US\$705 million as a result of a decrease in banks' accounts receivable from nonresidents.

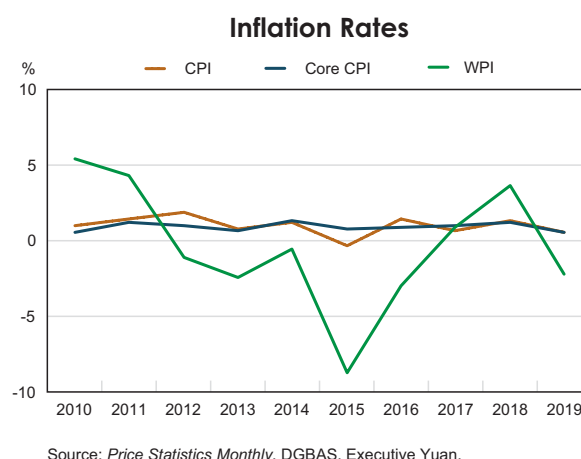
Other inward investment by nonresidents increased by US\$6,997 million. Of the components, currency and deposits increased by US\$3,950 million because of growing deposits in Offshore Banking Units by nonresidents; loans increased by US\$47 million; trade credit increased by US\$3,592 million; other accounts payable decreased by US\$592 million, owing to a decrease in banks' accounts payable to nonresidents.

Increase in Foreign Exchange Reserves

The foreign exchange reserve assets held by the Bank increased by US\$16,658 million in 2019 mainly owing to returns from foreign exchange reserves management.

4. Prices

In 2019, Taiwan's wholesale price index (WPI) fell by 2.27% from the previous year's increase of 3.63%. The significant decline in WPI mainly resulted from a reduction in international raw material prices against a backdrop of a slowing global economy clouded by the US-China trade conflict. Headline inflation, measured by the consumer price index (CPI), grew mildly at an annual rate of 0.56% in the year, primarily because of an increase in tour group fees and price rises in vegetables, fruit, residential rent, and food away from home. Nevertheless, it was partly offset by drops in fuel prices, reflecting falling international petroleum prices, and in communication fees. The core CPI, which excludes fruit, vegetables, and energy, increased by 0.49%, the lowest since 2010.



Marked Decrease in Wholesale Prices

The WPI declined by 2.27% in 2019, after registering increases in the previous two years. The contraction was primarily attributable to a slump in prices for international raw materials amid a global economic slowdown. In terms of monthly movements, the annual WPI inflation rate modestly rose from the beginning of the year and reached 1.19% in March because of a rebound in international oil prices. However, as the global economic growth decelerated on account of the US-China trade friction, the annual WPI inflation rate fell to an all-year low of -6.37% in October. Later, the decline in the annual WPI inflation rate abated owing to a pickup in international oil prices, and the decrease narrowed to 3.55% in December.

Broken down by the three major components of the WPI, the annual rates of change in prices for imports, domestic sales excluding imports, and exports all declined in 2019 because of the weakness in raw material prices.

Import prices, weighted at 31.92% of the WPI, slipped by 3.89% in US dollar terms in 2019. Nevertheless, the NT dollar depreciation against the US dollar over 2019 helped the annual growth rate of import prices alleviate to a 1.46% decrease in NT dollar terms. Among the components of import prices in terms of NT dollars, prices of raw materials moved down by 2.44% and accounted

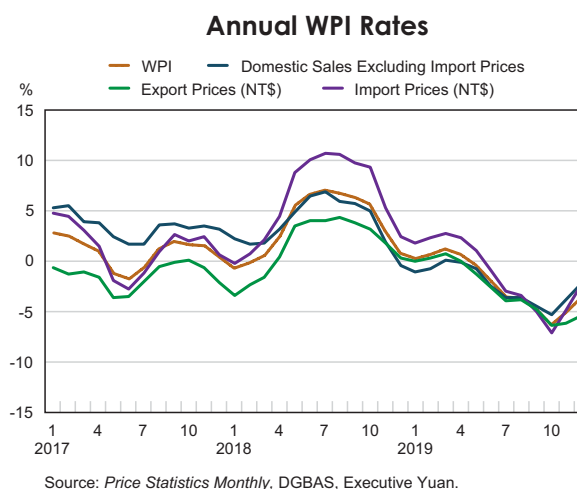
for 1.74 percentage points in the import price decrease, mainly because of falling prices of chemical products and mineral products. On the contrary, prices of capital goods and consumer goods rose by 1.78% and 0.13%, respectively.

Export prices, weighted at 40.04% of the WPI, went down by 5.26% in US dollar terms in 2019. As the NT dollar depreciated against the US dollar, the annual change in export prices lessened to a 2.85% decrease in terms of the NT dollar. Among the components of export prices in terms of NT dollars, prices of raw materials slid by 3.24%, contributing 2.63 percentage points to the export price decrease, largely reflecting lower prices of chemical products, plastics and rubber products, and mineral products. In addition, prices of consumer goods fell by 2.60%, whereas prices of capital goods increased by 1.57%.

With declining import costs of primary commodities owing to slower global economic growth, prices of domestic sales excluding imports, weighted at 28.04% of the WPI, decreased by 2.40% in 2019. In terms of the basic groups, prices of manufacturing products recorded the largest decline at 3.34%, primarily attributable to a reduction in prices of chemical materials. On the other hand, prices of agriculture, forestry, fishing, and animal husbandry products rose by 3.32%, mostly because of price increases in vegetables and fruit.

Mild Increase in Consumer Prices

The CPI went up by 0.56% in 2019, lower than the 1.35% increase in the previous year. From the beginning of the year, owing to falling vegetable prices on the back of favorable weather conditions and decreased telecommunication rates, the annual growth rate of the CPI stayed low. From March onwards, the CPI grew at a faster pace that trended up to 0.93% in May because of an uptick in international oil prices and weather-induced vegetable price hikes at home. Subsequently, the CPI inflation rate moved down and eased to 0.37% in October as a consequence of reduced domestic fuel prices in reflection of the international oil price slump and a continued decrease in communication fees. Afterwards, the annual CPI inflation rate rebounded in November and climbed to an all-year high of 1.14% in December on account of the upswings in fruit and vegetable prices and a rebound in domestic fuel prices.

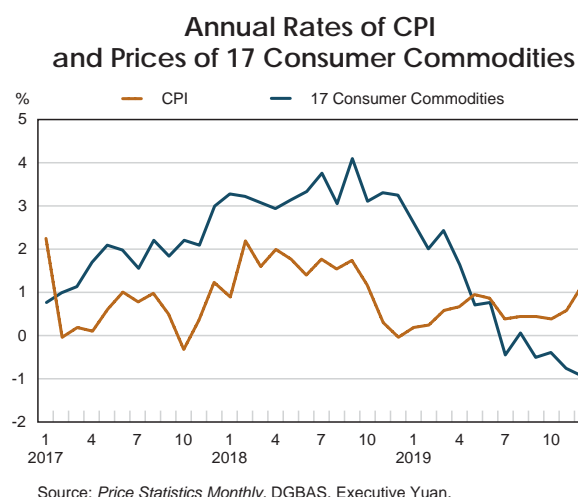
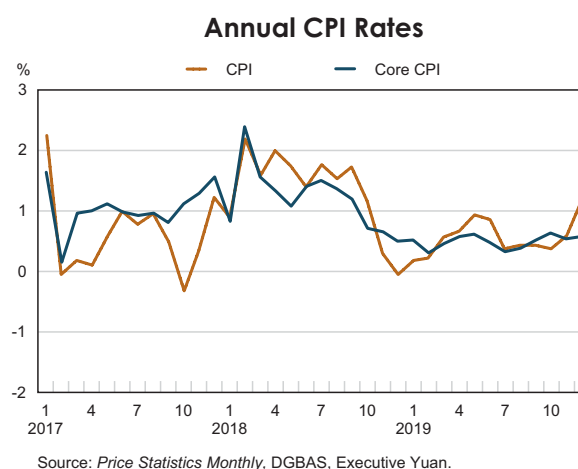


The core CPI inflation rate was 0.49% in 2019. Reflecting modest growth in the domestic economy, monthly figures of the core CPI inflation rate hovered between 0.30% and 0.63% throughout the year.

The Cabinet's task force on price stabilization has continued to closely monitor price movements of 17 consumer commodities which people buy more frequently. Since the beginning of 2019, prices of the aforesaid consumer commodities, weighted at 5.48% of the CPI, have displayed a substantial downtrend and the price increase averaged 0.58% year on year, far lower than the 3.29% of 2018. The slide was mostly attributed to lower prices of eggs and a smaller increase in prices of milk, with annual growth rates of -2.03% and 0.74%, respectively.

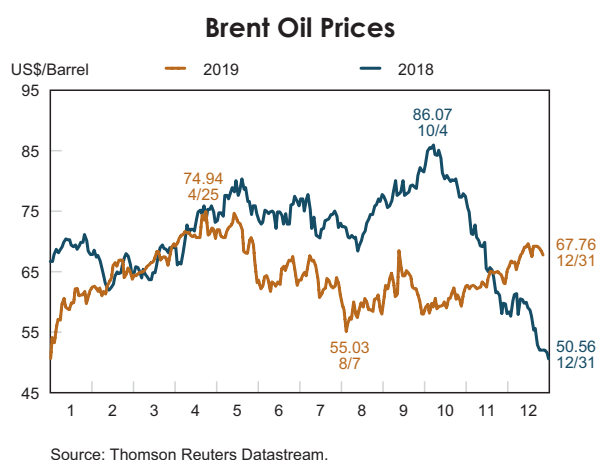
The main factors contributing to the rise of CPI inflation in 2019 were as follows:

- (1) Increased tour group fees led prices of education and entertainment services to move up by 1.50%, contributing 0.14 percentage points to CPI inflation.
- (2) With the previous year's stable weather conditions resulting in a lower base effect, prices of vegetables and fruit surged by 7.94% and 4.10%, accounting for 0.13 and 0.09 percentage points in the CPI increase, respectively.
- (3) Prices of residential rent continued to rise at a mild pace and recorded a growth rate of 0.90%, contributing 0.13 percentage points to CPI inflation.
- (4) A minimum wage hike and higher raw food prices drove up prices of food away from home by 1.55%, accounting for 0.12 percentage points in the CPI inflation rate.
- (5) As elevated international gold prices brought prices of gold ornaments and jewelry higher, prices of personal effects climbed by 2.48%, contributing 0.05 percentage points to CPI inflation.



The main factors contributing to downward pressure on the CPI in 2019 were as follows:

- (1) Reflecting a decrease in access charges between home phones and mobile phones, communication fees slid by 4.68%, subtracting 0.12 percentage points from CPI inflation.
- (2) For the entire year, Brent oil prices averaged US\$64.37 per barrel, slipping by 9.40% from the previous year. As a result, the decline in imported costs of petroleum lowered domestic oil prices, which dropped by 3.16% and deducted 0.10 percentage points from the CPI inflation rate.
- (3) Discounted spring and summer clothing pushed down prices of garments by 1.29%, accounting for -0.04 percentage points in CPI inflation.



Percentage Changes in the Major Components of the CPI in 2019

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	0.56	0.56
Education & Entertainment Services	1.50	0.14
Vegetables	7.94	0.13
Residential Rent	0.90	0.13
Food Away from Home	1.55	0.12
Fruit	4.10	0.09
Personal Effects	2.48	0.05
Total		0.66
Communication Fees	-4.68	-0.12
Fuels & Lubricants	-3.16	-0.10
Garments	-1.29	-0.04
Total		-0.26
Others		0.16

Source: Price Statistics Monthly, DGBAS, Executive Yuan.

5. Labor Market

Increase in Employment

Labor market conditions were stable in 2019 amid moderate domestic economic growth. For the year as a whole, annual average employment was 11.5 million persons, an increase of 66 thousand persons, or 0.58%, from the previous year. In recent years, growth momentum for employment has gradually diminished with annual rates lower than 1%. This was mostly attributable to structural demographic change driven by declining fertility rates and an aging population in Taiwan.

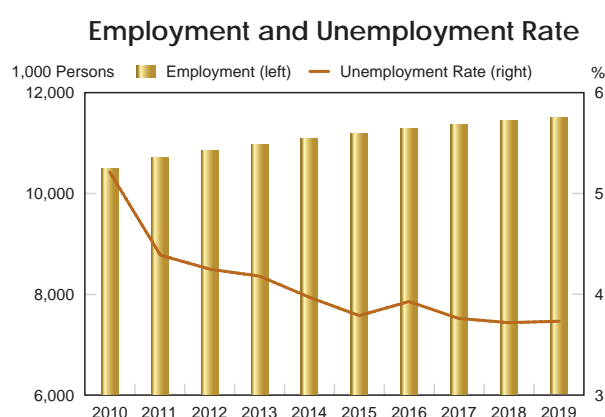
In terms of employment by sector, employment in the services and industrial sectors increased by 59 thousand persons or 0.87% and nine thousand persons or 0.21%, respectively. On the other hand, employment in the agricultural sector went down by two thousand persons or 0.2%. Of total employment, the services sector accounted for 59.55%, marginally up by 0.17 percentage points from the previous year, while the shares of the industrial and the agricultural sectors shrank to 35.58% and 4.86%, respectively.

In terms of employed persons by occupation, employment of white collar workers,² which accounted for 45.06% of total employment, increased by 30 thousand persons or 0.58%. Services and sales employment made up 19.85% of total employment and increased by 23 thousand persons or 1.02%, while employment of blue collar workers,³ accounting for 35.09% of total employment, increased by 13 thousand persons or 0.32%.

Unemployment Rate Slightly Increased

In 2019, the unemployment rate generally exhibited a downward trend, except in February (because of post-Lunar New Year job switching) and in June to August (as new graduates entered the job market) when seasonal factors caused unemployment to briefly rise. The unemployment rate dropped to 3.67% in December and averaged 3.73% for the year as a whole, slightly higher than 3.71% in 2018, but still the second lowest since 2001.

As labor market conditions mildly improved, unemployment duration increased marginally by



Source: DGBAS, Executive Yuan.

² Including legislators, senior officials, managers, professionals, technicians, associate professionals, and clerical support workers, etc.

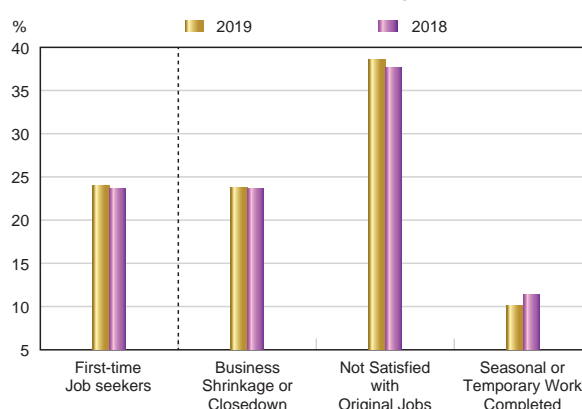
³ Including skilled workers in agricultural, forestry, fishing, and animal husbandry industries, and craft and machinery related workers, etc.

0.06 weeks to 22.88 weeks over the previous year. In terms of age, unemployment duration of the age group 15-24 improved the most and decreased by 1.16 weeks to 19.04 weeks, while those of the age groups 25-44 and 45-64 both increased by 0.57 weeks to 24.14 and 24.68 weeks, respectively. The average number of the long-term unemployed⁴ was 63 thousand persons, an increase of two thousand persons compared to that in the previous year.

In 2019, total unemployment was 446 thousand persons, a slight increase of six thousand persons, or 1.22%, from the previous year. Among the unemployed, first-time job seekers made up 23.94% of total unemployment and the number increased by three thousand persons. Meanwhile, experienced job seekers, with a share of 76.06%, also increased by three thousand persons. In terms of causes of unemployment, those unemployed because of dissatisfaction with their original jobs registered the greatest increase by six thousand persons or 3.58%. The share of this unemployment group went up to 39.01%, compared to 38.12% in the previous year. Unemployment due to shrinkage or closedown of business increased by two thousand persons or 1.82%, and its share also increased to 23.54%. By contrast, unemployment because of the conclusion of seasonal or temporary work dropped by six thousand persons, or 11.32%, and made up a smaller share of 9.68%.

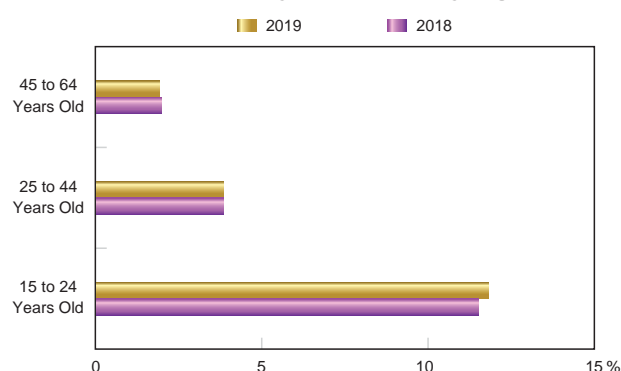
In terms of age groups, the unemployment rate of the age group 15-24 increased by 0.34 percentage points from the previous year to 11.88%, the highest among all the age groups.

Causes of Unemployment



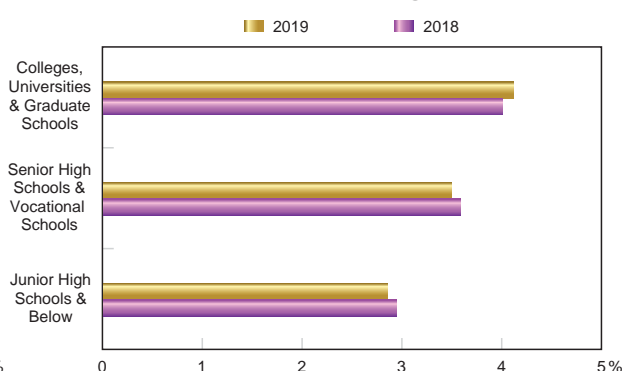
Source: DGBAS, Executive Yuan.

Unemployment Rate by Age



Source: DGBAS, Executive Yuan.

Unemployment Rate by Education Background



Source: DGBAS, Executive Yuan.

⁴ Referring to those who have been unemployed for 53 weeks or more.

The unemployment rate of the age group 25-44 also ticked up by 0.01 percentage points to 3.87%, while that of the age group 45-64 decreased by 0.06 percentage points to 1.94%.

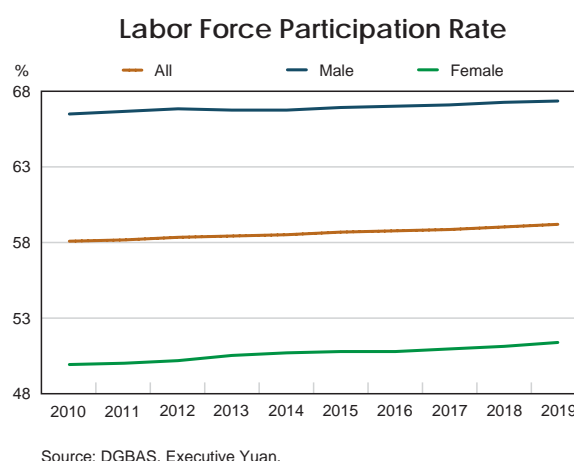
In terms of educational background, the unemployment rate of people with a senior high school or vocational school degree and that of people with a junior high school degree or below both decreased by 0.09 percentage points to 3.51% and 2.87%, respectively. On the other hand, the unemployment rate of people with a college degree or above increased by 0.11 percentage points to 4.13%, the largest among all groups, possibly indicating a mismatch between skill acquired through tertiary education and occupation in the labor market.

Increase in Labor Force Participation Rate

In 2019, the labor force (employed and unemployed combined) grew by 72 thousand persons, or 0.6%, to 11.95 million persons, while the non-labor force shrank by 11 thousand persons, or 0.14%, to 8.24 million persons. Moreover, the labor force participation rate reached 59.17%, increasing by 0.18 percentage points compared to the previous year.

In terms of gender, the male labor force participation rate was 67.34%, an increase of 0.10 percentage points from the year before. The female rate has continued to increase since 2001 and reached 51.39% in 2019, reflecting the fact that government policies have been effective in promoting gender equality, improving the work environment, and facilitating female employment in recent years.

In terms of age groups, the labor participation rates of all age groups went up in 2019, with those of the 16-24, 25-44, and 45-64 age groups increasing by 1.75, 0.65, and 0.28 percentage points to 36.09%, 89.50%, and 63.49%, respectively. Although Taiwan's total labor force participation has gradually increased since 2010, it is still lower than those of Japan (62.1%), the United States (63.1%), South Korea (63.3%), and Singapore (68%), given the extension of schooling and early retirement. To cope with the challenges arising from an aging population, the government has actively enhanced the employment of the young population as well as middle-aged workers. In addition, the parliament passed the *Middle-aged and Elderly Employment Promotion Act* in November 2019, a piece of legislation aiming to promote the re-employment of the elderly and construct a friendly work environment for middle-aged and the elderly.



In terms of educational level, the labor force participation rate of workers with a senior high school or vocational degree increased by 0.32 percentage points to 62.88%, while the participation rates of workers with a junior high school degree or below and those with a college degree or above dropped by 0.06 and 0.27 percentage points to 40.87% and 65.83%, respectively.

Moderate Increase in Earnings

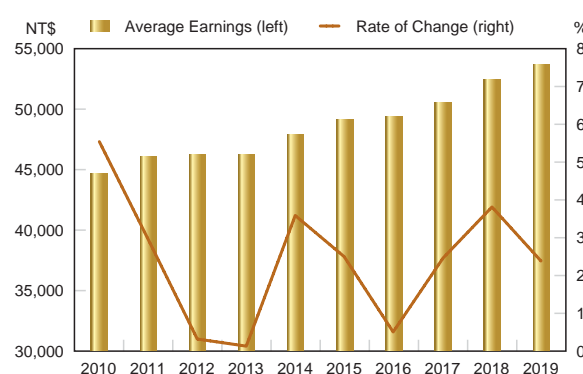
For the year 2019, the average monthly earnings per worker of the non-farm sector climbed by 2.39% to NT\$53,657, a smaller increase than the 3.82% of 2018 mainly because firms reduced their payouts of bonuses amid slower profit growth. After adjustment for inflation, the average real monthly earnings increased by 1.82% to an all-time high of NT\$52,323.

In terms of major sectors, the average monthly earnings of industrial sector and services sector workers increased by 1.65% and 2.92% to NT\$52,865 and NT\$54,245, respectively, and increased by 1.09% and 2.34% in real terms. The electricity and gas supply sector had the highest average monthly earnings with NT\$96,137, and the finance and insurance sector came in second with NT\$93,059. On the other hand, workers in the education services sector and the accommodation and food services sector earned an average of NT\$26,972 and NT\$34,686 monthly, the lowest two among all sectors due to a larger number of part-time employees in these sectors. In terms of growth rates, all sectors witnessed increases in average monthly earnings, with the real estate sector recording the largest increase at 5.82% and the professional, scientific, and technical services sector in second place with an increase of 4.34%.

Labor Productivity Decreased and Unit Labor Cost Increased

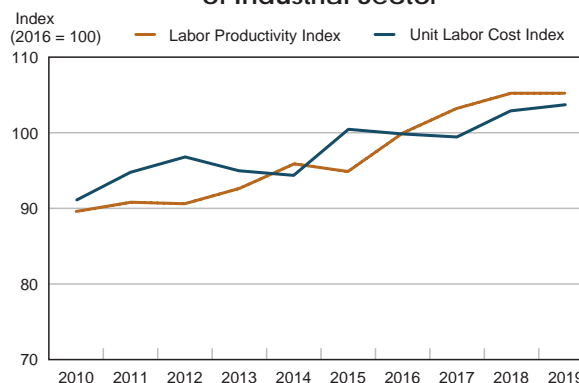
As the decline in total production outpaced that in total working hours, labor productivity of the industrial and the manufacturing sectors slightly decreased by 0.06% and 0.15%, respectively. In the manufacturing sector, the manufacture of machinery and equipment saw

Amount and Rate of Change of Average Earnings of Non-farm Workers



Source: DGBAS, Executive Yuan.

Labor Productivity and Unit Labor Cost of Industrial Sector



Source: DGBAS, Executive Yuan.

the largest decrease in labor productivity with 12.36%, followed by the printing and reproduction of recorded media sector with 8.62%. In contrast, the computers, electronic and optical products manufacturing sector registered the largest increase at 25.7%, and the manufacture of other transport equipment and parts came in the second place with an increase of 6.96%.

Since total earnings enjoyed positive growth while production decreased, unit labor costs of the industrial and the manufacturing sectors increased by 0.87% and 0.95% year on year, respectively. Of all the manufacturing sectors, machinery and equipment manufacturing experienced the largest increase in unit labor cost of 16.29%, followed by basic metal manufacturing with an increase of 11.22%.