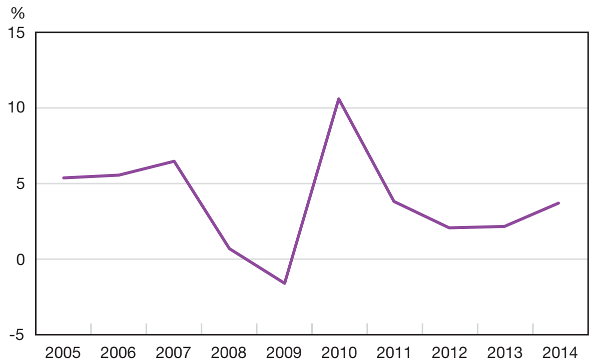
2. National Output and Income

In 2014, Taiwan's economic recovery strengthened and real GDP registered a three-year high growth of 3.74 percent along with the revival in domestic demand and a robust expansion in exports. Private consumption grew firmly owing to a buoyant stock market, a modest wage increase and an improving employment situation. Fixed capital formation progressively picked up as domestic sectors, especially semiconductors, telecommunications and aviation continued to expand capital outlays. Thanks to a solid increase in global demand, exports of electronic products, machinery, and basic metals and articles thereof to major trade partners advanced briskly, providing further support to domestic economic activity throughout the year. In line with continuing economic recovery, per capita GNI in nominal terms, for the year as a whole, climbed by 3.90 percent to US$23,390.

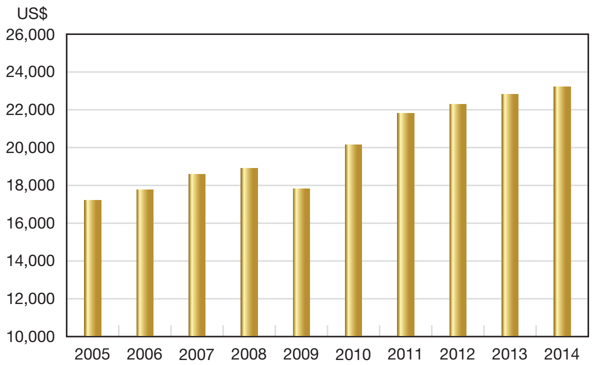
Resulting from increasing strength in economic activity at home and abroad in the first three quarters and a modest slowdown in domestic demand in the last quarter, year-on-year quarterly growth rates for real GDP exhibited an inverted V-shaped pattern during the year. In the first quarter, the GDP growth rate grew by 3.41 percent mainly because of robust growth in exports and private consumption. During the second quarter, the improvement in domestic and global economic conditions intensified momentum of GDP growth. As the pace of recovery among advanced economies accelerated, which lifted both consumer and business sentiment, growth in domestic demand picked up accordingly. The second quarter's GDP growth ascended to 3.87 percent, mainly attributed to increased travel and retail sales as well as expansion in private investment. In the third quarter, strong external demand boosted exports and drove domestic demand to rise. Moreover, improving labor market conditions together with a surge in the stock market bolstered private

Real Growth Rate of GDP



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

Per Capita GNI



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

consumption demand, encouraging capital expenditures, such as semiconductor manufacturers' continuing investment in advanced technologies and telecom companies' gradual build-up of the 4G LTE system. Since growth in consumer spending, business investment and exports all gathered pace, real GDP growth rose to 4.32 percent for the third quarter, the highest level in the year. In the fourth quarter, the real GDP growth rate edged down to 3.35 percent, attributable to the slowdown in private consumption affected by food safety issues (involving tainted lard) and the decline in investment resulting from concerns about slowing economic growth in emerging markets such as China.

Expenditure Components of GDP

All expenditure components of GDP contributed positively to GDP growth in 2014. Private consumption was the primary source of economic growth, posting the largest contribution of 1.60 percentage points for the year. Growth in gross fixed capital formation exhibited an uneven pace over the year, contributing 0.38 percentage points to GDP growth. With rising global demand, both imports and exports strengthened, leading net exports to contribute 0.67 percentage points to economic growth. Meanwhile, growth in government consumption moved from negative to positive territory and further boosted GDP growth by 0.49 percentage points. In terms of shares of GDP, exports of goods and services remained to account for the largest share of GDP at 69.98 percent, followed by private consumption at 53.2 percent and gross fixed capital formation at 21.57 percent for the year.

(1) Steady Growth in Private Consumption

In 2014, private consumption increased by 2.96 percent in real terms and contributed 1.60

Expenditure on Gross Domestic Product

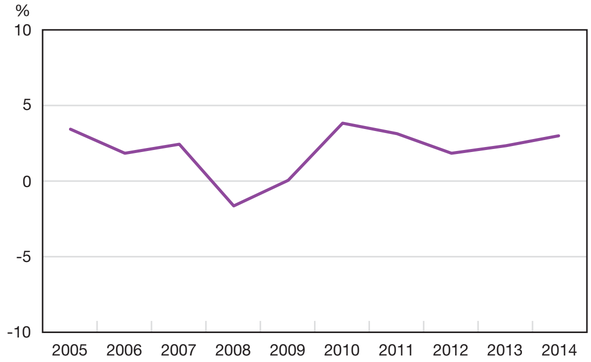
Unit: %

	2014			2013		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	53.20	2.96	1.60	54.20	2.35	1.29
Government Consumption	14.45	3.35	0.49	14.63	-1.15	-0.18
Gross Fixed Capital Formation	21.57	1.74	0.38	22.15	4.98	1.11
Change in Inventory	0.33	-	0.59	-0.07	-	-0.36
Exports of Goods and Services	69.98	5.70	3.96	69.51	3.51	2.48
(Less : Imports of Goods and Services)	59.53	(5.44)	(3.29)	60.41	(3.34)	(2.10)
Expenditure on GDP	100.00	3.74	3.74	100.00	2.23	2.23

Note: * Percentage point.
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

percentage points to GDP growth. Overall consumer spending grew at a solid pace owing to a substantial increase in financial wealth from the stock market and a continuing boost in consumer confidence as a result of faster-than-anticipated economic recovery and improvement in labor market conditions.

Real Growth Rate of Private Consumption Expenditure



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

While real wage growth was sluggish in the first quarter, private consumption, driven by consumers' needs to replace aging vehicles, soild tourism activity and an increase in spending on retail goods, continued to grow steadily at 2.37%. In the second quarter, a further upsurge in the stock market as well as more willingness of enterprises to raise salaries lifted consumer sentiment, and thus consumer expenditures expanded by 3.30%. Along with the improvement in economic activity, a decrease in the unemployment rate and the wealth effect arising from a stock price upswing, private consumption was strengthened by an increase in demand for transportation, leisure activities and retail sales, and it registered a noticeable growth of 3.76 percent in the third quarter. Thereafter, the favorable wealth effect resulting from the stock market and continued expansion in tourism was offset by a significant drop in consumer spending on account of food safety concerns, and thus private consumption growth fell to 2.39 percent in the last quarter.

(2) Mild Growth in Fixed Capital Formation

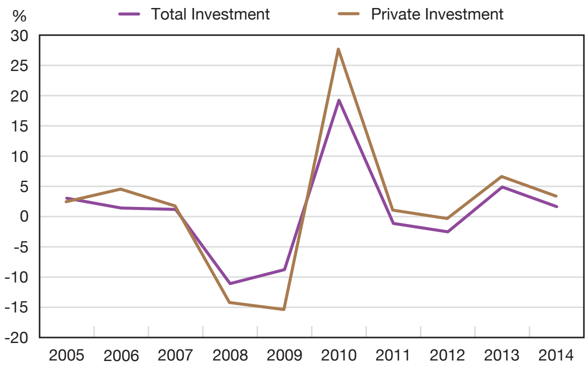
For the year of 2014, capital outlays continued to advance steadily in line with the intensifying momentum of economic recovery, the launch of mobile devices that benefited domestic supply chains, and business opportunities brought by the Internet of Things (IoT). Fixed capital formation grew at an annual rate of 1.74 percent in real terms, contributing 0.38 percentage points to GDP growth.

While economic activity turned up progressively, growth in fixed capital formation showed swings over the year on account of a higher base effect. In the first half of the year, fixed capital outlays increased steadily as the semiconductor industry continued capacity expansion in advanced manufacturing and airline companies enlarged capital spending on aircraft to meet rising air travel demand. However, because of a higher base effect, fixed capital formation registered lackluster growth rates of 0.94 percent and 1.63 percent, respectively, in the first two quarters. In the third quarter, on the back of mounting export orders for electronics products supported by strong global demand, capital spending in the semiconductor industry speeded up, driving growth in fixed capital formation to rise to 4.83 percent. In the fourth quarter, affected by concerns about economic slowdown in Mainland China and its active development of supply chain localization, fixed capital formation posted a negative 0.42 percent growth due in part to a higher base effect.

In 2014, capital outlays by type of purchaser displayed an uneven pace of growth as well. While investment by the private sector and public enterprises registered positive growth, investment by general government was on a downward trend and posted further contraction for the year. In the first half of the year, the private sector steadily expanded new investment in semiconductor production, 4G network building, and aircraft purchasing, and its gross fixed capital formation grew by 2.85 percent. On the back of better-than-expected economic performance, capital spending on semiconductors and electronic components and machinery significantly increased and the airline industry further expanded purchases of aircraft for the launch of new budget airlines, lifting private investment growth to 6.27 percent in the third quarter. However, weighed down by worries about the weak economic outlook in the eurozone and Japan and China's slowing economy, business sentiment slipped and hence growth in private investment dropped to 1.28 percent in line with a higher base effect in the last quarter. For the year as a whole, private investment increased by 3.36 percent, adding 0.59 percentage points to real GDP growth. Meanwhile, public investment in the areas of renewable energy and public utilities increased and pushed investment by public enterprises to rise by 4.40 percent, contributing 0.06 percentage points to GDP growth for the year. In contrast, government investment continued to shrink throughout all quarters because of a limited budget and fell by 8.22 percent for the year, subtracting 0.27 percentage points from economic growth.

In terms of the type of capital formation, bolstered by vigorous growth in global travel, the largest increase was observed in outlays on transportation, resulting from increased procurement of airliners. Outlays on transportation registered a significant growth of 18.52 percent for the year. Growth in investment in intellectual property products came in second. Despite some tightening policy initiatives to contain local housing prices, private investment in the construction sector continued to rise in 2014. However, such an increase was offset by a sharp decline in government investment in construction, which caused investment in the construction sector to grow only modestly by 1.52 percent. In addition, growth in investment in machinery and equipment fell to negative territory, posting a negative 1.59 percent growth for the year.

Real Growth Rate of Investment



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

This contraction, particularly in the first half of the year, reflected a gentle pickup in capital expenditures in the private sector together with a higher corresponding comparison base in the previous year.

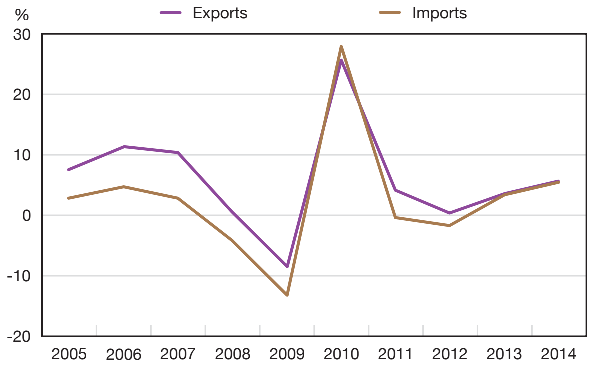
(3) Robust Growth in Exports and Imports

In 2014, exports of goods and services remained buoyant despite intense competition from the global market and China's active localization of the supply chain. With a faster-than-expected recovery in the US market, the release of iPhone 6 mobile devices, and an increase in IoT business opportunities, growth in exports kept trending upward, registering a four-year high growth rate of 5.70 percent and contributing 3.96 percentage points to economic growth for the year.

During the first two quarters, growth in exports of optical instruments, information and communications products, and mineral products all retreated, but a solid expansion in exports of electronics products, machinery, and basic metals and articles thereof led total exports to rise by 4.26 percent and 5.03 percent, respectively. Export growth in the third quarter sustained intensifying momentum from the second quarter and its pace accelerated to 7.62 percent as demand for electronics and mineral products strengthened and tourism service exports registered the third consecutive quarter of double-digit year-on-year growth. In the fourth quarter, owing to a slump in oil prices, exports of mining and petrochemical products experienced further contraction, dragging down growth in exports of goods and services to 5.74 percent.

In 2014, imports of goods and services expanded further and increased by 5.44 percent, subtracting 3.29 percentage points from economic growth. Since a great proportion of the import demand was derived from exports and capital formation, the growth trend of imports, similar to that of exports, moved upward in the first three quarters during the year. However, because of a contraction in capital outlays in the fourth quarter, growth in imports declined notably to 4.89 percent, down from the third quarter's 9.21 percent.

Real Growth Rates of Exports and Imports

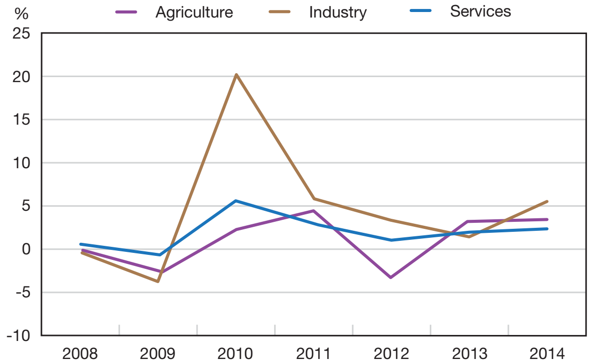


Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2015.

Sectoral Components of GDP

Looking at sectoral production in 2014, as growth momentum in economic activity resumed, all sectoral outputs advanced rapidly, recording higher growth rates than those in the previous year. Benefiting from improving economic conditions at home and abroad, industrial output grew strongly at 5.63 percent and became the key driver of economic growth, pitching in 1.88 percentage points to GDP growth. Services, accounting for the largest share of national output, continued to grow healthily and contributed 1.53 percentage points to economic growth for the year. Mainly attributed to an increase in external demand for agricultural products, output in the agricultural sector also added 0.06 percentage points to overall economic growth.

Sectoral Components of GDP



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

Regarding the sectoral shares of GDP in nominal terms, Taiwan's economy was dominated by the services sector with a 64.05 percent share in 2014. Driven by accelerating recovery in global demand, production in the industrial sector increased and its share of GDP rose to 34.07 percent, slightly higher than that in the previous year. Meanwhile, the ratio of agricultural output to GDP edged up to 1.88 percent.

Gross Domestic Product by Type of Activity

Unit: %

	2014			2013		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.88	3.49	0.06	1.70	3.45	0.06
Industry	34.07	5.63	1.88	33.20	1.62	0.54
Mining and Quarrying	0.11	-5.16	-0.01	0.10	-3.72	0.00
Manufacturing	29.08	6.34	1.80	28.37	1.54	0.44
Construction	2.73	1.71	0.05	2.71	2.50	0.07
Electricity and Gas Supply	1.54	0.96	0.04	1.35	3.45	0.03
Water Supply and Remediation Services	0.61	0.20	0.00	0.66	0.51	0.00
Services	64.05	2.38	1.53	65.10	2.20	1.44
Wholesale and Retail Trade	16.47	2.64	0.45	16.92	1.44	0.24
Transport and Storage	2.88	2.20	0.06	2.81	8.12	0.23
Information and Communications	2.92	1.40	0.04	3.07	2.93	0.09
Finance and Insurance	6.64	7.10	0.46	6.45	3.80	0.24
Real Estate and Ownership of Dwellings	8.25	0.71	0.06	8.52	2.54	0.22
Public Administration and Defense; Compulsory Social Security	6.79	0.03	0.00	7.05	-0.78	-0.06
Other Services	20.11	2.31	0.46	20.28	2.35	0.48
Gross Domestic Product	100.00	3.74	3.74	100.00	2.23	2.23

Note: * Percentage point.
Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

(1) Moderate Performance in Agricultural Output

Agricultural production, including agriculture, forestry, fishing and animal husbandry industries, maintained a stable growth of 3.49 percent in 2014. The growth was associated with increased exports of agricultural products and food.

(2) Accelerating Growth in Industrial Output

The overall industrial sector, comprised of the industries of mining and quarrying, manufacturing, construction, and electricity, gas and water, grew rapidly with a significant increase in production by 5.63 percent. This brilliant performance in industrial output came largely from accelerating expansion in the manufacturing industry driven by buoyant exports throughout the year.

On the back of the recovering global economy and domestic consumption, manufacturing production witnessed an upsurge of 6.34 percent in 2014 and its output growth outperformed sectoral growth as well. Benefiting from a soaring demand for new mobile devices as well as the launch of new products, the IT industry recovered, boosting manufacturing production of computers, electronics and optical products, and electronic parts and components. Accordingly, the information and electronics industry recorded double-digit growth of 11.79 percent, the strongest since 2011. Likewise, output growth in motor vehicles and parts, and machinery and equipment improved along with the expansion in exports, and the production index of the metal and machinery industry went up by 6.21 percent for the year. In contrast, food, textile and other industries slightly rebounded by 1.55 percent and the production index of the chemical industry contracted by 0.54 percent under the negative impact of China's increasing capacity expansion in petrochemical products and the decrease in related product prices.

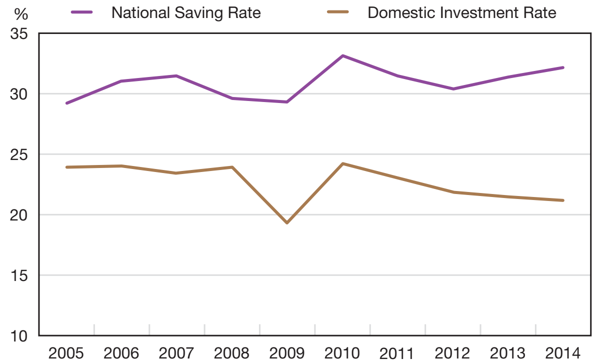
Affected by the softening real estate market, output growth in the construction industry moderated to 1.71 percent for the year. Meanwhile, output of mining and quarrying further shrank by 5.16 percent in 2014 owing to the decline in the production volume of sand and gravel.

(3) Mild Growth in the Services Sector

In 2014, services output continued to grow by 2.38 percent. The steady improvement in private consumption helped lift the growth in the services sector, of which finance and insurance as well as wholesale and retail trade services contributed significantly.

Resulting from increased interest revenue and fee income together with an upswing in the stock market from the second quarter onwards, finance and insurance services registered the largest growth in the services sector and grew by 7.10 percent for the year. Wholesale and retail trade services also posted an increase of 2.64 percent, up from the previous year's 1.44 percent growth, attributable to improving consumer confidence over the year. Transport and storage services continued to grow along with the increase in the number of visitors and export demand, but posted a moderate growth of 2.2 percent for the year owing to a higher comparison base. On the other hand, growth in real estate slowed down to 0.71 percent for the year because of the decline in housing transactions resulting from the government's continued efforts to curtail soaring housing prices.

National Saving Rate and Domestic Investment Rate



Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2015.

Further Rise in National Saving Rate

The national saving rate (the ratio of national saving to GNI measured at current prices) further rose from 31.35 percent in the previous year to 32.14 percent in 2014 as nominal national consumption (including both private consumption and government consumption expenditures) grew at a slower rate of 3.85 percent compared to the GNI growth rate of 6.23 percent. The relatively slow growth in nominal national consumption mainly resulted from the mild expansion in government and private consumption. Accordingly, the excess saving ratio, defined as the excess of national saving over gross domestic investment to GNI, climbed from 9.88 percent in 2013 to 10.96 percent in 2014, reflecting a greater increase in national saving than that in domestic investment.