I. Economic Developments

1. Overview

Taiwan experienced stable growth in domestic demand in the year of 2018, while external demand was dampened by a flagging global economy in the latter half of the year. For 2018 as a whole, the annual GDP growth rate fell from 3.08% the previous year to 2.63%. The balance of payments was healthy, with a continued current account surplus and a net asset increase in the financial account. The consumer price index (CPI) rose 1.35% year on year, owing to rising energy costs and the deferred effect of a tobacco tax hike. Meanwhile, the 2018 average unemployment rate went further down to 3.71%, the lowest in 18 years. Average non-farm monthly real earnings per employee increased by 2.43% to a historical high of NT$51,389.

Moderate Economic Growth

In the first half of 2018, the global economy posted a steady expansion, the semiconductor industry enjoyed good business, and demand for machinery was strong, leading Taiwan's exports to grow further. Private and government consumption both increased steadily. As a result, the domestic economy expanded at a pace of 3.22%. However, economic growth slid to 2.08% in the second half of the year, burdened by significant moderation in export growth owing to a confluence of factors including a slowing global economy, escalating US-China trade friction, international financial market turmoil, and a higher base effect, as well as lukewarm private consumption and investment. For the year as a whole, Taiwan's economy grew by 2.63%, lower than the 3.08% of 2017.

In terms of GDP components by expenditure, private consumption grew steadily, government consumption rose significantly, and fixed capital formation returned to positive growth, driving domestic demand to expand by 3.22%. With a contribution of 2.81 percentage points, domestic demand continued to be the mainstay of domestic economic growth in 2018. On the other hand, import growth accelerated because of demand derived from exports and domestic demand. Therefore, despite stable export growth momentum, faster import growth led net external demand to slip to a negative contribution of 0.18 percentage points.

Meanwhile, with positive growth in private and public consumption, gross national saving was lower than the previous year, while gross domestic investment increased. As a result, the ratio of excess saving to gross national income dropped to 11.96% in 2018 from the 14.57% of 2017.

Healthy BOP Surplus

Taiwan's balance of payments remained healthy and steady in 2018, with a current account surplus of US$68,262 million and a net asset increase of US$51,921 million in the financial account, and an increase of US$12,499 million in the Bank's reserve assets.

In terms of the current account, the goods trade surplus remained the primary source of the surplus on the current account, despite a decline to US$67,733 million owing to a larger increase in imports than exports. The services account deficit narrowed to US$6,816 million, mainly owing to increases in travel receipts and income from professional and management consulting services. The primary income surplus shrank to US$10,671 million, mainly because outward payments to nonresidents' portfolio investment income increased. The secondary income deficit decreased to US$3,326 million. For the year of 2018, the ratio of current account surplus to GDP fell from the 14.4% of the previous year to 11.6%

In the financial account, portfolio investment recorded a net asset increase of US$80,695 million. Among the components, portfolio investment abroad by residents recorded an increase of US$68,798 million, mainly because investment trust funds and insurers raised their holdings of overseas securities. Local portfolio investment by nonresidents posted a net decrease of US$11,897 million from a net increase the previous year, mainly because foreign investors reduced their holdings of local equities and overseas corporate bonds.

Direct investment recorded a net asset increase of US$11,026 million, with direct investment abroad by residents, at US$18,024 million, and inbound direct investment by nonresidents, at US$6,998 million, posting year-on-year increases. In terms of other investment, it showed a net asset decrease of US$41,438 million, mainly because increases in nonresidents' bank deposits and foreign borrowing by the banking sector caused foreign liabilities to expand.

Mild Inflation

Against a backdrop of steady global economic expansion and price gains in international oil and other raw materials in the first half of 2018, domestic import prices were pushed up, hence an upturn in the annual growth rate of the wholesale price index ensued. Thereafter, the annual WPI growth rate went down as a cooling global economy weighed on international raw material prices. For the year as a whole, the WPI rose 3.63% over the previous year, with the categories of domestic sales excluding imports, imported goods, and exported goods up by 3.73%, 6.11%, and 1.45%, respectively.

In regard to consumer price trends in 2018, fruit prices fell on favorable weather conditions, while higher imported oil costs sent domestic fuel and gas fees higher, cigarettes priced in the tobacco tax hike, and away-from-home food prices went up in reflection of increased costs for staffing and raw food items. For the year as whole, the annual CPI growth rate was 1.35%, higher than the 0.62% of 2017, and core CPI (excluding fruit, vegetables, and energy prices) rose 1.21%, both representing mild inflation.

Unemployment Rate Further Down; Wage Growth Up

Labor market conditions were stable in 2018. The unemployment rate generally declined during the year, except in February (with the usual wave of job-transition after the Lunar New Year holidays) and the Jun.-Aug. period (the graduation season). The unemployment rate stood at 3.66% in December, while it averaged 3.71% for the year as a whole and hit the lowest on record in 18 years. The average labor force participation rate gained 0.16 percentage points over the previous year and reached 58.99% for 2018.

The average number of employed persons increased by 82 thousand or 0.73% to 11.43 million in 2018. Among the sectors, services gained the most, with an increase of 58 thousand workers or 0.86% from the previous year. Employment in the industrial sector ranked second with an increase of 20 thousand workers, a 0.50% rise year on year. The agricultural sector also hired four thousand persons more compared to the previous year, up by 0.73%.

Average non-farm (industrial and services sectors) monthly earnings per employee rose by 3.82% to NT$52,407. This was the fastest rise since 2011, mainly attributable to public sector pay raises, a minimum wage hike, and private company pay increases. Among the components, regular earnings went up by 2.58% to NT$40,959, and non-regular earnings gained 8.49%. Real monthly earnings adjusted for inflation climbed to a historical high of NT$51,389 after a year-on-year increase of 2.43%.

Labor productivity indices of the industrial sector and the manufacturing industry grew by 2.05% and 2.36% over the previous year, respectively. Unit labor costs rose by 3.42% in the industrial sector and by 3.23% in manufacturing, reflecting a larger increase in total earnings over that in production.