

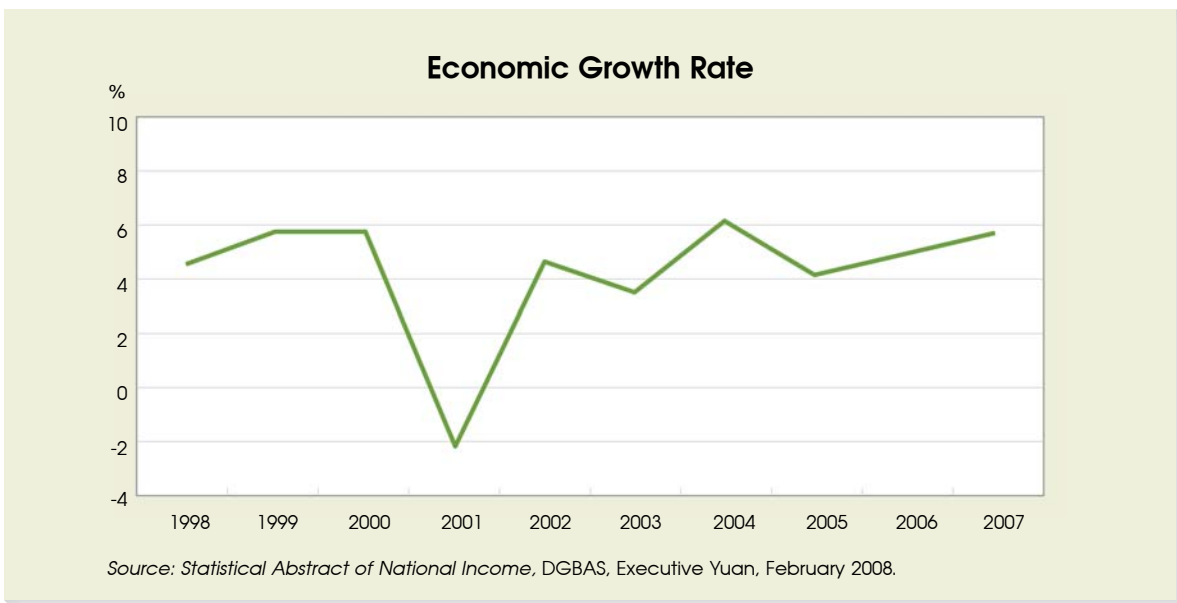
## 2. National Output and Income

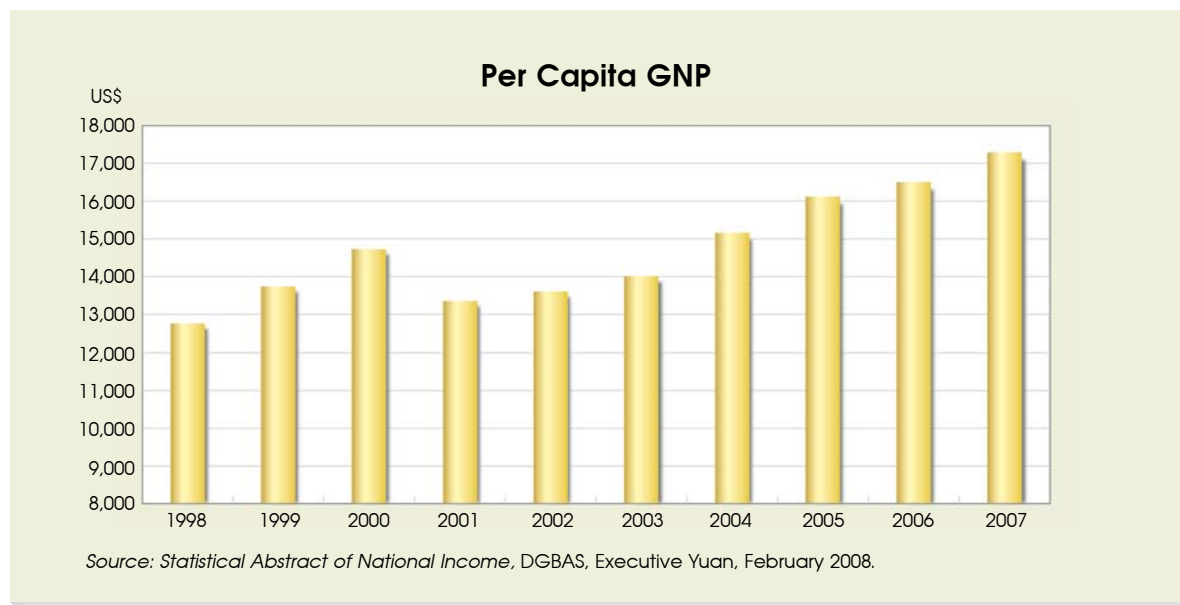
On the back of stronger exports and a mild recovery in domestic demand, Taiwan's economic growth accelerated in 2007. External trade continued to perform favorably through most of the year although global economic expansion moderated due to a slowdown in the US economy. Domestic consumption recovered a bit as the credit and cash card debt problem gradually subsided, and business investment grew steadily as well. For the year as a whole, real GDP advanced at an annual growth rate of 5.70 percent, up from 4.89 percent in 2006.

Driven by solid net exports which more than offset a subtraction from domestic demand, real GDP increased by 4.19 percent year on year in the first quarter of 2007. On account of steady expansion in external trade, improved private consumption and robust private investment, real GDP growth picked up to 5.24 percent in the second quarter. With strong exports and a continued recovery in private consumption, real GDP growth speeded up to 6.86 percent in the third quarter. Although hampered by weak investment and slower consumption, strong exports helped lift the fourth quarter's real GDP growth, which only slightly moderated to 6.39 percent. For the year, per capita GNP in nominal terms increased by US\$800, reaching US\$17,294.

### Expenditure Components of GDP

On the expenditure side of GDP, external trade (net exports) expanded at a brisk pace and remained the driving force for economic growth during 2007, contributing 3.74 percentage points to real GDP growth. Meanwhile, with a modest upturn in consumption and investment,





domestic demand grew mildly, contributing 1.96 percentage points for the year. Among all the expenditure components of GDP, exports of goods and services still accounted for the largest share with 73.75 percent of GDP. On the other hand, due to modest expansion in domestic demand over the period, the share of private consumption in GDP slightly declined to 59.19 percent and the share of gross fixed capital formation remained flat at 21.17 percent.

### Expenditure on Gross Domestic Product

Unit: %

	2007			2006		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	59.19	2.61	1.47	60.41	1.76	1.02
Government Consumption	12.12	0.80	0.09	12.64	-0.41	-0.05
Gross Fixed Capital Formation	21.17	2.39	0.46	21.17	0.62	0.13
Change in Inventory	0.05	—	-0.07	0.10	—	0.01
Exports of Goods and Services	73.75	8.83	5.87	69.85	10.37	6.55
( Less : Imports of Goods and Services)	(66.29)	(3.96)	(2.13)	(64.17)	(5.16)	(2.77)
Expenditure on GDP	100.00	5.70	5.70	100.00	4.89	4.89

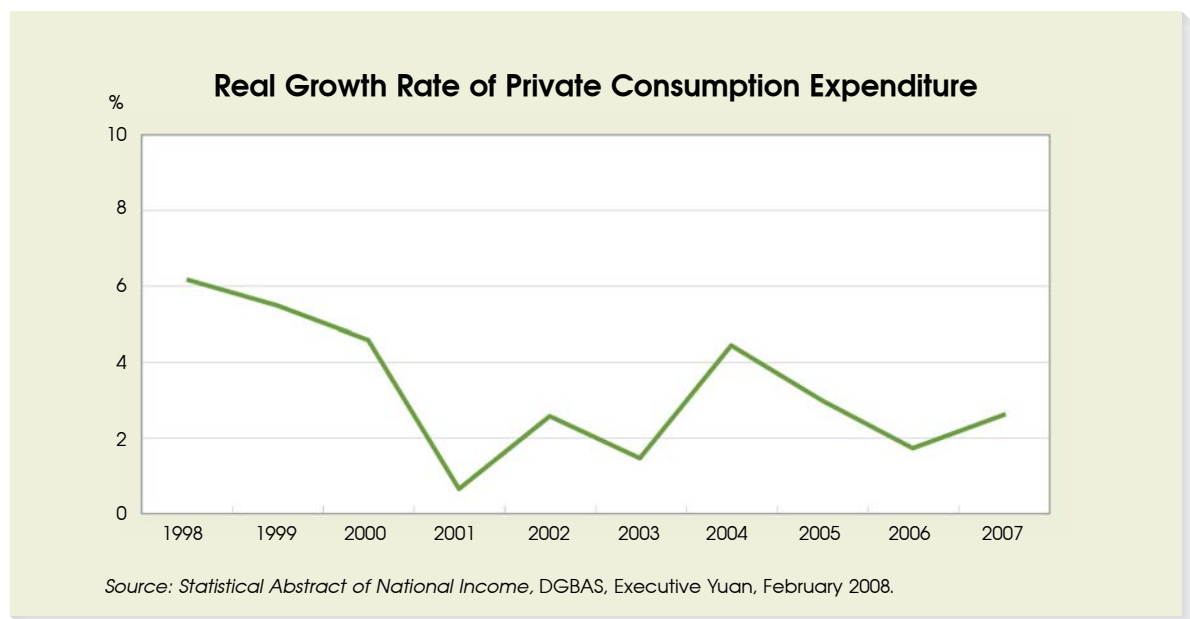
Note: \* Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2008.

### (1) Mild Growth in Private Consumption

Private consumption rose at a mild rate for the year, registering an annual growth rate of 2.61 percent in real terms and contributing 1.47 percentage points to GDP growth. Over the first quarter, consumer expenditure was relatively subdued due to banks' contraction of consumer loans on concern over consumer insolvency. Thanks to a buoyant stock market and the alleviation of card debt burdens, private consumption gathered momentum and expanded by 2.57 percent in the second quarter. Later, further gains from the local stock and real estate markets as well as record cash dividends paid by listed companies encouraged consumer spending. Along with the low base effect, consumption growth progressed to 3.61 percent in the third quarter. However, rising inflationary pressure and a drop in stock prices amid worries about the US subprime mortgage crisis led to lower consumption growth of 2.15 percent in the fourth quarter.

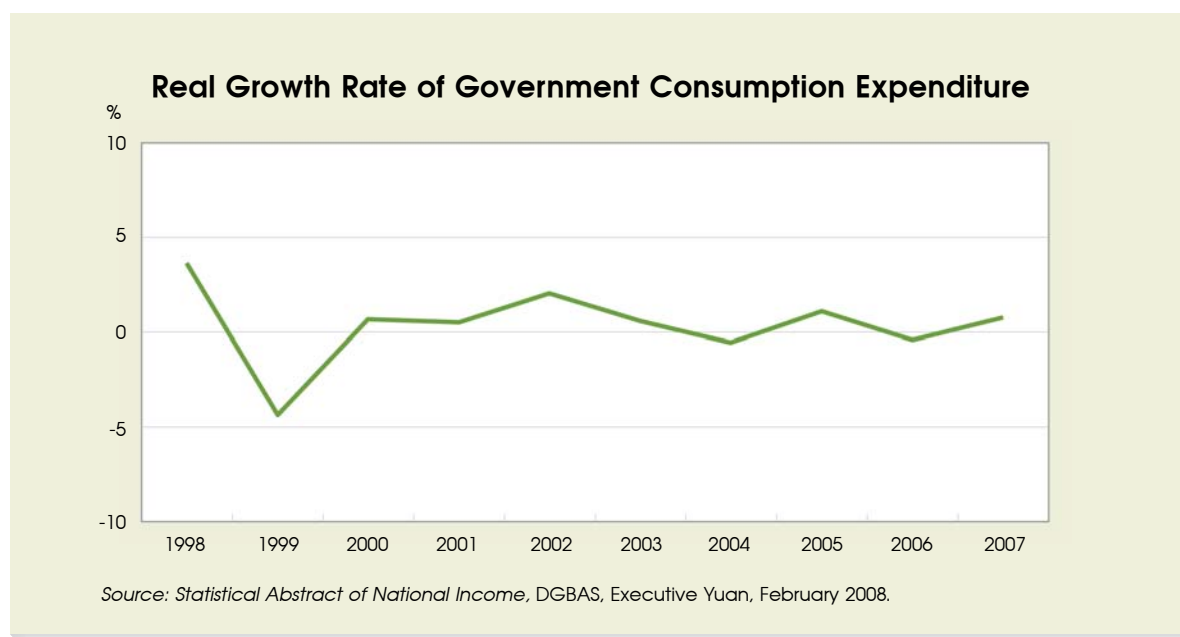
In terms of the private consumption categories, both food and non-food consumption demand increased steadily over the period with respective annual growth rates of 2.29 percent and 2.70 percent, slightly higher than those in 2006. Among the components of non-food consumption, outlays for household operation still showed the largest growth in 2007, as a sustained increase in the number of double-income families boosted the demand for housekeeping services. Moreover, driven by buoyant housing demand, additional spending on furniture, furnishings and household equipment posted the second largest growth. In contrast, household spending for transport and communication exhibited a marginal growth due to sluggish motor vehicle purchases.



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## (2) Slight Growth in Government Consumption

Growth in government consumption, albeit slow, moved back to positive territory in 2007. For the year as a whole, government consumption increased by 0.80 percent in real terms, which contributed 0.09 of a percentage point to GDP growth, compared with a decline of 0.41 percent and 0.05 of a percentage point contribution in the previous year. The slow growth in government expenditure mainly reflected the government's spending cut policy that aimed to improve public finance situations.



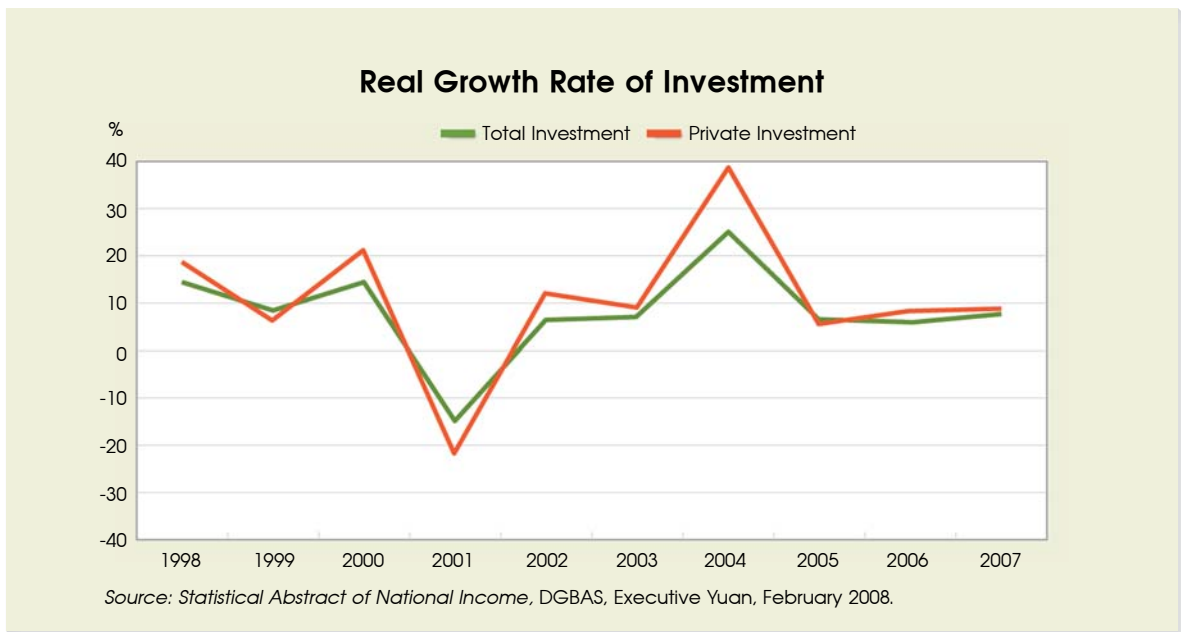
## (3) Modest Growth in Fixed Capital Formation

In 2007, fixed capital formation exhibited a modest growth with an annual rate of 2.39 percent in real terms, up from 0.62 percent in 2006, and contributed 0.46 of a percentage point to economic growth. During the first three quarters, investment outlay maintained an upward trend in line with solid global demand. However, soaring international raw material and oil prices, coupled with the increasing downside risk to global economic growth sparked by the US subprime mortgage upheaval, led business activities to slow down. The fourth quarter's fixed capital formation thus declined by 1.59 percent.

Broken down by type of purchaser, the private sector, public enterprises and the general government all grew, but at an uneven pace, over the year. At the beginning of the year, private investment remained sluggish as several major investment projects, such as the high-speed rail and the sixth naphtha cracking complex, were getting close to completion. Later,

as some industries enlarged their capacity and improved their production equipment, private investment grew rapidly during the middle two quarters of the year. Nevertheless, amid concern over a slowdown in the global economy and soaring prices, private investment growth fell into negative territory in the last quarter. For the year as a whole, private investment posted an annual growth rate of 3.39 percent, contributing 0.51 of a percentage point to real GDP growth. While investment by public enterprises showed a downward trend over the year, it demonstrated a marked increase of 3.88 percent due to the expedited expansion of oil refineries and power plants. Government investment, however, continued to experience a contraction, declining by 3.91 percent over the year as major public construction projects were carried out via BOT (Build/Operate/Transfer) contracts.

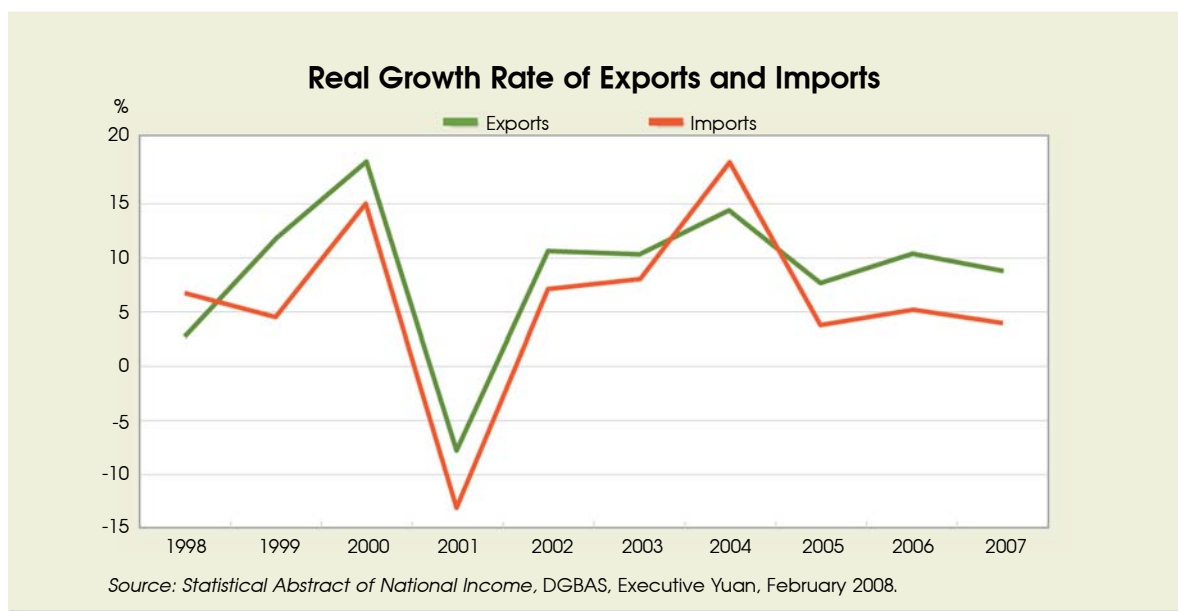
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Among the types of capital formation, apart from a slight decline in construction spending, outlays on machinery, transportation and intangible goods showed modest growth over the year. Investment in machinery and equipment posted the biggest growth for the year at 4.84 percent, attributable to plant expansion, production process upgrading, and robust orders for both semiconductor foundries and TFT-LCD (thin film transistor-liquid crystal display) panel makers. Meanwhile, investment in transportation equipment and intangible fixed assets registered limited growth of 1.10 percent and 0.22 percent, respectively. On the other hand, investment in the construction sector edged down 0.4 percent, partly due to a contraction of public construction.

#### (4) Robust Growth in Exports

Despite concerns about the impact of a moderated pace of the US expansion in the second half of 2007, exports remained robust through most of the year. Led by electrical machinery products and basic metals and articles thereof, exports expanded at a brisk pace over the year. Moreover, resilient intra-Asia trade and strong demand from Taiwan's major trading partners further pushed exports to double-digit growth rates in the last two quarters of the year. Due to a high base effect, the growth rate of exports of goods and services moderated to 8.83 percent in real terms, from 10.37 percent in 2006, contributing 5.87 percentage points to economic growth in 2007. The share of exports in GDP continued to rise to 73.75 percent, from the 69.85 percent recorded in the previous year.



#### (5) Moderate Growth in Imports

In line with the rapid growth of exports, imports continued to expand but at a slower pace due to a huge jump in prices of industrial supplies, particularly fuels and metals. For the year as a whole, imports of goods and services measured in NT dollars grew by 3.96 percent in real terms, subtracting 2.13 percentage points from real GDP growth. Like exports, the share of imports of goods and services in GDP increased as well, from 64.17 percent in 2006 to 66.29 percent in 2007.

#### Sectoral Components of GDP

On the production side, there were positive contributions from industrial and services sectors, with the agricultural sector detracting from GDP growth. The services sector remained

the key driver for economic growth, pitching in 2.95 percentage points to economic growth for the year, up from 2.70 percentage points in 2006. Likewise, the contribution of the industrial sector to overall GDP rose from 2.10 percentage points in 2006 to 2.79 percentage points in 2007, mainly attributed to an increase in output of the manufacturing industry. The contribution of agricultural production to overall GDP, however, reversed from 0.09 of a percentage point in 2006 to negative 0.04 of a percentage point in 2007.

Looking at sectoral shares of GDP in nominal terms, the services sector represented the dominant share with 71.06 percent of GDP in 2007. The industrial sector had the second largest share at 27.5 percent of GDP. In contrast, the agricultural sector's share continued to dwindle, slipping to 1.45 percent of GDP for the year.

### (1) Decline in Agricultural Output

In 2007, agricultural production, covering agriculture, forestry, fishing and animal husbandry industries, decreased by 2.91 percent. The reduction was mainly due to severe typhoons and heavy rain in the second half of the year.

## Gross Domestic Product by Type of Activity

Unit: %

	2007			2006		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.45	-2.91	-0.04	1.62	6.09	0.09
Industry	27.50	9.16	2.79	26.84	7.04	2.10
Mining & Quarrying	0.41	7.31	0.01	0.32	-10.92	-0.03
Manufacturing	23.75	10.12	2.65	22.86	7.51	1.92
Construction	2.17	3.38	0.07	2.17	6.68	0.14
Electricity, Gas & Water	1.17	2.58	0.05	1.48	3.32	0.06
Services	71.06	4.33	2.95	71.54	3.93	2.70
Trade	18.60	5.47	0.91	18.36	6.21	1.03
Accommodation & Eating-drinking Places	2.12	2.74	0.06	2.15	6.03	0.12
Transport, Storage & Communications	5.93	2.49	0.16	6.03	4.17	0.28
Finance & Insurance	10.04	7.91	0.77	9.98	1.22	0.12
Real Estate, Rental & Leasing	8.16	4.32	0.35	8.26	5.71	0.46
Professional, Scientific & Technical Services	2.70	12.05	0.28	2.51	9.15	0.20
Educational Services	1.80	2.55	0.04	1.84	3.09	0.05
Health Care & Social Welfare Services	3.01	3.64	0.10	3.05	3.05	0.08
Government Services	10.17	-0.11	-0.01	10.73	0.70	0.07
Gross Domestic Product	100.00	5.70	5.70	100.00	4.89	4.89

Note: \* Percentage point.

Source: *Statistical Abstract of National Income*, DGBAS, Executive Yuan, February 2008.

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

Industrial production, which covered mining and quarrying, manufacturing, construction, and electricity, gas and water, turned in another solid performance in 2007. For the year as a whole, it expanded at a rate of 9.16 percent, faster than 7.04 percent in 2006. Much of the acceleration in industrial output was supported by vigorous growth in manufacturing.

In 2007, manufacturing production continued its strength, registering a double-digit growth rate of 10.12 percent, up from 7.51 percent in 2006. The increase was mainly led by the strong gain in information and electronics industries, which surged 15.26 percent in the production index during the year. In addition, production indexes of the chemical industry and metal and machinery rose 5.45 percent and 2.24 percent, respectively. Nevertheless, output in food, textile and other industries was relatively lackluster, decreasing by 0.23 percent due to sharp declines in apparel, clothing accessories and other textile products, and wood and bamboo products, as firms continued to move their manufacturing operations overseas for lower production cost.

Output in the construction industry increased by 3.38 percent, lower than the previous year's 6.68 percent. This moderation reflected a decline in construction of business buildings and a slowdown in housing demand, particularly in the second half of the year. Production in electricity, gas and water also grew moderately during 2007 at an annual rate of 2.58 percent, associated with a robust increase in industrial output.

## **(3) Rising Growth in the Services Sector**

Production in the services sector grew 4.33 percent in 2007, slightly faster than the pace of 3.93 percent in 2006. The expansion was mainly attributable to the vigorous activities in two major subsectors, i.e. finance and insurance, and professional, scientific and technical services.

Finance and insurance services made the largest increase in growth rates, from 1.22 percent in 2006 to 7.91 percent in 2007, mainly benefiting from a buoyant stock market and brisk mutual fund sales in the second half of the year. Over the year, the professional, scientific and technical services subsector registered the fastest growth rate of 12.05 percent. This development reflects the growing importance of specialized knowledge in business activities, such as design services, computer services, consulting services, research services, and legal advice. Meanwhile, with an aging population, the health care and social welfare services industry maintained a steady growth at 3.64 percent, up from 3.05 percent in the previous year.

Other industries within the services sector, however, recorded lower growth rates than the previous year. For example, with merely a gentle rise in consumption expenditure, growth in the trade industry moderated to 5.47 percent in 2007, compared with the 6.21 percent in the



previous year. Growth in tourism and eating-drinking places also slowed down to 2.74 percent from 6.03 percent. Real estate, rental and leasing posted a moderate growth of 4.32 percent, lower than the previous year's 5.71 percent, reflecting a cooldown in the housing market. Moreover, largely affected by surging oil prices, expansion in the transportation, storage and communications sector slowed down to 2.49 percent, from 4.17 percent in the previous year. Finally, resulting from the government's efforts to cut expenditure, the government services sector shrank slightly by 0.11 percent for the year.

### Increase in National Saving Rate

As GNP growth outpaced the increase in national consumption (including both private consumption and government consumption expenditures), the national saving rate (national saving to GNP measured at current prices) moved further up, from 29.80 percent in 2006 to 30.46 percent in 2007. For the year as a whole GNP advanced by 6.26 percent, but national consumption grew by 3.35 percent. The mild growth in national consumption mainly reflected the almost flat growth in government spending and moderate growth in private consumption.

The excess saving, defined as national saving less gross domestic investment, to GNP ratio moved up from 7.03 percent in 2006 to 9.19 percent in 2007, resulting from a greater increase in national saving than that in domestic investment.

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