

2. National Output and Income

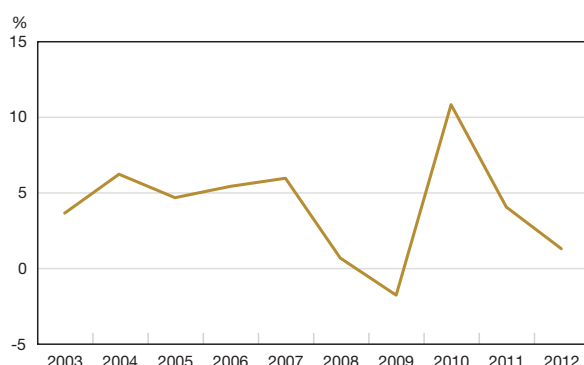
In 2012, the Taiwanese economy expanded at a relatively mild pace, with real GDP rising only 1.26 percent over the previous year after having grown by 4.07 percent in 2011. The growth was the weakest after the 2008-2009 global financial crisis as the recovery in advanced economies suffered setbacks. Adverse trade spillovers from weakness in the euro area and beyond weighed on the performance of industry and services in Taiwan. In particular, manufacturing registered a negative growth in the first half of the year on account of a weak export growth.

Economic growth continued to moderate during the first three quarters of the year owing to the weak external demand of advanced economies and a soft landing of China's economy. Mainly driven by low wage growth and weak stock market performance, private consumption grew at a sluggish pace. On the other hand, global economic slowdown suppressed private investment. Private consumption and private investment did not pick up until the recovery of the global economy in the fourth quarter. Meanwhile, owing to a mild increase in economic activity, per capita GNP in nominal terms increased modestly from US\$20,574 to US\$21,035.

Expenditure Components of GDP

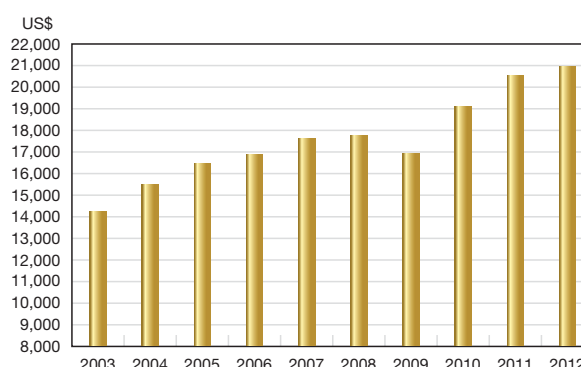
Amid the downturn of the global economy in 2012, all expenditure components of GDP posted growth rates lower than the previous year. Among them, private consumption recorded a positive contribution of 0.80 percent for the year, replacing exports as the primary source of economic growth. Gross fixed capital formation registered a negative contribution to GDP growth of 0.74 percentage points, mainly owing to a sharp curtailment in capital expenditures induced by the declining external demand for hi-tech products. Government consumption and exports contributed

Real Growth Rate of GDP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

Per Capita GNP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

0.04 and 0.09 percentage points to economic growth, respectively. In terms of shares of GDP, exports and imports shares decreased further as a consequence of the contraction of global demand, accounting for 73.66 percent and 66.20 percent, respectively. The share of gross fixed capital formation went down to 19.52 percent from the previous year's 20.79 percent. On the other hand, the share of private consumption slightly increased from 60.22 percent of GDP to 60.30 percent. Nevertheless, its real growth rate declined to 1.49 percent from 3.13 percent in 2011 because of the limited increase in household spending.

(1) Small Increase in Private Consumption

Consumption spending, a category that makes up about 60 percent of GDP, rose only modestly in 2012, as real wages shrank, the improvement of labor market conditions remained sluggish, car sales contracted, and stock market performance proved to be fragile.

In the beginning of the year, consumption momentum was partly suppressed by a decline in the stock market and sluggish growth in general wages. However, with the gradual improvement of labor market conditions and an increase in the number of visitors travelling abroad, consumption expanded at an annual rate of 1.92 percent in the first quarter. In the second quarter, private consumption was boosted by the progression of spending in the retail sector and restaurant business and the increase in domestic and outbound visitor numbers. However, the debate on the reintroduction of capital gains tax on income from securities impacted the stock market; this, combined with hikes in gasoline and electricity prices, dragged down the annual growth rate of consumption to 1.61 percent. With a sharp shrinkage in the stock market's transaction volume, the third quarter witnessed the lowest annual growth rate for private consumption since the third quarter of 2009. With stock

Expenditure on Gross Domestic Product

Unit: %

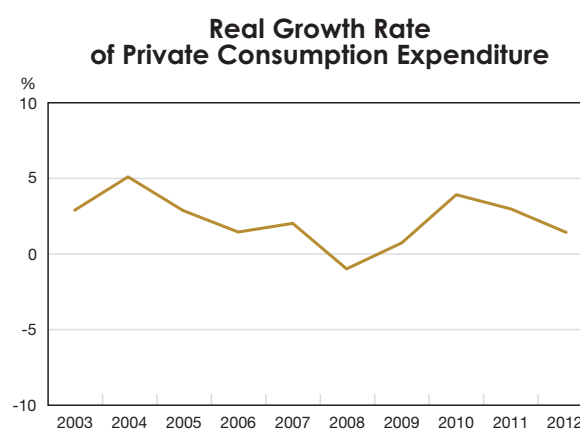
	2012			2011		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	60.30	1.49	0.80	60.22	3.13	1.69
Government Consumption	12.38	0.39	0.04	12.42	2.25	0.25
Gross Fixed Capital Formation	19.52	-4.39	-0.74	20.79	-3.10	-0.56
Change in Inventory	0.33	—	0.02	-0.05	—	-0.89
Exports of Goods and Services	73.66	0.13	0.09	76.06	4.45	3.30
(Less : Imports of Goods and Services)	66.20	(-1.87)	(-1.05)	69.44	(-0.47)	(-0.28)
Expenditure on GDP	100.00	1.26	1.26	100.00	4.07	4.07

Note: * Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

market resilience and a stable price level, private consumption increased at an annual rate of 1.55 percent in the final quarter. For the year as a whole, private consumption grew by 1.49 percent, lower than the figure of 3.13 percent registered in the previous year, contributing 0.80 percentage points to GDP growth.

Food consumption rose by 2.53 percent compared with an increase of 1.77 percent in 2011, while non-food consumption grew by 1.35 percent, lower than the growth rate of 3.31 percent registered in the previous year. Among the components of non-food consumption, outlays on communications recorded the largest growth of 7.02 percent for the year, reflecting an 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 5.15 percent. This was primarily the consequence of an increasing demand for recreation in a more developed economy.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

(2) Modest Growth in Government Consumption

Government consumption expenditure slightly increased by 0.39 percent in real terms and contributed 0.04 percentage points to GDP growth for the year. As a consequence of a limited budget, many programs were downscaled, leading to a slightly lower share of government consumption in GDP than the previous year.

(3) Moderate Decline in Fixed Capital Formation

Fixed capital formation shrank at a 4.39 percent annual rate for the year of 2012, after contracting by 3.10 percent in 2011. On the other hand, affected by global economic upheaval and a contraction in exports through to the middle of the year, gains over the year remained uneven. However, fixed capital investment in the semiconductor industry and public transportation expanded in the second half of the year, posing a positive growth in the fourth quarter after contracting for five consecutive quarters. For the year as a whole, fixed capital formation subtracted 0.74 percentage points from GDP growth in 2012.

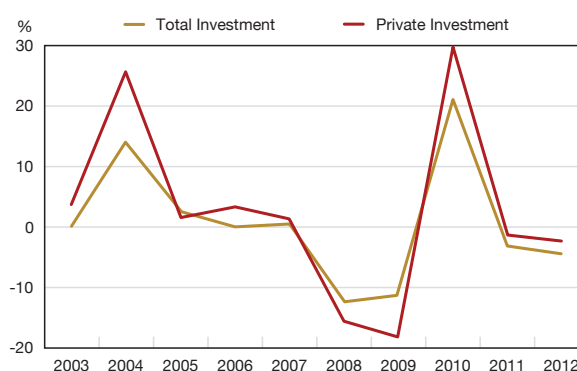
Regarding expenditure by type of purchaser, investment by private businesses declined by 2.25

percent for the year, subtracting 0.29 percentage points from real GDP growth, following the contraction of the previous year. In the first half of the year, sinking global business sentiment accompanied by the uncertain economic outlook and the spread of the European sovereign debt crisis suppressed private investment. In the second half, as some semiconductor companies and public transport firms increased capital spending, private investment growth turned positive. Furthermore, as some public enterprises delayed project execution, investment by public enterprises decreased by 9.03 percent, subtracting 0.11 percentage points from economic growth in 2012. Government investment contracted throughout all quarters as the peak of public construction had passed. Therefore, for the year as a whole, government investment went down by 12.77 percent, subtracting 0.34 percentage points 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 9.88 percent. The curtailment in investment was primarily attributable to a decrease in export orders and dropping capital utilization. As a consequence of weak external demand driven by a pessimistic global business climate, some firms were hesitant about increasing capital investment, and a double-digit dip was seen in the first two quarters. With the mitigation of the European sovereign debt crisis, investment in machinery regained its momentum in the last two quarters. Therefore, the contraction of overall capital investment narrowed.

Transportation spending decelerated in the first half of the year as a result of a poor domestic business climate and a higher base effect. With more investment in aircraft and railway industries, the growth of transportation spending turned positive in the second half amid economic recovery. Transportation spending posted a modest growth of 0.14 percent for the year as a whole. Additionally, investment in construction contracted by 1.10 percent, while investment in intangible fixed assets grew by 1.11 percent.

Real Growth Rate of Investment



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

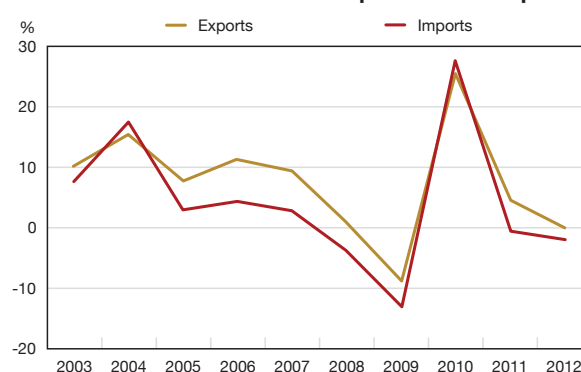
(4) Minor Expansion in Exports and Mild Contraction in Imports

Against the backdrop of a weaker global business climate, exports and imports of goods and services posted negative growth in the first half of the year. A significant decline was witnessed in exports of electronic products, information and telecommunications products, plastic articles and

optical instruments. In the third quarter, exports of information and telecommunications products and primary metal-related articles continued to shrink, whereas those of mineral products grew, leading to a 2.28 percent growth of exports of goods and services. With the recovery of the global economy, a lower base effect, and higher demand before the Christmas and Chinese New Year holidays, exports of goods and services expanded at an annual rate of 3.95 percent in the fourth quarter. For the year as a whole, exports of goods and services grew by 0.13 percent, contributing 0.09 percentage points to economic growth.

Since a large proportion of the import demand is derived from exports, the growth trends of imports and exports move together. Import growth was negative in the first half of the year, while it turned positive in the second half. During the year as a whole, imports of goods and services decreased by 1.87 percent, thus subtracting 1.05 percentage points from economic growth.

Real Growth Rates of Exports and Imports



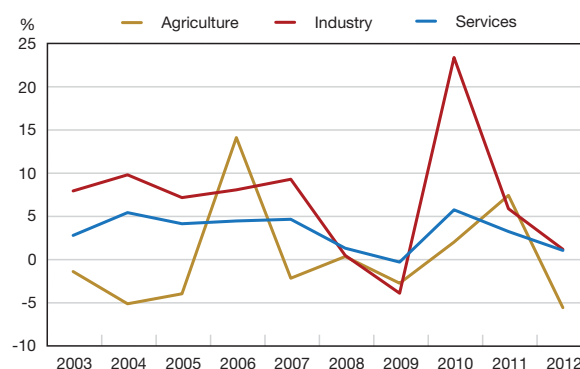
Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

Sectoral Components of GDP

On the output side, while agricultural output contracted by 5.82 percent as a consequence of unfavorable weather conditions, industrial output and services advanced at a slower pace than the previous year amid a weaker global economy. Industry and services, accounting for major shares of national output, were key forces behind economic growth, contributing 0.33 and 0.52 percentage points, respectively, to economic growth for the year. Agricultural output, on the other hand, subtracted 0.08 percentage points from economic growth.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 69.16 percent share in 2012. The industrial sector accounted for 28.97 percent of GDP, lower than the share in the previous year as a consequence of sluggish export momentum. Meanwhile, the ratio of agricultural output to GDP slightly increased to 1.87 percent.

Sectoral Components of GDP



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.

Gross Domestic Product by Type of Activity

Unit: %

	2012			2011		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.87	-5.82	-0.08	1.81	7.19	0.10
Industry	28.97	0.94	0.33	29.76	5.65	1.97
Mining & Quarrying	0.33	10.43	0.04	0.22	2.37	0.01
Manufacturing	24.26	0.98	0.30	25.11	6.42	1.95
Construction	2.85	-0.96	-0.02	2.85	-0.07	0.00
Electricity, Gas, Water and Remediation Services	1.53	0.84	0.01	1.58	0.64	0.01
Services	69.16	0.83	0.52	68.43	3.00	1.92
Wholesale and Retail Trade	18.74	0.11	0.02	18.86	4.00	0.69
Transport & Storage	3.03	1.01	0.03	2.99	2.44	0.07
Information and Communications	3.59	3.89	0.14	3.54	4.19	0.15
Finance and Insurance	6.52	-0.13	-0.01	6.51	3.65	0.23
Real Estate	8.67	0.94	0.08	8.58	1.18	0.10
Administration and Defense	7.45	0.96	0.06	7.26	0.28	0.02
Education	4.70	1.15	0.05	4.62	1.27	0.05
Other Services	16.45	1.09	0.16	16.08	4.15	0.60
Gross Domestic Product	100.00	1.26	1.26	100.00	4.07	4.07

Note: * Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2013.

(1) Significant Decline in Agricultural Output

During 2012, all agricultural production subsectors, namely agriculture, forestry, fishing and animal husbandry, decreased owing to unfavorable weather conditions, which led agricultural output to contract by 5.82 percent.

(2) Scant Growth in Industrial Output

The industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, grew by 0.94 percent in 2012, a modest growth compared with the previous year's 5.65 percent increase. The modest growth in industrial output this year was consistent with the weak performance of exports.

In 2012, manufacturing output exhibited an upward trend from a trough of a 2.11 percent decline in the first quarter to a 5.57 percent expansion in the fourth quarter. For the year as a whole, the manufacturing industry grew a mere 0.98 percent, in contrast to the 6.42 percent surge of the previous year, which was primarily because the global economic downturn dampened export demand. Specifically, the production index of the information and electronics industry grew moderately by 1.89 percent, compared with an 8.91 percent increase in the previous year. The index of the chemical industry increased only by 0.21 percent on account of weakened oil demand.

The production index of metal and machinery contracted by 4.64 percent from the previous year's 6.64 percent increase.

As the government imposed the Specifically Selected Goods and Service Tax in 2011 to cool the overheated housing market, along with weaker demand for commercial construction induced by an uncertain economic outlook, construction output posted a decline of 0.96 percent for the year. In contrast to a moderate growth of 2.37 percent in the previous year, output of mining and quarrying grew considerably by 10.43 percent for the year, which was primarily attributable to a price hike in natural gas and a lower base effect.

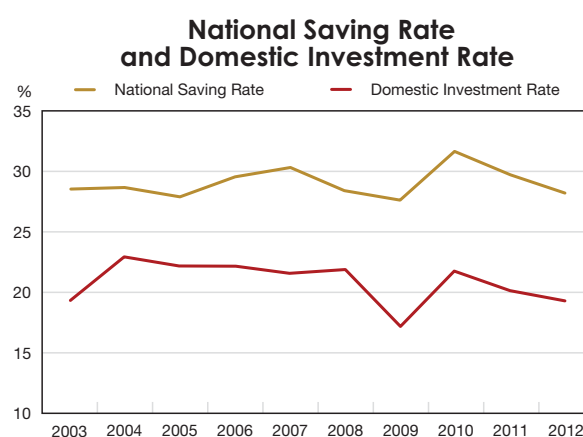
(3) Weak Performance in the Services Sector

In 2012, services output recorded a modest growth rate of 0.83 percent, lower than the growth rate of 3.00 percent of the previous year. Declining business sentiment cooled growth in all the services subsectors other than public administration and national defense.

Among the services subsectors, information and communication topped the growth among all subsectors, registering an increase of 3.89 percent for the year, reflecting the expansion of home-based businesses as well as increasing demand for smartphones, online virtual shops and internet games during the economic slowdown. Moreover, education services and transport and storage services grew by 1.15 percent and 1.01 percent, respectively. Finance and insurance services contracted by 0.13 percent, primarily owing to decreased financial trading activity and fee income amid the re-emergence of the European sovereign debt crisis.

Slight Decline in National Saving Rate

Because of the gradual improvement in labor market conditions, national consumption (including both private consumption and government consumption expenditures) grew by 2.71 percent in nominal terms for the year. As a consequence, the national saving rate (the ratio of national saving to GNP measured at current prices) declined from 29.77 percent in 2011 to 28.20 percent in 2012. The excess saving ratio, defined as the excess of national saving over gross domestic investment to GNP, declined from 9.60 percent in 2011 to 8.97 percent in 2012, reflecting the decline in national saving outpaced that in domestic investment.



Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2013.