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 NT52,323, 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.