

# I. Economic Developments

## 1. Overview

Taiwan's economy advanced at a steady pace in 2017. Driven mainly by external demand amid continued global economic expansion, the annual GDP growth rate rose to 2.86%. The overall balance of payments recorded a surplus of US\$12,467 million, with a current account surplus and a net asset increase in the financial account. In terms of inflation, fuel and gas cost hikes in response to international energy price rises were partially offset by food price declines; the annual growth rate of the consumer price index (CPI) averaged 0.62% for the year as whole. Meanwhile, the unemployment rate went further down to 3.76%, the lowest in 17 years.

### Steady Economic Growth

Although private consumption moderated, stable growth in private investment and exports supported the economy to expand by 2.64% in the first quarter of 2017. The second quarter saw economic growth inching down to 2.28% as private investment underperformed because of shrinking capital expenditure of semiconductor and aviation industries and lukewarm construction investment, in addition to slower export growth. Then, as exports firmed up on the back of a stronger global economy and private consumption gained momentum from a buoyant stock market and a mild wage increase, economic growth accelerated and reached an annual rate of 3.28% in the fourth quarter, the highest quarterly mark since the second quarter in 2015. Overall, while domestic demand kept steady, stronger external demand drove the economic growth rate to climb from 1.41% in 2016 to 2.86% in 2017, the fastest pace in three years.

In terms of GDP components by expenditure, exports registered faster growth on thriving trade activity, and imports increased along with greater domestic demand as well as export-derived demand; net external demand contributed 2.02 percentage points to GDP growth, serving as the mainstay for economic growth in 2017. On the other hand, private consumption grew steadily amid improved employment conditions. However, this was partially offset by negative growth in private investment, as machinery equipment investment slowed in the second half of the year owing to a higher base effect. As a result, domestic demand contributed only 0.83 percentage points to GDP growth.

Gross domestic saving and gross domestic investment both declined from the previous year. With the decrease in gross saving larger than investment, the excess saving rate dropped modestly to 13.90% in 2017 from 14.12% in 2016.

## Robust BOP Surplus

Taiwan's balance of payments remained steady in 2017. The overall balance of payments recorded a surplus of US\$12,467 million, increasing from the previous year's US\$10,663 million, with a current account surplus of US\$84,086 million and a net asset increase of US\$68,640 million in the financial account.

In the current account, strong exports helped boost the goods trade surplus to a new record level at US\$81,035 million. The services account deficit shrank to US\$8,380 million as a result of increased income from professional and management consulting services and freight services. The primary income surplus narrowed to US\$15,506 million mainly on account of higher outward payments to non-residents' portfolio investment income. The secondary income deficit widened to US\$4,075 million. The ratio of current account surplus to GDP rose from 13.7% in 2016 to 14.7% in 2017.

In the financial account, portfolio investment recorded a net asset increase of US\$79,039 million. The net increase in portfolio investment abroad by residents was US\$82,924 million, mainly because of higher equity securities investment abroad by the private sector and pension funds and larger insurer investment in foreign securities. Local portfolio investment by non-residents grew a net US\$3,885 million mainly on account of increased foreign buying in the domestic stock market. Direct investment recorded a net asset increase of US\$8,102 million; both direct investment abroad by residents and inbound direct investment by non-residents fell markedly as a result of a higher base effect from cross-border mergers and acquisitions and share swap transactions. In terms of other investment, it posted a net asset decrease of US\$14,805 million, as increases in non-residents' bank deposits and foreign borrowing by the banking sector led foreign liabilities to build up faster.

## Mild Inflation

While the global economic upturn sent oil and other international raw material prices on a rebound, the NT dollar appreciation against the US dollar eased rises in domestic import and export prices. On balance, Taiwan's wholesale price index edged up by 0.90% over the previous year, with the categories of imports and domestic sales excluding imports rising by 1.36% and 3.44%, respectively, and exports down by 1.46%.

In terms of consumer price trends, international energy price rises resulted in hikes in domestic fuel and gas fees. Prices for food away from home also rose as restaurants acted to cover higher staffing and food costs. Furthermore, cigarette prices increased as government raised the cigarette tax. However, the upside pressures were partially offset by vegetables and fruit price declines due to a higher base effect. For the year as a whole, the CPI annual growth rate averaged 0.62%, lower than the 1.32% registered the previous year. Core inflation (excluding fruit, vegetables, and energy prices) recorded a mild increase of 1.04%.

## Unemployment Rate Declined Further; Wage Growth Increased

Over the course of year 2017, the unemployment rate broadly trended downwards amid steady economic growth and stood at 3.66% in December. For the year as a whole, the unemployment rate averaged 3.76%, the lowest in 17 years. The average labor force participation rate ticked up from 58.75% of 2016 to 58.83%.

The average number of employed persons increased by 85 thousand, or 0.75%, to 11.35 million in 2017. Employment in the services sector grew the most among all sectors, with an increase of 65 thousand workers or 0.98% from the previous year. Employment in the industrial sector gained the second most, hiring 20 thousand more persons with an increase of 0.49%. The agricultural sector lost one thousand employed persons, representing a decrease of 0.14%.

Average non-farm (industrial and services sectors) monthly earnings per employee grew by 2.46% year on year to NT\$49,989. Among the components, regular earnings increased by 1.82% to NT\$39,953; non-regular earnings rose by 5.07%, thanks to higher year-end and performance bonuses in reflection of better corporate profits since the latter half of 2016 and increased overtime pay in line with the labor law amendments. Adjusted for inflation, real monthly earnings increased by 1.83% to the new highest level of NT\$47,271. Real monthly regular earnings and non-regular earnings climbed by 1.20% and 4.42%, respectively.

Labor productivity indices of the industrial sector and the manufacturing industry grew by 1.37% and 2.10% over the previous year, respectively. Unit labor costs rose by 1.25% in the industrial sector and by 0.60% in manufacturing, reflecting a larger increase in total earnings over that in production.