

## 2. National Output and Income

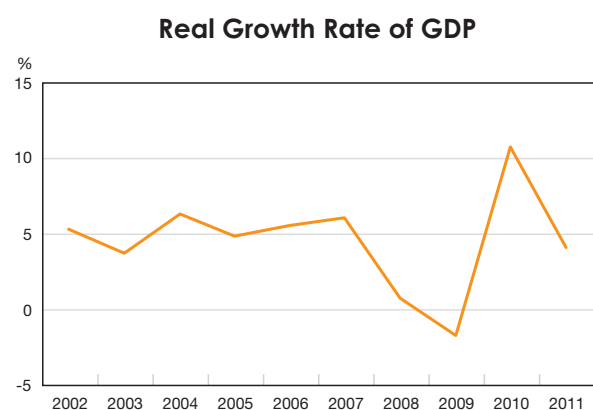
Following an upturn in 2010, the Taiwanese economy continued its solid growth in the first half of 2011. However, as a consequence of the global economic downturn in 2011, domestic economic activities lost steam in the second half of the year. GDP registered a modest growth of 4.04 percent in real terms over the whole year, markedly down from 10.72 percent in 2010. In terms of expenditures, largely due to the contraction of private investment, the contribution of domestic demand to GDP growth was less than that of external demand.

With the spread of the European sovereign debt crisis and the weakened global economy, exports as well as overall GDP advanced at a sluggish pace in the second half of 2011. Private consumption grew stably in the first three quarters on the back of improving labor market conditions, while growth fell markedly in the fourth quarter on account of shrinking financial wealth resulting from low trading activities in the stock market. Private investment fell sharply in the second half of the year as business enterprises, especially in the electronics industry, put their investment plans on hold.

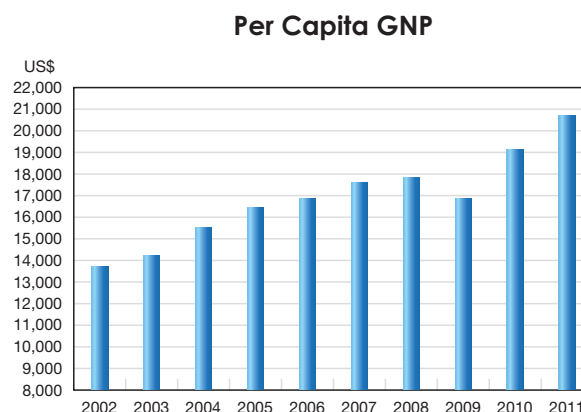
Meanwhile, owing to an increase in economic activity as well as the appreciation of the domestic currency against the US dollar, per capita GNP in nominal terms increased considerably from US\$19,175 to US\$20,713.

### Expenditure Components of GDP

Amid the downturn of the global business climate in 2011, all expenditure components of GDP other than government consumption posted growth rates lower than the previous year. Among



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2012.



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them, net exports recorded a positive contribution of 3.72 percent for the year, remaining the primary source of economic growth. Gross fixed capital formation registered a negative contribution to GDP growth of 0.71 of a percentage point, mainly due to a sharp curtailment in capital expenditures induced by the declining external demand for hi-tech products. Private consumption and government consumption contributed 1.59 percentage points and 0.21 of a percentage point to economic growth, respectively. In terms of shares of GDP, exports and imports shares increased further despite the contraction of global demand, accounting for 75.71 percent and 68.87 percent, respectively. The share of gross fixed capital formation went down to 21.02 percent from last year's 21.74 percent. On the other hand, the share of private consumption grew from 58.05 percent of GDP to 59.60 percent. Nevertheless, its real growth rate declined from 3.67 percent to 2.95 percent due to the limited increase in household spending.

### (1) Modest Lift in Private Consumption

In the beginning of the year, private consumption gradually picked up amid an improvement in labor market conditions and financial market resilience. In the second quarter, consumer spending in the retail sector, restaurant business and tourism progressed, but the outbreak of the plasticizer scare in May had a suppressing effect on consumption momentum. The growth rate of private consumption was 4.61 percent in the first quarter and 3.04 percent in the second. During the third quarter, with the lessening of the impact of plasticizer scare and continued expansion in car sales and tourism, private consumption regained its momentum and grew by 3.24 percent. Dragged down by a decline in the stock market, private consumption growth weakened to 0.98 percent in the fourth quarter. For the year as a whole, private consumption grew by 2.95 percent, lower than the figure of 3.67 percent registered in the previous year.

### Expenditure on Gross Domestic Product

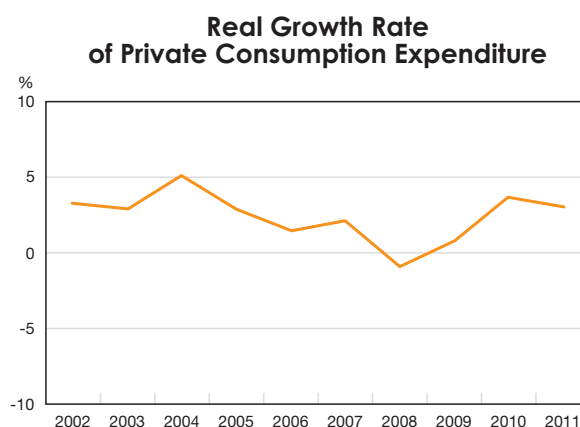
Unit: %

	2011			2010		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	59.60	2.95	1.59	58.05	3.67	2.11
Government Consumption	12.32	1.86	0.21	12.08	0.58	0.07
Gross Fixed Capital Formation	21.02	-3.79	-0.71	21.74	23.99	3.99
Change in Inventory	0.22	—	-0.78	1.06	—	2.17
Exports of Goods and Services	75.71	4.51	3.35	73.53	25.56	16.73
( Less : Imports of Goods and Services)	68.87	(-0.64)	(-0.38)	66.46	(28.23)	(14.36)
Expenditure on GDP	100.00	4.04	4.04	100.00	10.82	10.82

Note: \* Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2012.

With regard to food and non-food categories, both rose steadily with respective annual growth rates of 1.73 percent and 3.12 percent for the year. Among the components of non-food consumption, outlays for communications recorded the largest growth of 11.06 percent for the year, reflecting increasing demand for internet games and cellular phones as well as the continual growth of home-based businesses. Moreover, consumer spending on recreation and culture increased further, registering the second largest growth of 9.16 percent for the year. This was primarily the consequence of an increasing demand for recreation in a more developed economy. Correspondingly, outlays for transportation, restaurants and hotels also advanced by more than 6 percent.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2012.

## **(2) Mild Growth in Government Consumption**

As the growth momentum of the domestic economy turned weaker than the previous year, the government gradually raised its stimulus spending. Government consumption expenditure increased by 1.86 percent in real terms and contributed 0.21 of a percentage point to GDP growth for the year. The rise in government consumption was primarily associated with the implementation of employment promotion and unemployment relief measures. In addition, disadvantaged families were subsidized with the implementation of transfer payment programs.

## **(3) Moderate Decline in Fixed Capital Formation**

Benefiting from strong demand for exports, hi-tech firms accelerated capital spending amid high capacity utilization in the first half of the year. Nevertheless, due to a higher comparison base, the growth rate was lower than the previous year. With the sluggish growth of external demand in the second half of the year, hi-tech firms reduced their capital outlays, leading to a decline in fixed investment. For the year as a whole, fixed capital formation dropped by 3.79 percent, subtracting 0.71 of a percentage point from GDP growth in 2011.

Regarding expenditure by type of purchaser, investment by private businesses contracted by 2.35 percent for the year, subtracting 0.33 of a percentage point from real GDP growth, in sharp contrast to the significant expansion of the previous year. In the first half of the year, as hi-tech firms increased capital investment driven by rising external demand, private investment exhibited stable growth. In the second half, sinking global business sentiment accompanied by the uncertain

economic outlook and the spread of the European sovereign debt crisis suppressed private investment. Furthermore, as public enterprises curtailed their capital investment, investment by public enterprises decreased by 14.32 percent, subtracting 0.21 of a percentage point from economic growth in 2011. Government investment registered a minor increase in the first quarter, but revealed contractions in the last three quarters as the peak of public construction had passed. Therefore, for the year as a whole, government investment edged down by 5.41 percent, subtracting 0.16 of a percentage point from economic growth.

In terms of the type of capital formation, the largest decrease was observed in outlays on machinery and other equipment, registering a contraction of 9.41 percent. This was primarily attributable to a decrease in export orders, dropping capital utilization and a higher comparison base. With a rising capital utilization rate driven by high export demand, firms continued with fixed capital investment, yielding a positive growth rate of 7.99 percent in the first quarter. Nevertheless, due to the broken supply chain following the earthquake in Japan in March, some firms were hesitant about increasing investment, and thereby a minor contraction in capital expenditure was witnessed in the second quarter. As a consequence of weak global business sentiment, a double-digit dip in investment was seen in the last two quarters.

Transportation spending accelerated on the back of economic recovery in the first half of the year, while it contracted in the second half mostly due to weaker economic activities and a high base effect, registering a growth of 3.83 percent for the year as a whole. Additionally, investment in construction and intangible fixed assets contracted by 0.47 percent and grew by 4.09 percent, respectively.

#### **(4) Mild Expansion in Exports and Minor Contraction in Imports**

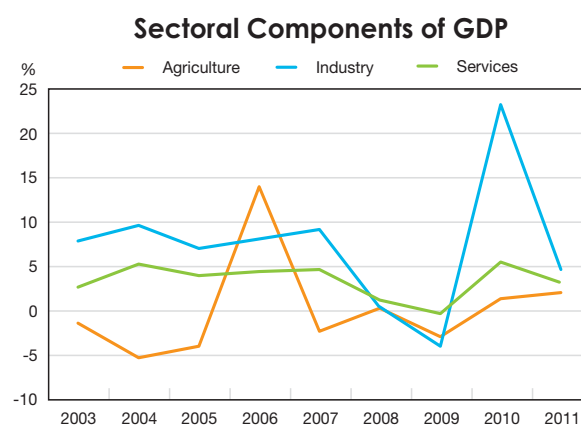
With the backdrop of weaker global business sentiment, the growth in exports of goods and services declined throughout all quarters. Total exports registered a mild growth of 4.51 percent, contributing 3.35 percentage points to economic growth for the year as a whole. Export expansion in the first quarter sustained a strong momentum from 2010 and registered a robust growth of 11.20 percent. This was primarily boosted by increased external demand for information and telecommunications products, electronics and machinery. In the second quarter, slowing economic growth in industrial countries and lackluster exports of industries relying heavily on Japan, such as those involved in the production of electronic parts and accessories, discouraged the performance of total exports. With the spread of the European sovereign debt crisis, growth in the final two quarters weakened to only 2.10 percent and 0.78 percent, respectively.

Due to the contraction of export-derived demand, import growth also decreased throughout the quarters of the year. The shrinkage of import-derived demand induced by the contraction in

investment began in the third quarter, leading to a contraction in imports in the last two quarters. During the year as a whole, imports of goods and services, measured in NT dollar terms, decreased by 0.64 percent, thus subtracting 0.38 of a percentage point from economic growth.

### Sectoral Components of GDP

On the output side, while agricultural output expanded by 1.89 percent as a consequence of favorable weather conditions, industrial output and services advanced at a slower pace than the previous year amid weaker global business sentiment. As industry and services are relatively large in terms of GDP sectoral components, they were key forces behind economic growth, contributing 1.53 percentage points and 1.93 percentage points, respectively, to economic growth for the year 2011. Agricultural output contributed only 0.03 of a percentage point to economic growth.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2012.

### Gross Domestic Product by Type of Activity

Unit: %

	2011			2010		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.72	1.89	0.03	1.64	1.19	0.02
Industry	29.57	4.39	1.53	31.12	23.01	7.20
Mining & Quarrying	0.21	1.86	0.01	0.47	11.19	0.04
Manufacturing	24.83	4.91	1.49	26.03	25.38	6.80
Construction	2.84	-0.32	-0.01	2.81	11.33	0.26
Electricity, Gas, Water and Remediation Services	1.69	2.17	0.04	1.81	5.61	0.10
Services	68.71	3.02	1.93	67.24	5.40	3.63
Wholesale and Retail Trade	18.81	4.26	0.74	18.29	4.77	0.87
Transport & Storage	2.96	2.58	0.08	3.18	7.65	0.24
Information and Communications	3.62	4.86	0.17	3.53	8.34	0.31
Finance and Insurance	6.56	3.86	0.25	6.32	6.28	0.42
Real Estate	8.67	1.24	0.10	8.60	3.27	0.29
Administration and Defense	7.33	0.42	0.03	7.26	3.14	0.22
Education	4.65	1.07	0.05	4.60	1.01	0.05
Other Services	16.12	3.59	0.52	15.47	8.35	1.23
Gross Domestic Product	100.00	4.04	4.04	100.00	10.72	10.72

Note: \* Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2012.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 68.71 percent share in 2011. The industrial sector accounted for 29.57 percent of GDP, slightly lower than the share in the previous year, which was a consequence of sluggish export momentum. Meanwhile, the ratio of agricultural output to GDP slightly increased to 1.72 percent.

### **(1) Further Expansion in Agricultural Output**

During 2011, all agricultural production subsectors, namely agriculture, forestry, fishing and animal husbandry, grew due to a stable climate, which led agricultural output to expand by 1.89 percent.

### **(2) Mild Growth in Industrial Output**

The industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, grew by 4.39 percent in 2011, a mild growth compared with the previous year's 23.01 percent increase. The manufacturing sector, which carried a weight of over 90 percent in the index of industrial production, was the dominant driver of industrial output.

In 2011, the manufacturing industry posted a mild growth of 4.91 percent, in contrast to the 25.38 percent surge of the previous year, which was primarily a result of the global business climate downturn leading to a contraction of export demand. Specifically, the production index of the information and electronic industry was at the top with 8.91 percent growth, followed by metal and machinery with 6.64 percent and food, textile and other industry with 10.74 percent, which were substantially lower than the figures for the preceding year. Manufacturing output exhibited a downward trend from a peak of 15.28 percent growth in the first quarter to a 4.00 percent contraction in the fourth quarter.

As the government imposed the Specifically Selected Goods and Service Tax in the second half of the year to curtail the overheated housing market, along with a weaker demand for commercial construction induced by an uncertain economic outlook, construction output posted a decline of 0.32 percent for the year. In contrast to a considerable growth of 11.19 percent in the previous year, output of mining and quarrying also grew by only 1.86 percent for the year.

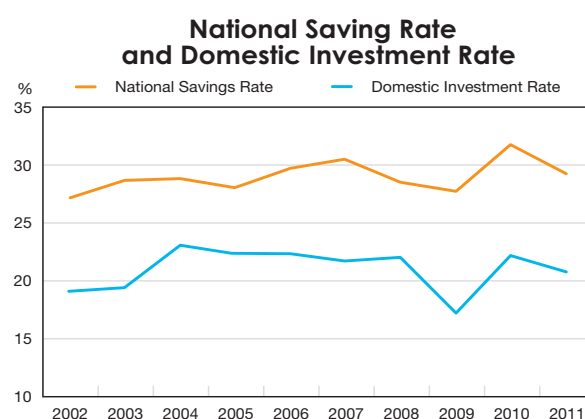
### **(3) Moderate Performance in the Services Sector**

In 2011, services output increased mildly and recorded a moderate growth rate of 3.02 percent, lower than the growth rate of 5.40 percent of the previous year. Declining business sentiment cooled growth in all the services subsectors other than education. The subsectors of finance and insurance, information and communication as well as trade, food and tourism services all exhibited relatively lower increases than they had experienced in the 2010.

Among the services subsectors, information and communication topped the growth among all subsectors, registering an increase of 4.86 percent for the year, reflecting the expansion of home-based businesses as well as online virtual shops and Internet games during the economic slowdown. Benefiting from the increasing sales of information and communications equipment, household appliances and vehicle-related parts and accessories, wholesale and retail trade services posted a growth rate of 4.26 percent. Finance and insurance services grew by 3.86 percent, primarily due to increased financial trading activity and fee income in the first half of the year. Nevertheless, with the deterioration of the European sovereign debt crisis and sluggish stock trading activities, finance and insurance services contracted by 1.77 percent in the fourth quarter.

### Slight Decline in National Savings Rate

While GNP increased slightly by 0.75 percent in nominal terms for the year, national consumption (including both private consumption and government consumption expenditures) grew by a modest 3.64 percent in nominal terms. As the growth of GNP descended from 8.91 percent the previous year and consumption growth remained at almost the same level, the national savings rate (the ratio of national savings to GNP measured at current prices) declined from 31.62 percent in 2010 to 29.16 percent in 2011. The excess savings ratio, defined as the excess of national savings over gross domestic investment to GNP, slightly declined from 9.51 percent in 2010 to 8.50 percent in 2011, reflecting that the decline in national savings outpaced that in domestic investment.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2012.