



# **Developments in the Real Economy**

# I. Developments in the Real Economy

## 1. Overview

The fallout from the global financial crisis continued to overshadow Taiwan's economy during the first half of 2009. With the gradual recovery of the global economy, Taiwan's economy has regained momentum since the fourth quarter of 2009. The balance of payments remained in good shape and registered a record high surplus as the current account and net inflow on the financial account both reached historic highs. Meanwhile, falling prices of oil, vegetables and fruits led consumer prices to decline. The unemployment rate climbed to a record peak in August and then gradually trended downwards. As reduced revenues and increased expenditures due to tax cuts and the economic downturn, central government finances turned to a deficit, after registering surpluses for three years.

### **Gradual Recovery in the Second Half of 2009**

In the first half of 2009, Taiwan's external trade declined, which in turn affected economic activity and the labor market. As a result, GDP growth was mired in negative territory. In the second half of the year, the nascent recovery of the global economy alleviated the decline in Taiwan's exports and GDP growth turned positive in the fourth quarter. In terms of domestic demand, the government adopted an expansionary fiscal policy, including consumption vouchers and infrastructure construction. However, economic doldrums continued in the first half of 2009, as unemployment rose, private consumption weakened, and firms delayed investment due to low capacity utilization. In the second half of the year, as emerging economies regained strength and the government's stimulus efforts bore fruit, private consumption and investment gradually picked up. For the year as a whole, Taiwan's GDP still shrank by 1.87 percent, compared to 0.73 percent growth in the previous year.

With regard to the expenditure components of GDP, both external and domestic demand were below favorable levels. Nevertheless, net external demand contributed 1.48 percentage points to GDP growth due to a larger decline in imports than exports. Domestic demand, on the other hand, subtracted 3.34 percentage points from GDP growth. On the production side, the industrial sector was more severely affected than the services sector with respective contributions of negative 1.47 and negative 0.15 percentage points to GDP growth.

## **Balance of Payments Surplus Hit a Historic High**

On the current account, a greater decrease in imports over exports resulted in a goods trade surplus of US\$30.8 billion, a large increase of 66.6 percent from the previous year. Services recorded the first surplus ever, at US\$1.3 billion, due to a decrease in transportation and travel payments and an increase in travel receipts. Income surplus expanded to US\$12.7 billion mainly owing to a decrease in payments to equity investment by nonresidents. As a result, the current account surplus was US\$42.6 billion, a significant increase of 69.5 percent over the previous year.

The net inflow in the financial account was largely attributable to other investment, which exhibited a record high net inflow of US\$25.8 billion, as the government reduced estate and gift tax rates, the US actively tracked taxes on the affluent, and overseas businessmen repatriated funds. Portfolio investment by nonresidents also showed a large inflow of US\$21.4 billion, mainly for investing in Taiwan's stock markets and overseas depository receipts issued by Taiwan's businesses. Portfolio investment abroad by residents shifted to a net outflow of US\$31.7 billion, mainly as residents invested in foreign securities through banks' earmarked trust funds and life insurance companies invested in foreign bonds.

For the year 2009, the overall balance of payments recorded a surplus of US\$54.1 billion, posting a historic high.

## **Prices Remained Relatively Stable**

Compared with the previous year, prices of oil and other international commodities declined significantly in 2009. Import prices decreased by 13.89 percent as denominated in the US dollar and by 9.61 percent in the NT dollar. The milder decline reflected a depreciation of the NT dollar against the US dollar. Therefore, the WPI decreased by 8.74 percent, the largest decline ever recorded.

Regarding consumer prices, import prices and retail prices were dampened by the decline in international commodity prices, while the rising unemployment rate and lackluster effective demand further depressed prices. As a result, the CPI decreased by 0.87 percent in 2009 and core CPI (excluding fruits and vegetables, fish and shell fish, and energy) decreased by 0.14 percent. Overall, price levels remained relatively stable in 2009.

## **Government Finance Turned into Large Deficit**

For 2009, the central government revenue amounted to NT\$1,553.5 billion, 5.3 percent less than the previous year, mainly due to a significant decline in tax revenue dragged down by the economic downturn and tax cuts. Total government expenditure increased by 6.1 percent to reach NT\$715.5 billion after the government further stepped up public spending and social

welfare-related expenditure. Furthermore, a special budget of NT\$280 billion was allocated for economic stimulus measures such as the shopping voucher scheme, expanded infrastructure spending and Typhoon Morakot disaster relief and reconstruction efforts. In sum, the central government ran a deficit of NT\$162.0 billion, as opposed to a surplus of NT\$23.2 billion in the previous year.

To finance the fiscal deficit and debt principal repayment, the central government raised NT\$164.5 billion through issuing government bonds and borrowing from banks. The NT\$280.0 billion special budget also incurred a demand for debt financing. As a result, total outstanding debt of the central government amounted to NT\$4,141.9 billion at the end of 2009. The ratio of outstanding central government debt to the three-year average of nominal GDP rose from last year's 31.2 percent to 32.8 percent.

### **Rising Unemployment Rates**

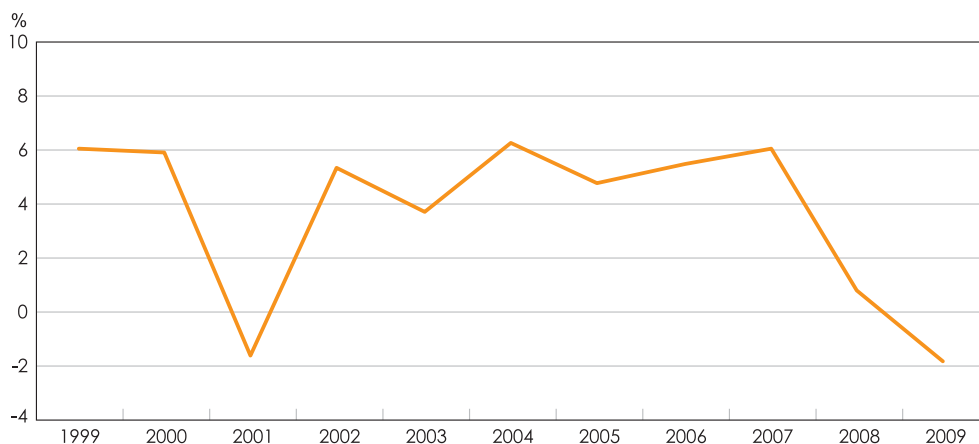
Economic recession took a toll on Taiwan's labor market in 2009, with a decrease in job opportunities and an increase in the number of workers involuntarily unemployed. The annual average unemployment rate increased by 1.71 percentage points over the previous year to 5.85 percent, the largest ever year-on-year increase. In response, the government launched short-, medium- and long-term measures to promote employment and raise the quality of human resources.

## 2. National Output and Income

Taiwan experienced a notable slowdown in overall economic activity in 2009 amid a synchronized global recession in the aftermath of the financial crisis. While consumption expenditure grew moderately, domestic demand contracted as corporations further slashed capital outlays and held back investment projects. External trade also suffered a marked setback reflecting a pronounced decrease in foreign demand. Despite continued contraction in real GDP for the first three quarters, the pace of deceleration eased considerably and real GDP resumed positive growth thereafter. For the year as a whole, real GDP decreased by 1.87 percent, down from positive growth of 0.73 percent in 2008, and per capita GNP in nominal terms decreased by US\$944 to US\$16,997.

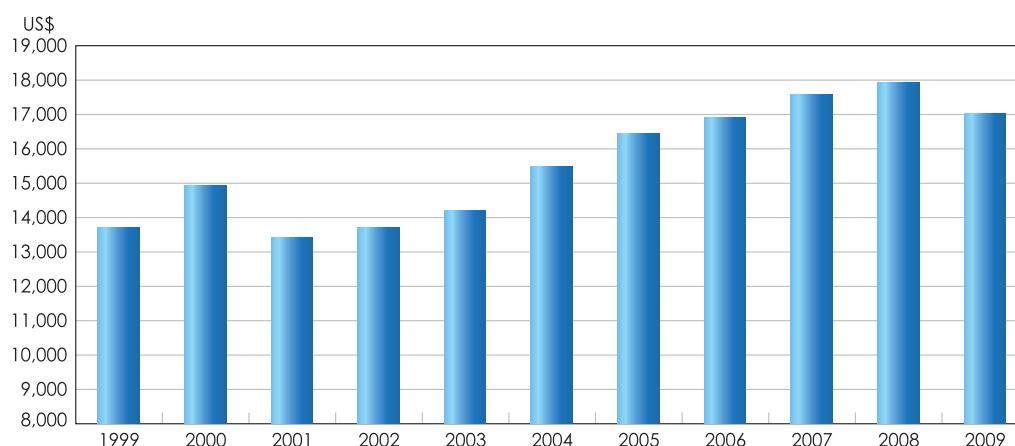
As the global financial turmoil that emerged in mid 2008 continued into early 2009, economic conditions worsened and real GDP further declined by 9.06 percent year on year in the first quarter. Coupled with slowing consumption, falling capital spending and declining exports, real GDP continued to shrink but at a slower pace of 6.85 percent in the second quarter. Thanks to an upturn in stock markets and a strengthening rebound in Asian economies, consumption expenditure improved and the plunge in trade and capital outlay mitigated, moderating GDP contraction to 0.98 percent in the third quarter. From the fourth quarter onwards, the sustained recovery of the global economy boosted external trade and helped encourage consumption and business investment. Moreover, with a low base effect, real GDP advanced 9.22 percent in the last quarter.

**Economic Growth Rate**



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2010.

### Per Capita GNP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2010.

### Expenditure Components of GDP

Among all of the expenditure components of GDP, private consumption and government consumption contributed 0.83 of a percentage point and 0.42 of a percentage point to economic growth in 2009, respectively. Net exports also posted a positive contribution of 1.48 percent for the year because imports fell more than exports. On the contrary, affected by a sharp decline in investment in machinery and equipment, fixed capital formation declined substantially, dragging real GDP growth down by 2.20 percentage points. With respect to

### Expenditure on Gross Domestic Product

Unit: %

	2009			2008		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	60.82	1.48	0.83	60.06	-0.57	-0.33
Government Consumption	12.83	3.63	0.42	12.32	0.68	0.08
Gross Fixed Capital Formation	18.53	-11.80	-2.20	21.15	-11.17	-2.36
Change in Inventory	(1.28)	—	-2.39	1.52	—	1.07
Exports of Goods and Services	62.51	-9.21	-6.47	72.66	0.56	0.40
( Less : Imports of Goods and Services)	(53.41)	(-13.73)	(-7.94)	(67.71)	(-3.12)	(-1.88)
Expenditure on GDP	100.00	-1.87	-1.87	100.00	0.73	0.73

Note: \* Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2010.

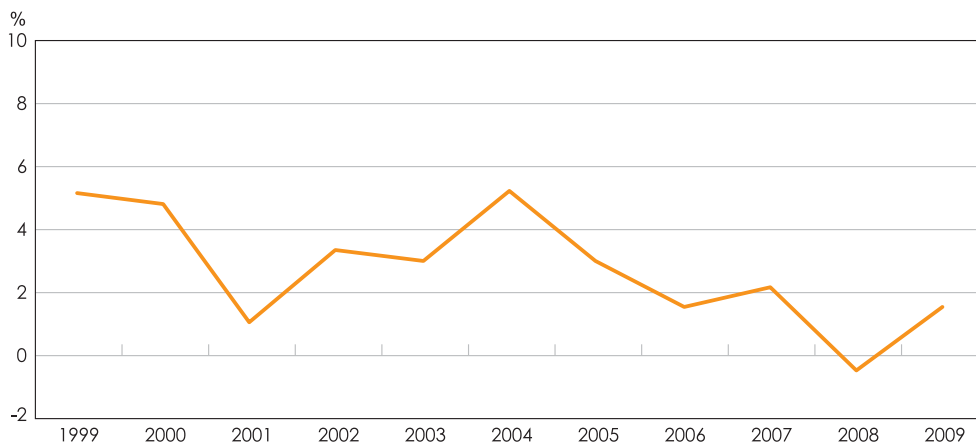
shares of GDP, private consumption rose further, accounting for 60.82 percent of GDP for the year. Due to a contraction in global trade, both exports and imports slid considerably to 62.51 percent and 53.41 percent of GDP, respectively. Meanwhile, reflecting a slump in private investment, the share of gross fixed capital formation further shrank to 18.53 percent.

**(1) Moderate Growth in Private Consumption**

In line with the easing pace of the economic downturn, private consumption grew moderately by 1.48 percent in real terms, contributing 0.83 of a percentage point to GDP growth for the year. While the government's consumption-voucher program and the excise tax cut on motor vehicles helped bolster consumer sentiment in the beginning of the year, consumer spending decreased by 1.96 percent in the first quarter due to rising unemployment, declining incomes and falling housing wealth. Private consumption picked up slightly in the middle of the year, but in the aftermath of Typhoon Morakot in August slipped back into a gloomy state. In the late third quarter, the number of persons on unpaid leave gradually declined and the stock and housing markets showed signs of resilience, which lifted consumers' willingness to spend. Thereafter, supported by a surge in stock prices and the positive effect of the impending expiration of the excise tax cut on demand for motor vehicles, consumer spending rose by a remarkable 6.27 percent in the fourth quarter.

In terms of food and non-food categories, both went up moderately with respective annual growth rates of 1.86 percent and 1.43 percent in 2009. Among the components of non-food consumption, with the emergence of the Otaku economy, namely the stay-at-home economy, and the popularity of mobile phones, outlays for communications registered the

**Real Growth Rate of Private Consumption Expenditure**



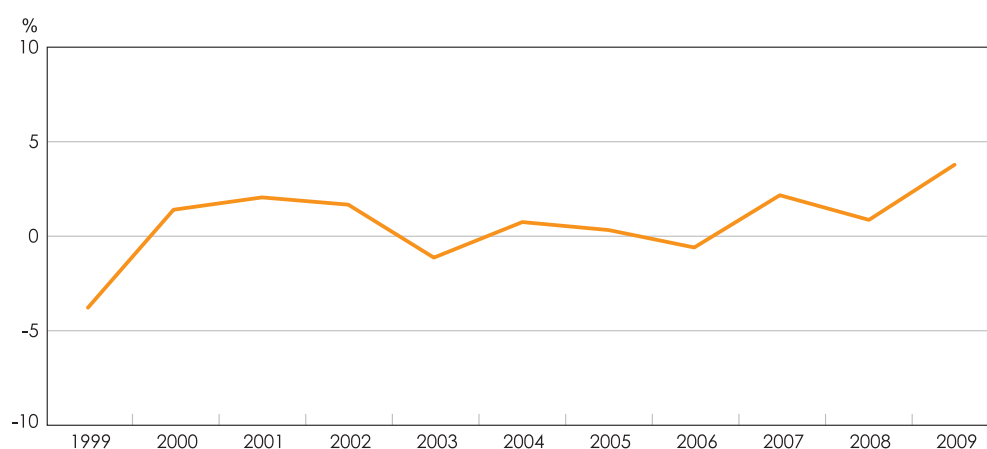
Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2010.

largest growth of 7.81 percent, higher than the previous year's 7.59 percent. Attributable to the tax incentive program encouraging new car purchases, outlays for transport posted the second largest growth, up significantly from negative 4.95 percent in 2008 to positive 5.62 percent in 2009. Meanwhile, consumer spending on recreation and culture posted a modest growth of 4.30 percent, reflecting increasing demand for outdoor recreation and arts and cultural activities.

## (2) Marked Increase in Government Consumption

In 2009, government consumption grew by 3.63 percent in real terms and contributed 0.42 of a percentage point to GDP growth, compared with a rise of 0.68 percent and a 0.08 of a percentage point contribution in the previous year. The marked increase was attributable to the government's economic stimulus package, including employment promotion programs, unemployment relief, issuance of consumption vouchers and subsidies for purchase and installation of home appliances, aimed to ease the adverse impact of economic contraction and boost domestic demand.

### Real Growth Rate of Government Consumption Expenditure



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2010.

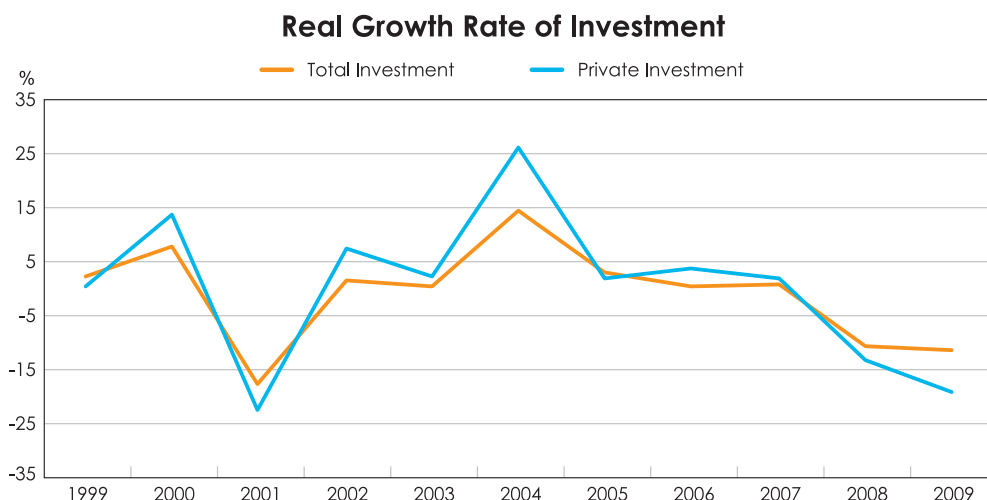
## (3) Significant Fall-off in Fixed Capital Formation

Adjustment in business activity continued in response to a sharp slowdown in demand both internally and externally, which resulted in a significant fall-off in fixed capital outlay for the year. Fixed capital formation receded sharply in the first half, but contracted at a slower pace in the third quarter due to a narrower decline in private investment along with rising capacity utilization and loosening financial conditions for businesses. Thanks to the onset of a

recovery in the global economy, fixed capital formation resumed growth and rebounded to 11.14 percent with the help of a lower-base effect in the fourth quarter. For the year as a whole, fixed capital formation dropped by 11.80 percent, subtracting 2.2 percentage points from GDP growth in 2009.

In terms of the type of purchaser, while investment by public enterprises and general government showed robust growth, investment by private businesses declined sharply over the year. During the first two quarters, private investment plunged by more than 30 percent, restrained by an uncertain economic outlook. Later, following a turnaround in major Asian economies and a gradual pickup in domestic consumption, capacity utilization rose and incentives for business investment subsequently improved. Accordingly, business capital outlays showed signs of recovery as some manufacturers upgraded their production equipment and operating systems to meet a gradual increase in demand in the third quarter. Thereafter, strengthening domestic demand and ongoing global economic recovery further improved capacity utilization and encouraged capital spending, which boosted private investment to increase by 8.16 percent in the final quarter. For the year as a whole, private investment declined by 19.38 percent, deducting 2.79 percentage points from real GDP growth.

On the other hand, in order to stimulate domestic demand to offset the impact of the global economic slowdown, the government vigorously carried out its fiscal stimulus, including the Program for Strengthening Local Infrastructures and the Project for Expansion of Investment in Public Works. For the year, government investment advanced by 18.77 percent, contributing 0.53 of a percentage point to economic growth. Furthermore, because public enterprises speeded up their execution of investment projects, investment by public enterprises also



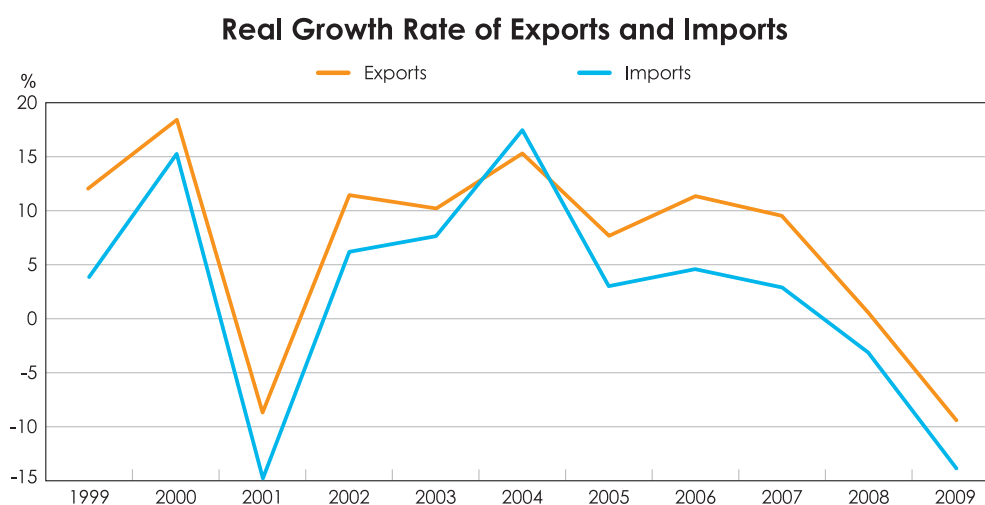
Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2010.

increased by 4.03 percent, contributing 0.06 of a percentage point to economic growth for the year.

In regard to the type of capital formation, investment spending on transportation equipment and intangible fixed assets edged up by 1.12 percent and 0.88 percent respectively, a significant slowdown compared with the previous year. Affected by the intensification of global economic contraction, outlays on machinery and other equipment continued to fall sharply, posting a decrease of 21.02 percent, the largest decline among all types of capital formation. Likewise, due to weakness in the domestic economy and a slowing housing market, investment in construction also went down by 6.36 percent.

#### (4) Exports Fell Less Than Imports

As a result of the dismal international trade environment in the first half of 2009, exports of goods and services suffered a significant setback for the year. With a sharp decline in foreign demand and a high base effect, exports fell further by 26.87 percent in the first quarter and remained in negative territory in the following two quarters. However, supported by an improvement in the Asian economies, demand for electronic goods and IT products gradually rose, mitigating the pace of deceleration in exports in the third quarter. Against the backdrop of a recovering global economy, foreign demand steadily increased and exports continued rebounding. Moreover, the expansion of service exports, including the influx of tourists from China and the growth in merchanting, together with the low base effect led growth of exports to jump to 19.06 percent in the fourth quarter. For the year as a whole, exports contracted 9.21 percent and took 6.47 percentage points from economic growth, a considerable slowdown when compared with last year's 0.56 percent growth and 0.40 of a percentage point contribution to GDP growth.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2010.

Similarly, imports of goods and services shrank by 13.73 percent for the year, a further decline compared with last year's 3.12 percent contraction. The sharp decrease was particularly affected by the reduction of demand for machinery and electrical equipment due to further cutbacks in business investment resulting from slowing demand. Nevertheless, because the sharp fall in imports surpassed the decline in exports, net exports posted a positive contribution of 1.48 percentage points to GDP growth.

### Sectoral Components of GDP

Largely hindered by the economic slowdown and unfavorable weather conditions, overall production activity remained subdued and all sectoral output dropped. A further deceleration in manufacturing activity led the industrial sector to post the largest decline in output, subtracting 1.47 percentage points from economic growth for the year, a larger decrease than in the previous year. The contribution of the services sector to overall GDP also went down and reversed from 0.62 of a percentage point in 2008 to negative 0.15 of a percentage point in 2009. Likewise, the contribution of agricultural production to overall GDP fell into negative territory, subtracting 0.05 of a percentage point from economic growth.

### Gross Domestic Product by Type of Activity

Unit: %

	2009			2008		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.55	-3.08	-0.05	1.60	0.55	0.01
Industry	29.86	-4.61	-1.47	29.25	-0.17	-0.05
Mining & Quarrying	0.46	-12.03	-0.04	0.36	-13.80	-0.05
Manufacturing	24.78	-4.64	-1.27	24.98	0.43	0.12
Construction	2.55	-6.69	-0.16	2.87	-5.55	-0.14
Electricity, Gas Water & Remediation Services	2.07	-0.28	-0.01	1.03	1.19	0.02
Services	68.59	-0.22	-0.15	69.16	0.94	0.62
Wholesale and Retail Trade	18.49	-0.41	-0.07	18.80	1.16	0.21
Transport & Storage	3.10	-2.62	-0.08	3.15	0.46	0.01
Information and Communications	3.67	3.15	0.11	3.62	5.14	0.17
Finance and Insurance	6.35	-7.03	-0.50	7.24	-2.20	-0.16
Real Estate	9.08	2.12	0.18	8.77	0.96	0.08
Administration and Defense	7.58	1.39	0.10	7.50	0.90	0.06
Educational	4.90	1.84	0.08	4.77	1.00	0.05
Other Services	15.42	0.26	0.04	15.30	1.36	0.20
Gross Domestic Product	100.00	-1.87	-1.87	100.00	0.73	0.73

Note: \* Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2010.

With regard to sectoral shares of GDP in nominal terms, the services sector still dominated Taiwan's economy and accounted for 68.59 percent of GDP in 2009, slightly lower than the 69.16 percent registered in the previous year. The agricultural sector's share of GDP also decreased slightly from 1.60 percent in 2008 to 1.55 percent in 2009. On the other hand, the share of industrial output to GDP rose to 29.86 percent, up from 29.25 percent in 2008.

### **(1) Marked Decrease in Agricultural Output**

Agricultural activity further decelerated in 2009 and its output posted a marked decrease of 3.08 percent. The decline was mainly due to an unfavorable climate, particularly affected by Typhoon Morakot in August, and slowing demand for agricultural products.

### **(2) Further Contraction in Industrial Output**

Against the backdrop of a slowdown in export demand and business investment in 2009, all sectors of industrial production, namely mining and quarrying, manufacturing, construction, and electricity, gas and water, experienced marked contractions, especially manufacturing activity. While industrial output surged by 22.76 percent in the last quarter, large shrinkages in the first three quarters resulted in a decrease in industrial production of 4.61 percent for the year as a whole, a significant deceleration compared with last year's mild slowdown of 0.17 percent.

Mainly due to falling demand resulting from the worse-than-expected global economic performance, growth of manufacturing output further deteriorated to negative 22.62 percent in the first quarter and remained in negative territory thereafter. Accordingly, production indexes of machinery and equipment, metal and other transportation equipment contracted by more than 20 percent for the year. Thanks to an upturn in exports resulting from the global recovery and resilient intra-Asia trade, manufacturing output revived, especially in electronic parts and components, chemical materials and products, and motor vehicles and parts, leading to a marked rebound of 25.96 percent in the fourth quarter. For the year as a whole, manufacturing output decreased by 4.64 percent, reversing its positive growth of 0.43 percent in the previous year.

While the government actively expanded public works, output in the construction industry further contracted 6.69 percent in 2009, particularly reflecting a lackluster housing market and a gloomy economic environment in the first half of the year. As a result of slowing construction activity, output of mining and quarrying also dropped significantly by 12.03 percent for the year.

### (3) Mild Contraction in the Services Sector

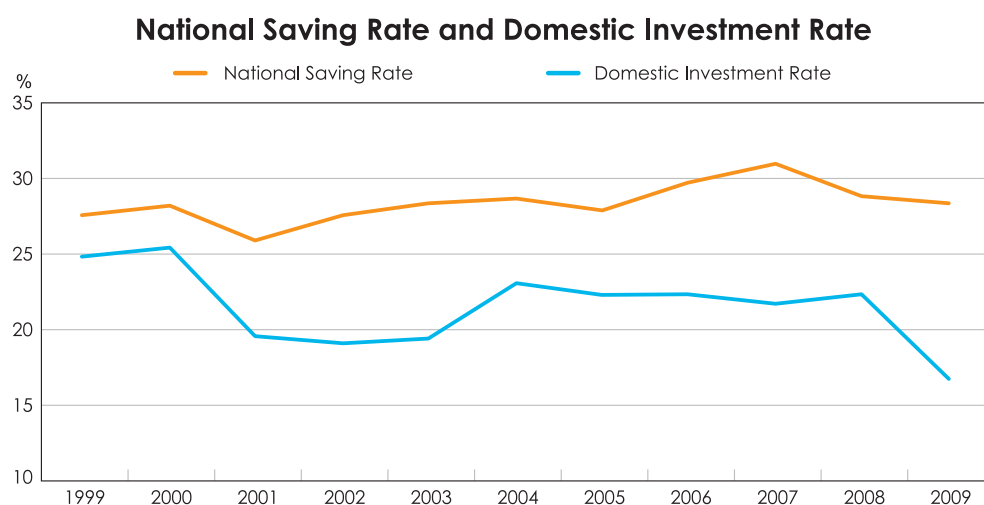
In contrast to the previous year's 0.94 percent increase, services output suffered a mild contraction, slipping by 0.22 percent for the year. The slight decrease was because its sharp decline in the first half of the year was largely offset by a marked improvement in the fourth quarter.

Among the services subsectors, finance and insurance services continued to fall, registering the largest decline of 7.03 percent for the year, resulting from less interest revenues due to low interest rates and slowing trading activity amid the global financial turmoil. Likewise, wholesale and retail trade and transportation and storage shrank by 2.62 percent and 0.41 percent due to a decrease in consumption expenditure and exports demand.

On the other hand, reflecting a higher demand for data processing services, an increasing tendency of home-based businesses and booming popularity of online games, the information and communication services subsector expanded steadily, posting the largest growth of 3.15 percent for the year. Nevertheless, the growth rate was lower than the previous year's 5.14 percent. The housing market showed a marked rebound in the second half of the year, recording a moderate gain of 2.12 percent for the year. Educational services registered a 1.84 percent growth because of an improvement in the quality of education and training.

### Fall in National Saving Rate

As the economy experienced a marked slowdown, the national saving rate (national saving to GNP measured at current prices) fell from 28.65 percent in 2008 to 28.14 percent in 2009. For the year as a whole, GNP declined by 0.48 percent, and growth of national consumption



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2010.

(including both private consumption and government consumption expenditures) went down to 0.39 percent, which reflected a slowing consumption demand due to economic contraction. The excess saving, defined as national saving less gross domestic investment, to GNP ratio went up from 6.53 percent in 2008 to 11.45 percent in 2009, resulting from a larger decrease in domestic investment than in national saving.

### 3. BALANCE OF PAYMENTS

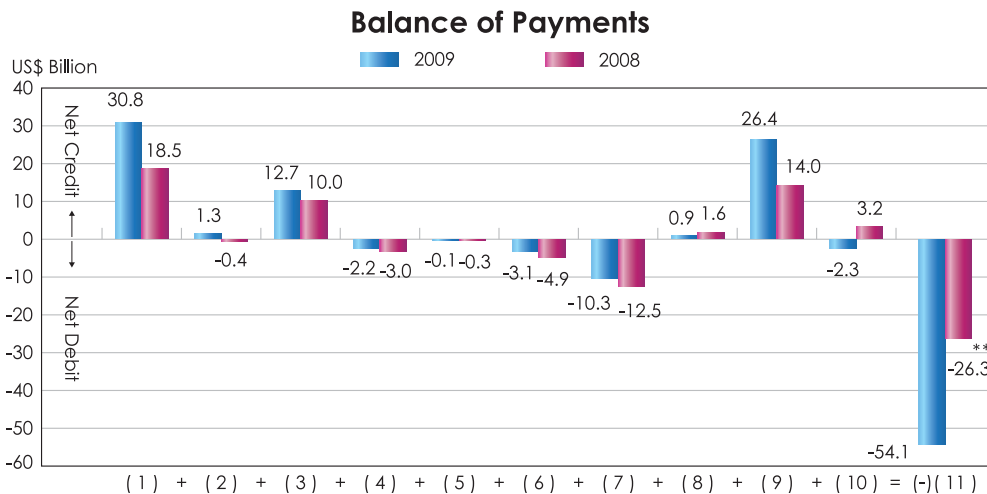
In 2009, the current account surplus, net financial inflows, and overall balance all reached historic highs. Compared with the previous year, the balance of trade in goods, services and income simultaneously increased, while net current transfer payments continually decreased. Consequently, the current account surplus increased to US\$42,572 million, and accounted for 10.9 percent of nominal GNP. The financial account exhibited a net inflow of US\$13,980 million, as the private sector repatriated overseas funds in large amounts. Finally, the overall balance recorded a surplus of US\$54,126 million, which reflected an increase in the foreign reserve assets held by the Bank.

#### Widening Current Account Surplus

The current account consists of four major items, which are goods, services, income, and current transfers. The current account surplus increased in 2009, mainly as a result of the massive surge in the trade surplus of goods and income, accompanied by a shift in services from deficit to surplus.

#### (1) Goods

As the global economic downturn continued to weaken foreign demand, both exports and imports on a balance of payments basis declined by record-high percentage points,



(1) Goods (2) Services (3) Income (4) Current Transfers (5) Capital Account (6) Direct Investment (7) Portfolio Investment (8) Financial Derivatives (9) Other Investment (10) Net Errors and Omissions (11) Reserves \*

Note: \* Excluding valuation changes in exchange rates.

\*\* The minus sign (-) indicates an increase in foreign exchange reserves held by the Bank.

Source: Balance of Payments, CBC.

## Balance of Payments

Unit: US\$ Million

	2009	2008
A. Current Account	42,572	25,122
Goods: exports f.o.b.	203,442	254,897
Goods: imports f.o.b.	-172,653	-236,419
Balance on Goods	30,789	18,478
Services: credit	31,286	34,770
Services: debit	-29,994	-35,125
Balance on Services	1,292	-355
Income: credit	20,532	23,277
Income: debit	-7,829	-13,299
Balance on Income	12,703	9,978
Current transfers: credit	4,753	5,210
Current transfers: debit	-6,965	-8,189
Balance on Current Transfers	-2,212	-2,979
B. Capital Account	-96	-334
Total, Groups A plus B	42,476	24,788
C. Financial Account	13,980	-1,753
Direct investment abroad	-5,858	-10,287
Direct investment in R.O.C. (Taiwan)	2,804	5,432
Portfolio investment assets	-31,658	3,289
Portfolio investment liabilities	21,372	-15,777
Financial derivatives assets	5,404	7,938
Financial derivatives liabilities	-4,492	-6,349
Other investment assets	25,758	10,766
Other investment liabilities	650	3,235
Total, Groups A through C	56,456	23,035
D. Net Errors And Omissions	-2,330	3,239
Total, Groups A through D	54,126	26,274
E. Reserves and Related Items*	-54,126	-26,274

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

falling into negative territory for the first time since 2002. The value of exports declined by 20.2 percent to US\$203,442 million, while the value of imports fell considerably by 27.0 percent to US\$172,653 million. Nevertheless, benefiting from governments' economic stimulus efforts and a lower base effect, both exports and imports returned to positive growth from November. As a result of a greater reduction in imports than in exports, the trade surplus on goods rose to US\$30,789 million, a record-high increase of 66.6 percent from the previous year.

As indicated by customs' statistics, the top three trading partners for Taiwan in 2009 were China including Hong Kong (hereafter referred to as China), the US, and Japan. Exports to these three countries accounted for 59.8 percent of total exports, while imports from them made up 45.8 percent of total imports.

In terms of Taiwan's trade with China, exports totaled US\$83,699 million in 2009, a large

## Direction of Trade in Goods by Country

Unit: %

	2009			2008		
	Amount (US\$ Million)	Share	Annual Change	Amount (US\$ Million)	Share	Annual Change
Exports						
China (including Hong Kong)	83,699	41.1	-15.9	99,573	39.0	-0.8
U. S. A.	23,557	11.6	-23.5	30,791	12.0	-4.0
Europe	22,578	11.1	-24.6	29,948	11.7	4.6
Southeast Asia 6*	30,153	14.8	-21.5	38,389	15.0	7.3
Japan	14,508	7.1	-17.4	17,556	6.9	10.2
Rest of the World	29,203	14.3	-25.8	39,372	15.4	16.3
Total	203,698	100.0	-20.3	255,629	100.0	3.6
Imports						
Japan	36,231	20.7	-22.1	46,508	19.3	1.2
U. S. A.	18,156	10.4	-31.0	26,327	10.9	-0.7
Europe	19,456	11.1	-20.4	24,451	10.2	3.8
Southeast Asia 6*	19,909	11.4	-22.2	25,582	10.6	8.0
China (including Hong Kong)	25,626	14.7	-22.1	32,884	13.7	10.2
Rest of the World	55,285	31.7	-34.7	84,696	35.2	21.5
Total	174,663	100.0	-27.4	240,448	100.0	9.7

Note: \* Including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.  
Source: *Monthly Statistics of Exports and Imports*, Ministry of Finance, R. O. C. (Taiwan).

reduction of 15.9 percent compared with the previous year. The decrease was attributable to China's economic deceleration amid the global economic downturn since the second half of 2008, which led to a severe decline in demand for Taiwan's IT exports, particularly in electrical machinery and equipment and optical products. Given China's better-than-expected economic recovery and a lower base period, exports to China, however, grew by 0.3 percent in September after posting negative growth for 12 consecutive months, and registered remarkable growth of 11.0 percent, 47.8 percent and 91.2 percent in October, November and December, respectively. Meanwhile, the share of exports to China in total exports increased steadily by 2.1 percentage points to 41.1 percent. China remained Taiwan's largest export market in 2009.

Imports from China decreased to US\$25,626 millions, down by 22.1 percent, but its share in total imports rose to 14.7 percent in 2009, making China the second largest source of imports. Due to the pickup in the world economy, especially in China, imports from China returned to positive growth in November and December. The bilateral trade surplus with China declined by 12.9 percent to US\$58,073 million for the year. China remained the largest source of Taiwan's trade surplus.

Exports to the US decreased by 23.5 percent in 2009. The share of exports to the US in total exports dropped further to 11.6 percent in 2009. The decline resulted mainly from weak demand in the US and the continued outward relocation (mainly to China) of local industries. Imports

from the US fell significantly by 31 percent and its share of total imports dropped from 10.9 percent in 2008 to 10.4 percent. Because imports decreased by a larger amount, the bilateral trade surplus with the US increased to US\$5,400 million, representing a growth rate of 21 percent. The US returned to being the second largest source of Taiwan's trade surplus in 2009.

Exports to Japan decreased by 17.4 percent in 2009, while its share in total exports edged up to 7.1 percent. Imports from Japan fell sharply by 22.1 percent from a year earlier, with its share in total imports up to 20.7 percent. Japan remained Taiwan's largest source of imports. The trade deficit with Japan narrowed to US\$21,724 million for the year.

Exports to Europe decreased by 24.6 percent in 2009, with the share in total exports down to 11.1 percent. Imports from Europe fell by 20.4 percent, but its share in total exports rose to 11.1 percent. The trade surplus with Europe shrank from US\$5,498 million in 2008 to US\$3,122 million.

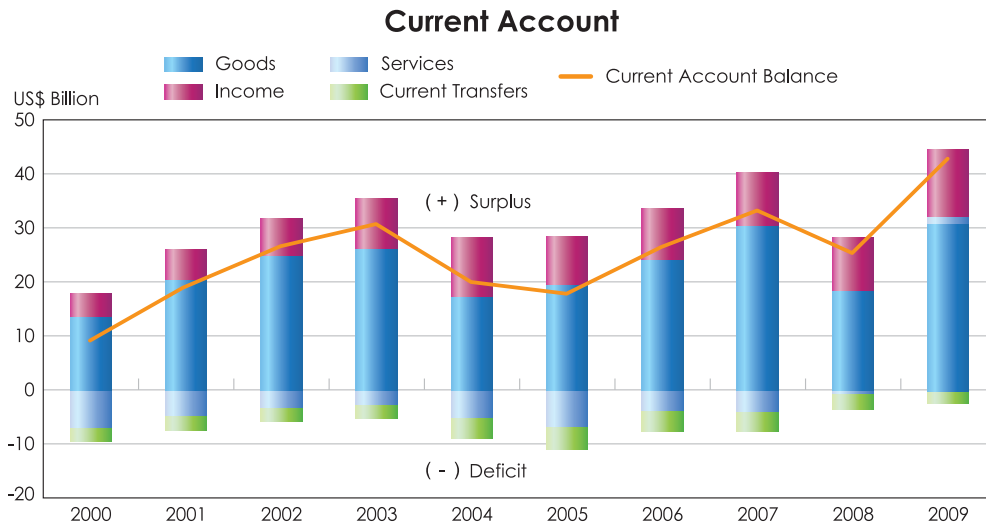
Exports to the six countries in Southeast Asia, including Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, declined by 21.5 percent. The combined share of exports to these countries in total exports slipped to 14.8 percent. Total Imports from these countries dropped by 22.2 percent, but the combined share in total imports went up to 11.4 percent. The trade surplus with the six countries decreased to US\$10,244 million in 2009 compared with US\$12,807 million in 2008.

## **(2) Services**

The balance of trade in services recorded its first ever surplus of US\$1,292 million in 2009. Service receipts decreased by US\$3,484 million to US\$31,286 million and payments fell by US\$5,131 million to US\$29,994 million.

Of the various components of the services account, receipts with respect to transportation decreased by US\$1,659 million to US\$5,473 million, mainly due to less receipts from domestic carriers on international shipments. Transportation payments also decreased by US\$3,407 million to US\$8,010 million, largely because of lower payments to foreign carriers in import freight costs. Consequently, net payments with respect to transportation declined from US\$4,285 million recorded a year earlier to US\$2,537 million in 2009.

Travel receipts increased by US\$1,023 million to US\$6,958 million, mainly because visitors from Mainland China increased significantly. In contrast, travel payments for the year decreased by US\$1,258 million to US\$7,858 million, because both the number and the expenditure of overseas visits by residents declined in the economic recession. Net travel payments decreased to US\$900 million.



Source: Balance of Payments, CBC.

Receipts from other services declined by US\$2,846 million to US\$18,855 million, mainly because net merchanting and financial service receipts diminished significantly. Other services payments decreased by US\$466 million to US\$14,126 million, largely accountable to charters of ships, professional and technical services. As a result, the surplus in net other services shrank from US\$7,109 million in 2008 to US\$4,729 million in 2009.

### (3) Income

In 2009, both income receipts and payments decreased to US\$20,532 million and US\$7,829 million, respectively. In response to the global financial turmoil and its economic fallout, most countries cut interest rates, leading to a simultaneous decrease in all types of investment income. However, income payments decreased by a larger amount. Hence, the surplus on the income account increased from US\$9,978 million in 2008 to US\$12,703 million in 2009, reaching a record high.

### (4) Current Transfers

Current transfer receipts and payments amounted to US\$4,753 million and US\$6,965 million, respectively. Net current transfer payments decreased from US\$2,979 million in 2008 to US\$2,212 million, due to the decrease in outward remittances by residents to support their overseas relatives.

### Decreasing Capital Account Deficit

In 2009, the capital account registered a narrower deficit of US\$96 million, from a US\$334 million deficit in 2008. This was mainly due to the decreased acquisitions of non-produced,

non-financial assets.

## Net Inflows in the Financial Account

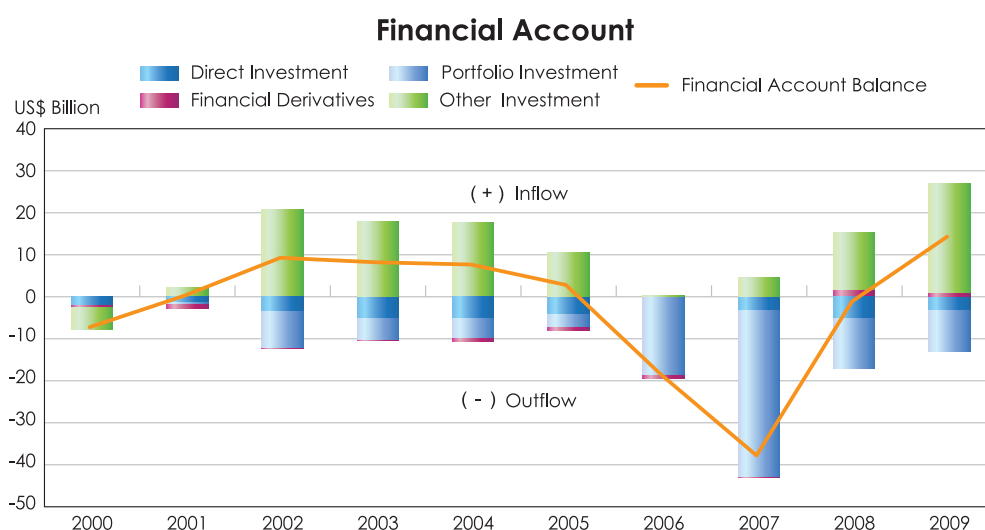
In 2009, the financial account showed a significant net inflow of US\$13,980 million, the highest level on record, mainly because the private sector repatriated overseas funds. In terms of sub-categories, direct investment and portfolio investment posted a net outflow of US\$3,054 million and US\$10,286 million, respectively, while other investment and financial derivatives showed a net inflow of US\$26,408 million and US\$912 million, respectively.

### (1) Direct Investment

Direct investment abroad by residents showed a net outflow of US\$5,858 million. On the other hand, direct investment in Taiwan by nonresidents registered a net inflow of US\$2,804 million. They were US\$4,429 million and US\$2,628 million less than in the previous year, respectively. Affected by the global financial turmoil, direct investment remained conservative. The main targets for investment included the electronic parts and components manufacturing industry, the computer and electronic manufacturing industry, the financial industry, and the wholesale and retail industry. In particular, China remained the major recipient of Taiwan's direct investment abroad. Accordingly, direct investment registered a net outflow of US\$3,054 million in 2009, US\$1,801 million less than in 2008.

### (2) Portfolio Investment

Portfolio investment abroad by residents exhibited a net outflow of US\$31,658 million, as



Source: Balance of Payments, CBC.

global financial markets gradually became stable and interest rates stayed low in the domestic market. In contrast, local portfolio investment by nonresidents registered a net inflow of US \$21,372 million in 2009. The factors encouraging them included the better cross-strait relationship and the portfolio allocation of international funds in Asia, which were attracted by economic recovery in East Asia. Consequently, the net outflow of portfolio investment slightly declined to US\$10,286 million in 2009, compared to US\$12,488 million in 2008.

### **(3) Financial Derivatives**

Financial derivatives recorded a net inflow of US\$912 million, mainly because the banking sector took profits from financial derivatives transactions such as interest rate swaps and foreign exchange swaps.

### **(4) Other Investment**

Other investment abroad by residents recorded a net inflow of US\$25,758 million, representing an increase in other claims on nonresidents by residents. This mainly reflected the withdrawal of overseas deposits by the private sector. Other local investment by nonresidents showed a net inflow of US\$650 million, attributable to the borrowings from abroad by residents. Therefore, the net inflow of other investment substantially increased to US\$26,408 million in 2009.

### **Significant Increase in Foreign Exchange Reserves**

The foreign exchange reserve assets held by the Bank increased by US\$54,126 million, as a result of the current account surplus and the net inflow in the financial account.

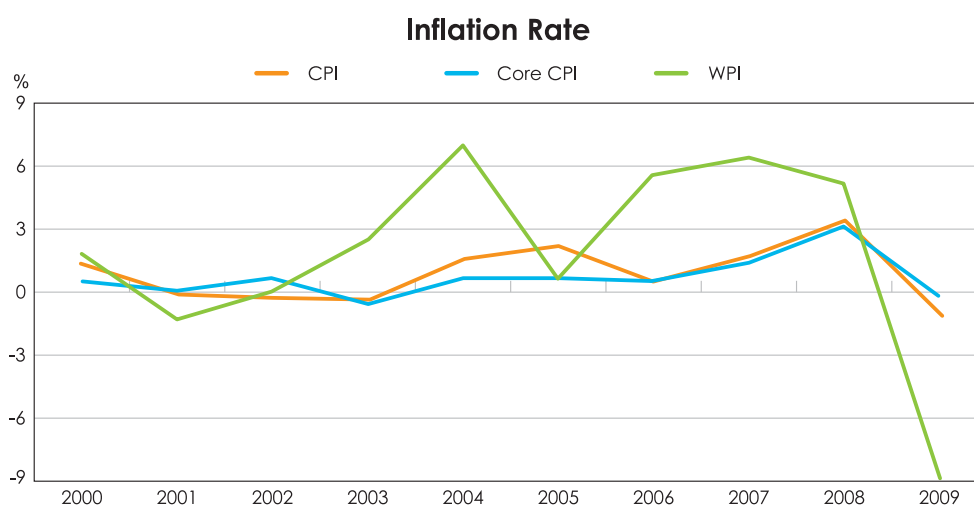
## 4. Prices

Taiwan's inflation fell into negative territory in 2009, largely driven by the steep drop in international commodity prices from the historically high levels reached in the previous year. In addition, slack domestic demand caused by rising unemployment and subdued compensation also dragged inflation down. Headline inflation, as measured by the consumer price index (CPI), declined to -0.87 percent in 2009, the lowest level on record. The core CPI, which excludes fruits and vegetables, fish and shellfish, and energy prices, fell by 0.14 percent in 2009, significantly lower than the 3.08 percent increase in the previous year.

### Large Decrease in Wholesale Prices

The wholesale price index (WPI) decreased by 8.74 percent in 2009, the largest decline in history, mainly reflecting the sharp retreat from 2008's spike in international commodity prices in the face of a dampened global economy. In the first seven months of the year, the annual growth rate of the WPI displayed a downward movement and fell to an all-year low rate of -13.99 percent in July. Afterwards, it recovered and turned positive to reach 1.06 percent in November. To end the year, the WPI rose by 5.75 percent in December, owing to the low base effect caused by a dramatic fall in commodity prices in the same period of the previous year.

Broken down by the major components of the WPI, the annual rates of change of import prices, domestic sales excluding import prices, and export prices declined substantially in 2009, mainly on account of marked drops in international raw material prices.

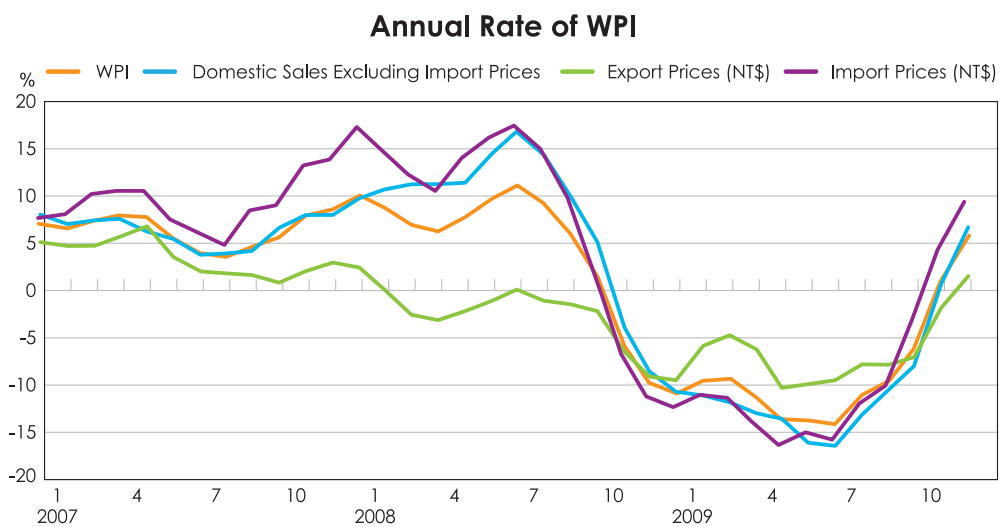


Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Import prices fell by 13.89 percent in US dollar terms, the steepest drop in history, due to declining international raw material prices since the second half of 2008. In local currency terms, import prices only decreased by 9.61 percent, with the difference largely reflecting the depreciation of the NT dollar against the US dollar. Among the components of import prices, a 13.84 percent decrease in prices of raw materials, which account for 77.19 percent of imports, was the major contributor to the decline in import prices. In contrast, the prices of capital goods and consumer goods, which make up 15.97 percent and 6.83 percent of imports, increased by 8.19 percent and 4.28 percent, respectively.

The annual change in export prices in US dollar terms was -10.95 percent, compared with a 2.12 percent increase in 2008. Due to the depreciation of the NT dollar against the US dollar in 2009, export prices in terms of the NT dollar declined by 6.60 percent, compared with a 2.14 percent decrease in 2008.

Prices of domestic sales excluding import prices fell by 10.0 percent in 2009, notably lower than the 8.54 percent increase in the previous year. This was attributable to the drop in imported costs of primary commodities, and the consecutive decreases in the prices of domestic electronic components, computers, and electronic and optical products due to subdued domestic demand. Among the components of domestic sales excluding import prices, the prices of quarrying and mineral products and manufacturing products decreased by 16.76 percent and 12.31 percent, respectively. In contrast, the prices of water supply, electricity, and gas rose by 8.89 percent in the year because of the rising cost of electricity.



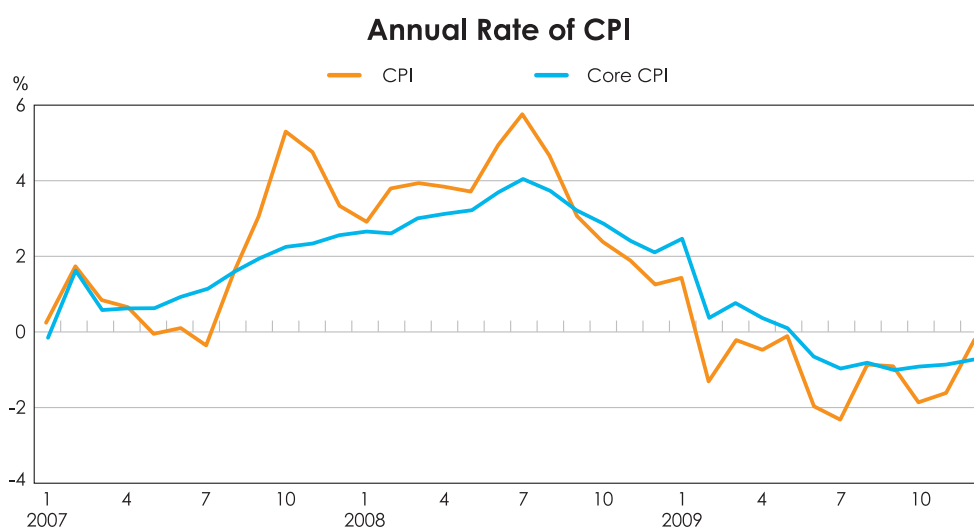
Source: Price Statistics Monthly, DGBAS, Executive Yuan.

## Consumer Prices Moved Down Slightly

The CPI decreased at an annual rate of 0.87 percent in 2009, and monthly inflation rates stayed in negative territory throughout the year except for January. The decline in CPI inflation was driven by the pass-through effect from decreases in imported prices of raw materials into the general price level amid a weak global economy. In addition, sluggish domestic demand stemming from rising unemployment and subdued compensation added to the downward pressure on inflation. In particular, declining international oil prices, and prices for vegetables and fruits contributed minus 0.81 of a percentage point to the decline in the CPI. The core CPI inflation was -0.14 percent during 2009 as prices of other retail goods and services remained relatively steady.

The main downward factors contributing to the CPI decrease in 2009 were as follows:

- (1) Compared with the dramatic fall in the second half of 2008, international petroleum prices rebounded in 2009 due to the onset of global economic recovery, and a rise in market speculation. However, average international petroleum prices in 2009 still fell by 37.67 percent compared with 2008. As a result, the decline in the imported costs of petroleum and natural gas lowered domestic oil and gas prices, which fell by 10.40 percent and 8.92 percent and accounted for 0.37 and 0.10 of a percentage point in the CPI decrease, respectively.
- (2) Due to high base effects stemming from severe damage caused by typhoons and cold weather in 2008, prices of vegetables and fruits declined by 10.76 percent and 5.75 percent in 2009, and subtracted 0.28 and 0.16 of a percentage point from the CPI inflation rate, respectively.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

- (3) Prices of durable consumer goods fell by 4.73 percent and accounted for -0.33 of a percentage point to the CPI inflation rate, as slack domestic demand and fierce market competition made it difficult for firms to pass on higher costs to consumers, and prices of cars and motorcycles declined due to tax deductions enacted as part of domestic policy stimulus measures in 2009.
- (4) Education and entertainment prices decreased at an annual rate of 2.34 percent, subtracting 0.11 of a percentage point from the CPI inflation rate, mainly caused by the economic downturn, an H1N1 virus outbreak, and slashed prices of airlines tickets.
- (5) As fees of passenger transport, internet and cell phones adjusted downward, prices of transportation and communication services declined by 1.09 percent, deducting 0.08 of a percentage point from the CPI inflation rate.

The main upward factors contributing to CPI inflation in 2009 were as follows:

- (1) In line with the adjustment of the tobacco health and welfare surcharge from NT\$10 to NT\$20 in June 1, 2009, prices of tobacco and betelnut rose by 10.46 percent, contributing 0.15 of a percentage point to CPI inflation.
- (2) Prices of fish and shellfish increased at an annual rate of 4.36 percent in 2009 as their prices reveal an upward trend due to decreasing catch in the long term.

### Percentage Changes in the Major Components of the CPI in 2009

Item	Weight (%)	Annual rate of change (%)	Contribution to CPI inflation rate (percentage point)
CPI	100	-0.87	-0.87
Tobacco & Betelnut	1.5	10.46	0.15
Fish & Shellfish	1.7	4.36	0.08
Food away from Home	8.9	0.70	0.07
Electricity	2.2	3.46	0.07
Total	14.3		0.37
Fuels and Lubricants	3.3	-10.40	-0.37
Durable Consumer Goods	7.5	-4.73	-0.33
Vegetables	2.5	-10.76	-0.28
Fruits	2.8	-5.75	-0.16
Education and Entertainment	4.3	-2.34	-0.11
Gas	1.0	-8.92	-0.10
Transportation & Communication Services	7.7	-1.09	-0.08
Total	29.1		-1.43
Others	56.6		0.19

Source: Price Statistics Monthly, DGBAS, Executive Yuan.

- (3) The cost of eating out, which went up in 2008 because of higher food prices and cooking costs, continued to rise modestly by 0.70 percent in 2009, as it is difficult for retailers to lower such prices.
- (4) Driven by higher imported prices for fuel, natural gas and heating oil inputs for electricity generation, electricity prices moved up by 3.46 percent.

## 5. Public Finance of the Central Government

For the year of 2009, with central government revenue contracting by 5.3 percent while expenditure increasing by 6.1 percent, overall 2009 central government finances turned to a deficit of NT\$162.0 billion, ending a streak of surpluses since 2006.

### Significant Decline in Central Government Revenue

In 2009, central government revenue decreased by NT\$87.4 billion to NT\$1,553.5 billion. Tax revenue reduced significantly by NT\$191.3 billion, while the revenue from surpluses of public enterprises and public utilities increased by NT\$65.3 billion.

A closer look at the components shows that the two major sources of central government revenue in 2009 continued to be tax revenue and surpluses of public enterprises and public utilities, contributing to 67.7 percent and 20.5 percent, respectively, of the total revenue. The decline in tax revenue was attributable to reduced enterprise earnings and individual income amid the economic downturn, and the government's tax cuts to stimulate the economy. As a result, income tax revenue fell to NT\$576.9 billion and showed a record 23.2 percent decrease

### Total Revenue and Expenditure of the Central Government

Unit: NT\$ Billion

	Fiscal Year*									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009**
Total Revenue	2,030.8	1,417.2	1,304.7	1,320.9	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.5
(Ratio to GDP : %)	13.5	14.3	12.5	12.3	12.0	12.5	12.6	12.7	12.9	12.4
Total Expenditure	2,230.1	1,559.7	1,551.9	1,618.1	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,715.5
(Ratio to GDP : %)	14.8	15.7	14.9	15.1	13.8	13.3	12.5	12.0	12.7	13.7
Surplus/Deficit	-199.3	-142.5	-247.2	-297.2	-196.6	-102.5	16.6	83.4	23.2	-162.0
(Ratio to GDP : %)	-1.3	-1.4	-2.4	-2.8	-1.7	-0.9	0.1	0.6	0.2	-1.3
Debt Repayment	193.4	122.2	55.5	46.5	56.1	64.1	65.0	6.0	65.0	65.0
Financing:	466.1	275.8	302.7	343.7	253.5	167.3	63.9	0	45.5	227.0
Debt Financing	466.1	275.8	244.4	300.8	253.5	167.3	63.9	0	0.0	164.5
Surplus of Previous Fiscal Years	0	0	58.3	42.9	0	0	0	0	45.5	62.5
Memorandum:										
Tax Dependency Ratio***(%)	60.9	57.6	52.9	51.2	58.6	68.1	71.5	77.9	76.8	61.3
Debt Dependency Ratio****(%)	20.9	17.7	15.7	18.6	16.2	10.7	4.2	0	0	9.6

Notes: \* Effective 2001, the calendar year is adopted as the fiscal year. As a transition, fiscal year 2000 begins on July 1, 1999 and ends on Dec. 31, 2000.

\*\* The figures for the year 2009 are preliminary estimates.

\*\*\* Tax dependency ratio is defined as the ratio of annual tax revenue to total government expenditure.

\*\*\*\* Debt dependency ratio is defined as the ratio of annual issuance of government bonds and borrowing from banks to total government expenditure.

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

2. Department of Statistics, Ministry of Finance.

from the previous year. The revenue from estate and gift taxes fell by 25.9 percent in 2009 due to lower tax rates. Business tax revenue declined by 8.4 percent from the previous year, despite the government's shopping voucher scheme to boost consumption.

As tax revenue shrank and expenditure increased in 2009, the ratio of tax revenue to government expenditure, an indicator of the tax dependency of central government finances, dropped substantially to 61.3 percent from 76.8 percent in 2008.

### Steady Increase in Central Government Expenditure

In 2009, central government expenditure reached NT\$1,715.5 billion, an increase of NT\$97.8 billion from the previous year. Of the increase, NT\$43.2 billion was aimed at promoting economic development via infrastructure projects such as mass rapid transit systems, railroads, flood prevention and mitigation, and broadband networks. The second largest portion of the increase went to social welfare, where a total of NT\$22.2 billion bolstered the subsidies for low-income employees and the labor insurance scheme.

In terms of share in total government expenditure, education, science and culture, and social welfare were the top two categories, accounting for 19.0 percent and 18.7 percent, respectively, followed by national defense with 17.0 percent. The share for economic development as percentage of total expenditure rose to 14.3 percent from last year's 12.5 percent.

### Total Revenue and Expenditure of the Central Government by Category

Unit: NT\$ Billion

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Total Revenue	2,030.8	1,417.2	1,304.7	1,320.9	1,368.2	1,464.5	1,546.4	1,635.5	1,640.9	1,553.5
Taxes	1,280.7	841.5	820.1	828.5	916.6	1,067.8	1,094.3	1,208.7	1,242.9	1,051.6
Surpluses of Public Enterprises and Public Utilities	442.4	335.8	250.7	326.5	282.2	243.4	289.1	271.5	253.4	318.7
Fees, Fines and Indemnities	103.0	72.5	123.3	77.8	76.1	79.0	79.0	81.1	83.1	78.0
Revenues from Government-owned Monopolies	77.3	57.5	0.3	0	0	0	0	0	0	0
Proceeds from Sales of Properties and Recalled Capital	88.4	80.9	73.9	65.7	70.3	52.6	58.5	51.3	40.0	53.7
Others	39.0	29.0	36.4	22.4	23.0	21.7	25.5	22.9	21.4	51.5
Total Expenditure	2,230.1	1,559.7	1,551.9	1,618.1	1,564.8	1,567.0	1,529.8	1,552.0	1,617.7	1,715.5
General Administration	234.9	167.0	162.3	167.3	164.1	165.5	167.3	168.2	173.0	168.9
National Defense	343.3	237.7	225.2	227.7	248.9	248.5	237.1	256.7	282.4	291.2
Education, Science and Culture	367.6	257.2	267.0	300.2	302.1	301.5	303.1	308.7	310.4	326.5
Economic Development	356.4	277.1	291.2	295.5	248.9	247.0	197.0	193.3	201.3	244.5
Social Welfare	411.0	293.3	262.2	284.4	279.8	285.7	303.3	305.1	298.4	320.6
Community Development & Environmental Protection	39.6	22.3	23.4	28.7	24.8	25.2	20.4	19.4	13.5	21.4
Retirement & Compassionate Aid	195.4	122.0	124.3	125.4	123.1	130.5	134.7	134.6	133.8	133.4
Interest Payments	249.6	151.2	152.2	144.6	127.1	117.9	125.2	124.0	117.4	116.8
General Subsidies and Other Expenditure	32.3	31.9	44.1	44.3	46.0	45.2	41.7	42.1	87.5	92.2

Note: \* The figures for the year 2009 are preliminary estimates.

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.  
2. Department of Statistics, Ministry of Finance.

In addition to the general budget expenditures, the central government also set aside a total of NT\$234.9 billion as a special budget in the course of 2009, for plans to reenergize the economy through programs or measures including the shopping vouchers, the expansionary public spending scheme, as well as the Typhoon Morakot disaster relief and reconstruction efforts.

As a result, the ratio of central government expenditure to GDP rose from 12.7 percent in the previous year to 13.7 percent, while the ratio of budget deficit to GDP was 1.3 percent.

### Greater Demand for Debt Financing

The NT\$162.0 billion fiscal deficit and the NT\$65.0 billion debt principal repayment combined to represent a need for the central government to finance NT\$227.0 billion for 2009. Of this amount, NT\$164.5 billion was raised through issuing government bonds and borrowing from banks, while the remaining NT\$62.5 billion was financed with surpluses from previous fiscal years. The debt dependency ratio, i.e. the ratio of annual government bond issuance and borrowing from banks to total government expenditure, jumped to 9.6 percent in 2009, as opposed to the two preceding years, when there was no demand for debt financing.

### Considerable Increase in Debt Obligations

For the year of 2009, the central government was faced with a demand to finance not only the general budget but also the special budget, both relying on government bond issuance and borrowing from banks. Total outstanding debt of the central government increased significantly by NT\$358.3 billion over the previous year-end, amounting to NT\$4,141.9 billion at the end of 2009. Furthermore, the ratio of outstanding central government debt to GDP also rose markedly from the previous year's 29.8 percent to 33.1 percent.

## Public Debt of the Central Government

Unit: NT\$ Billion

	End of Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Outstanding Debt	2,450.1	2,759.1	2,849.3	3,124.7	3,362.2	3,550.1	3,623.5	3,720.5	3,783.6	4,141.9
(Ratio to GDP ; %)	24.1	27.8	27.4	29.2	29.6	30.2	29.6	28.8	29.8	33.1

Note: \* The figures for the year 2009 are preliminary estimates.

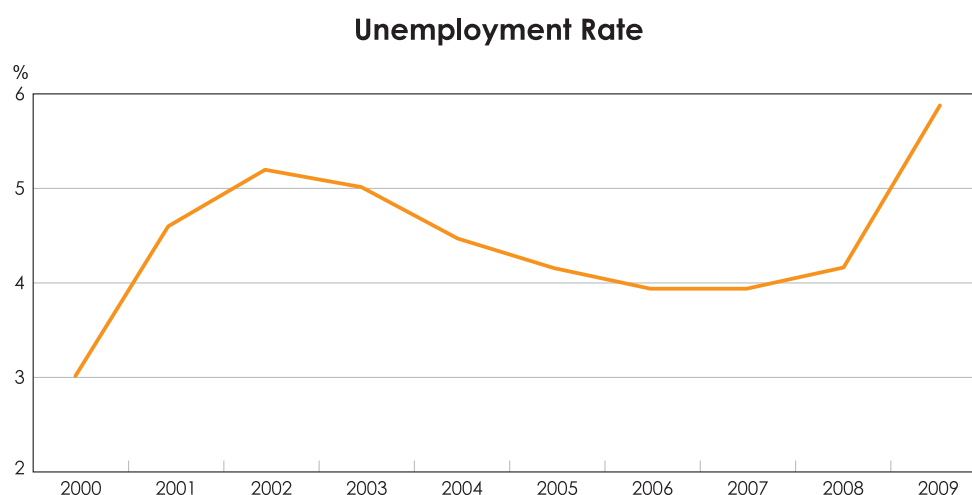
Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan.  
2. Ministry of Finance.

## 6. Labor Market

Following global financial turmoil and the recession it induced in the domestic economy, Taiwan's labor market conditions worsened in 2009. Job opportunities decreased and involuntary unemployment increased. The unemployment rate climbed to a historic high of 6.13 percent in August, and then trended downwards to 5.74 percent in December as the pace of economic recovery accelerated.

The annual average unemployment rate increased by 1.71 percentage points to 5.85 percent in 2009, the largest year-on-year increase ever recorded. The broad unemployment rate rose by 1.74 percentage points to 7.35 percent, while average employment decreased by 1.20 percent from the previous year to 10,279 thousand persons, the largest annual decrease on record. To promote employment, the government initiated various short-, mid- and long-term measures, including training programs to foster quality human resources.

In terms of earnings and labor cost, the average monthly earnings per worker in the non-farm sector, i.e. the industrial and services sectors, dropped by 4.31 percent over the previous year to NT\$42,509, posting the deepest decline in history. As the decline in total working hours outpaced that in production, labor productivity increased by 0.62 percent for the industrial sector. The unit labor cost decreased by 6.54 percent, resulting from a smaller decrease in production than in total labor compensation.



Source: *Monthly Bulletin of Manpower Statistics*, DGBAS, Executive Yuan.

## **Annual Average Employment Decreased**

Employment was affected by declining corporate profitability and production amid the economic downturn in 2009. Annual average employment was 10,279 thousand persons, a decrease of 124 thousand persons or 1.20 percent over the previous year. However, employment slowly picked up with the pace of economic recovery from the third quarter of 2009 onwards.

Among the three economic sectors, the industrial sector was the most severely hit, with employment decreasing by 148 thousand persons or 3.85 percent in 2009. Employment in the agricultural and services sectors increasing by 8 thousand and 15 thousand persons or 1.41 and 0.26 percent, respectively.

Broken down by industry, the manufacturing industry registered the largest job losses with 96 thousand persons, followed by the construction industry with 54 thousand persons, and then by the wholesale and retail trade industry with 35 thousand persons. However, employment in public administration and defense, and compulsory social security increased by 39 thousand persons, thanks to the government's 2008-2009 Short-term Employment Promotion Program.

Employment in most job categories also decreased, with machinery operation and physical labor jobs suffering the largest decline of 144 thousand persons or 4.34 percent.

## **Unemployment Rate Remained High**

The unemployment rate rose sharply from the beginning of 2009 as the economic downturn deepened. It reached a historic high of 6.13 percent in August with 672 thousand persons unemployed. From September onwards, however, the economy recovered and the seasonal factor of job-seeking graduates and students vanished. Hence, the unemployment rate gradually declined month by month to 5.74 percent in December. On an annual average basis, the unemployment rate was 5.85 percent, while the unemployed population reached 639 thousand persons, a year-on-year increase of 189 thousand persons or 41.96 percent. The average duration of unemployment also lengthened by 2.2 weeks from the previous year to 27.5 weeks.

The annual average number of the long-term unemployed (those continuously unemployed for 53 weeks or more) was 101 thousand persons in 2009, an increase of 35 thousand persons or 53.03 percent over the previous year. Among these people, the 25-44 age group accounted for 62.3 percent, while those with college education or above made up 40.5 percent. Thus, a trend of lower ages and higher educational levels was observed in the unemployed population.

Due to the economic recession, business closures or downsizing were the major cause for unemployment from 2008. In 2009, it accounted for 52.76 percent of the total unemployed, marking the first increase over 50 percent on record and a steep increase of 18.93 percentage

points over the previous year. In the first quarter of 2009 alone, those unemployed because of business closures or downsizing had accumulated to 94 thousand persons, especially in the manufacturing, construction, and wholesale and retail trade industries.

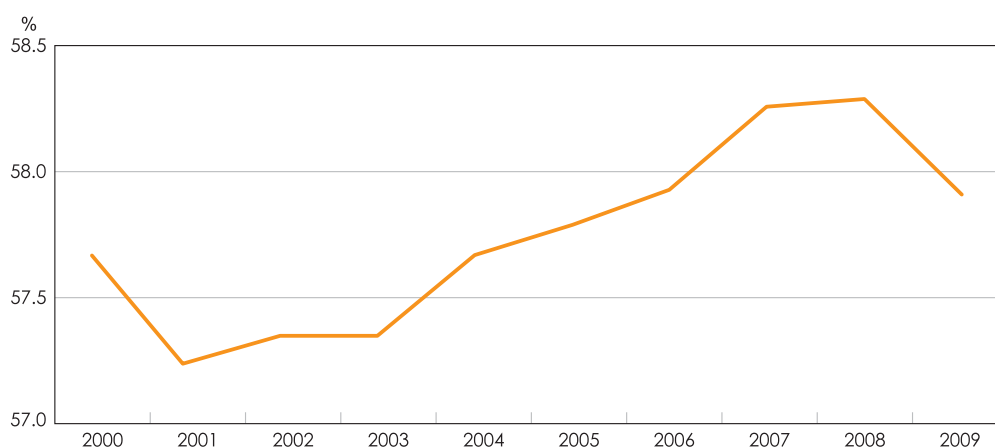
In terms of age, the 15-24 age group continued with the highest unemployment rate in 2009, as they are generally inexperienced and tend to change jobs more frequently. The average number of the unemployed for the age groups of 25-44 and 45-64 increased by 121 thousand and 51 thousand persons or 48.13 and 57.75 percent, respectively, over the previous year. A majority of them were unemployed involuntarily.

### Labor Force Participation Rate Edged Down

The labor force growth rate decreased from 1.31 percent in the previous year to a mere 0.59 percent in 2009, reflecting falling demand for labor in the flagging economy. The number of employed people recorded the largest decrease ever of 1.2 percent, while that of unemployed people increased by 41.96 percent to a historic high level.

The labor force participation rate inched down by 0.38 of a percentage point to 57.90 percent in 2009. In terms of gender, the male labor force participation rate sank by 0.69 of a percentage point to an all-time low of 66.4 percent. The female rate edged down to 49.62 percent due to the gloomy economy, the first decline since 2001. Broken down by age bracket, the labor force participation rate for the 15-24 age group continued declining as a result of extended years of education. The rate for the 25-44 age group increased by 0.38 of a percentage point to 84.19 percent, remaining the highest level of participation among all age groups. With regard to education groups, those with college degrees or above were the only group that

### Labor Force Participation Rate



Source: Monthly Bulletin of Manpower Statistics, DGBAS, Executive Yuan.

recorded an increase in the labor force participation rate at 68.4 percent, indicating a more aggressive attitude in the job market among the better educated.

The non-labor force population increased by 167 thousand persons, or 2.15 percent, to 7,937 thousand persons. Among them, senior disabled people increased by 0.58 of a percentage point, showing a long-term upward trend due to an aging population. Affected by the stagnant economy, those intending to work but not actively searching rose by 0.07 of a percentage point, while housekeeping decreased by 0.76 of a percentage point.

### **Earnings of Non-Farm Workers Declined**

In 2009, the economic downturn, the waves of corporate downsizing and workers taking unpaid leaves helped drive down wages. The average monthly earnings of a non-farm sector worker declined by 4.31 percent, the largest drop recorded, to NT\$42,509. After adjusting for CPI inflation, real monthly earnings per worker also declined by 3.47 percent. For the industrial sector, monthly earnings per worker decreased by 7.4 percent to NT\$40,032, while real earnings decreased by 6.59 percent. For the services sector, monthly earnings per worker decreased by 1.91 percent to NT\$44,583, while real earnings decreased by 1.05 percent.

With respect to different industries, the manufacturing industry was the most severely affected by the global financial turmoil, with an 8.37 percent drop in real monthly earnings per worker. However, the electricity and gas supply industry and the accommodation and food services industry managed to achieve respective increases of 8.45 percent and 2.48 percent in real monthly earnings despite the turmoil. As for real regular earnings per worker by sector, the industrial sector recorded a 2.68 percent decrease, while the services sector showed a 0.75 percent increase. Real regular earnings per worker for the non-farm sector as a whole decreased by 0.68 percent over the previous year.

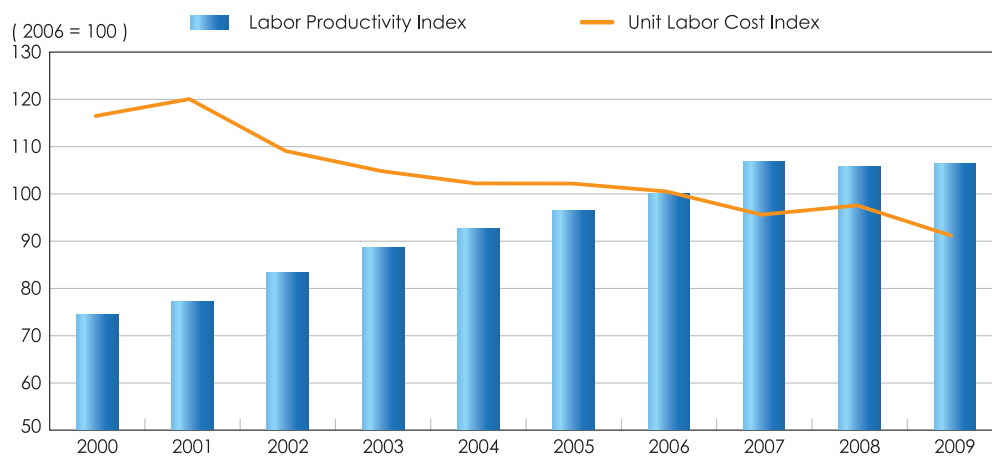
### **Labor Productivity Increased Slightly**

As the decrease in total working hours outpaced that in production, labor productivity for the industrial sector posted a year-on-year increase of 0.62 percent in 2009. Within the manufacturing industry, the largest increase was observed in motor vehicles and parts manufacturing, followed by electronic parts and components manufacturing. For most traditional manufacturers, however, their continued decline in productivity was aggravated by the economic downturn, with wearing apparel and clothing accessories manufacturing experiencing the deepest decline of 20.09 percent.

The unit labor cost in the industrial sector exhibited a decrease of 6.54 percent in 2009, as total labor compensation decreased faster than production. Within the manufacturing industry,

chemical material manufacturing recorded the largest drop of around 20 percent, followed by electronic parts and components manufacturing and motor vehicles and parts manufacturing with declines of around 15 percent.

### Labor Productivity and Unit Labor Cost Indices in the Industrial Sector



Source: Monthly Bulletin of Earnings and Productivity Statistics, DGBAS, Executive Yuan.