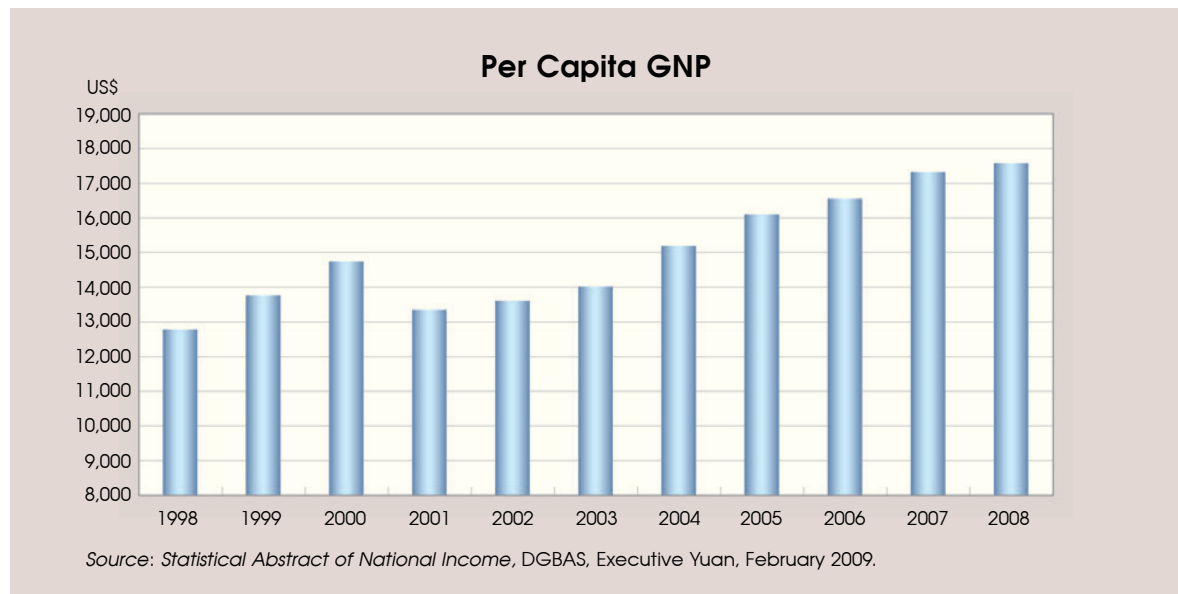


## 2. National Output and Income

While Taiwan's economy grew steadily in the first half of 2008, the economic landscape was subsequently reshaped by the aftereffect of a global downturn. Domestic demand remained robust in the first quarter of the year, but began to decline as private consumption and business investment both weakened amid a deteriorating economic and financial situation. Growth in external trade dropped markedly as the faltering demand in domestic markets became protracted in the second half of the year. The overall economic performance exhibited a downward trend, and real GDP edged up a tiny 0.12 percent in 2008, down from 5.70 percent in 2007.

On account of a solid expansion in exports and a pickup in private consumption and capital outlays, real GDP advanced 6.25 percent year on year in the first quarter. However, the pace decelerated along with rising inflationary pressure and worries over slackening global demand. In the second quarter, slowing consumption and investment held real GDP growth down to 4.56 percent. Moreover, with the economic fallout of the global financial crisis emanating from the US, local stock prices slumped and business investment and exports dropped sharply. Consequently, real GDP shrank by 1.05 percent in the third quarter. As economic weakness spread and intensified, domestic demand slowed and external trade declined further. Real GDP contracted at an unprecedented pace of 8.36 percent in the fourth quarter. For the year, per capita GNP in nominal terms increased by US\$277, reaching US\$17,576.





## Expenditure Components of GDP

Among all the expenditure components of GDP, the trade surplus, albeit narrowed, continued to provide solid support to economic growth, contributing 2.17 percentage points to real GDP growth for the year. Affected by a reduction in consumption and investment, domestic demand growth fell sharply, posting a negative contribution of 2.05 percentage points for the year. In

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## Expenditure on Gross Domestic Product

Unit: %

	2008			2007		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	61.43	-0.29	-0.16	58.90	2.31	1.31
Government Consumption	12.61	1.15	0.13	12.10	0.92	0.11
Gross Fixed Capital Formation	20.56	-10.78	-2.01	21.11	1.90	0.37
Change in Inventory	0.62	—	-0.01	0.39	—	0.12
Exports of Goods and Services	74.17	-0.17	-0.12	73.48	8.82	5.86
( Less : Imports of Goods and Services)	(69.39)	(-4.30)	(-2.29)	(65.99)	(3.79)	(2.05)
Expenditure on GDP	100.00	0.12	0.12	100.00	5.70	5.70

Note: \* Percentage point.

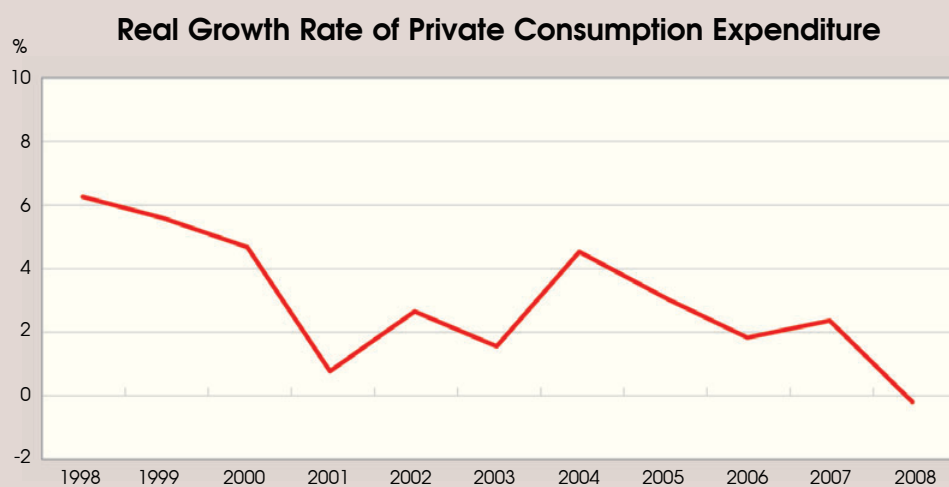
Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2009.

terms of their shares of GDP, consumption, exports and imports went up slightly to 61.43 percent, 74.17 percent and 69.39 percent, respectively, but a continuous decline in private investment led the share of gross fixed capital formation to decrease to 20.56 percent.

### (1) Mild Decline in Private Consumption

Against a background of inflationary pressure, rising unemployment and wealth decline, which was exacerbated by the global financial crisis, consumer spending was further restrained compared with the previous year. Private consumption decreased, for the first time ever, by 0.29 percent in real terms, subtracting 0.16 of a percentage point from GDP growth in 2008. While consumer expenditure picked up slightly in the first quarter, its growth lost momentum from the second quarter onwards and turned down rapidly due to concerns over slowing growth in real income. Moreover, a plunge in equity prices that occurred after global financial markets tumbled seriously eroded household wealth and discouraged consumer willingness to spend. As such, consumption growth fell into negative territory in the third quarter. In response to shrinking wealth and declining employment, consumption expenditure remained sluggish, registering a negative annual growth rate of 1.68 percent in the fourth quarter.

Over the year, slowdown in household spending was widespread in both food and non-food consumption with respective annual growth rates of negative 1.55 percent and positive 0.05 percent. Among the components of non-food consumption, reflecting an aging population, outlays for medical care and health expenses increased steadily and posted the largest growth of 2.62 percent, but the increase was smaller than the previous year's 3.08 percent. Growth of outlays for rent and water charges, the second largest, also went down from 2.53 percent in

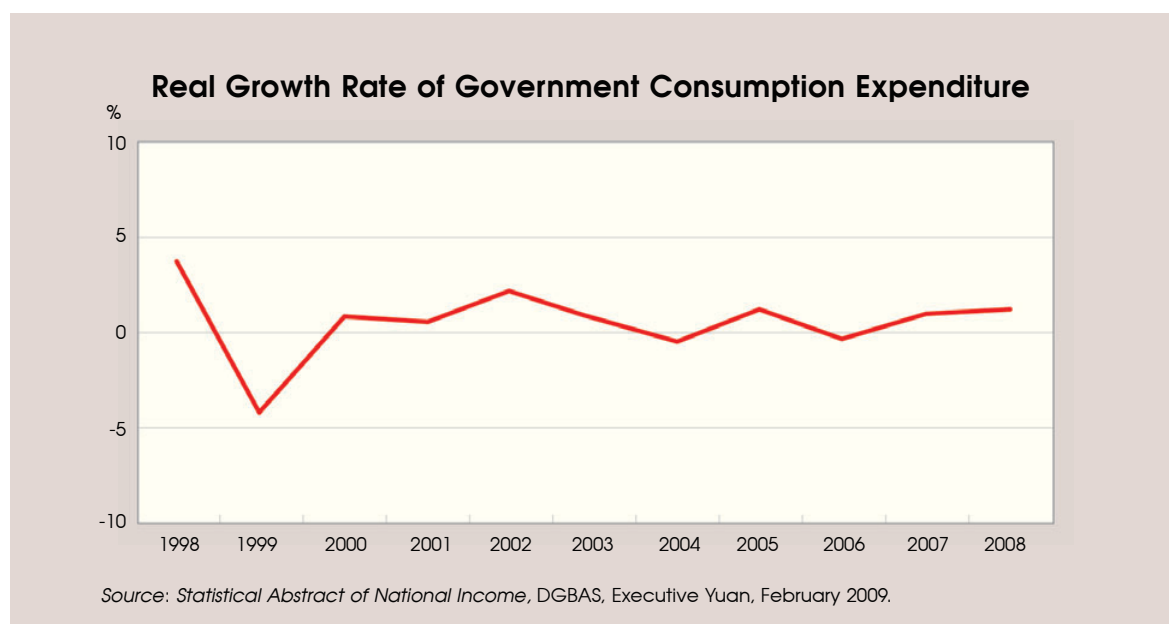


Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2009.

2007 to 2.09 percent in 2008. In contrast to a steady increase of 3.23 percent recorded a year earlier, consumer spending on furniture, furnishings and household equipment was down by 2.13 percent as a result of marked retreat in housing demand.

## (2) Small Growth in Government Consumption

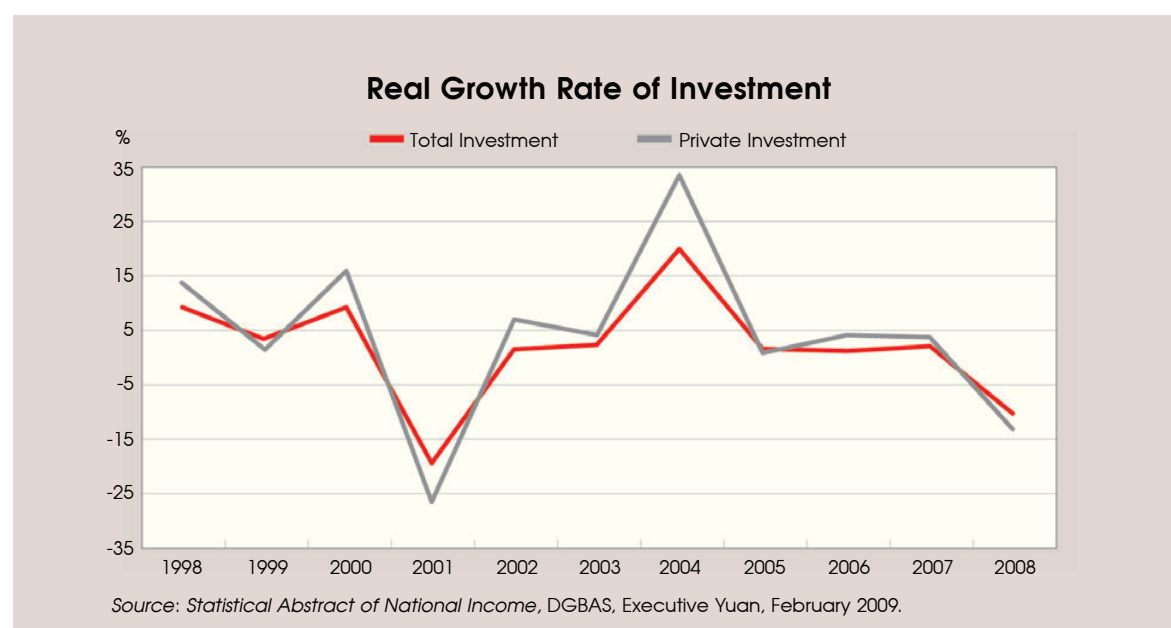
In 2008, government consumption continued with positive, albeit slow, growth of 1.15 percent in real terms and contributed 0.13 of a percentage point to GDP growth, compared with an increase of 0.92 percent and a 0.11 of a percentage point contribution in the previous year. The growth mainly reflected the government's economic stimulus measures, including programs for augmenting employment and subsidies for low-income families, to alleviate the impact of harsh economic conditions and bolster domestic demand.



## (3) Significant Contraction in Fixed Capital Formation

Fixed capital formation dropped 10.78 percent and led to a 2.01 percentage point decrease in real GDP for the year. The significant contraction was largely due to a considerable tightening of business spending on transportation and machinery in response to a downshift demand both internally and externally. The growth rate of fixed investment turned negative in the second quarter and continued to drop thereafter. During the fourth quarter, a global financial turmoil intensified sluggish business activities, causing fixed capital formation to plummet 23.24 percent.

As for the type of purchaser, investment by both private and public enterprises decreased substantially over the year while investment by general governments grew slightly. Mainly attributable to a steady expansion of photoelectric manufacturers and telecommunications companies, private investment gained 3.92 percent in the first quarter. Later, with soaring energy prices and a rapid slowdown in the global economy, the fundamentals supporting business capital spending showed signs of weakness, and companies significantly scaled down or withheld capital spending. Against the backdrop of a further softening in global demand and deepening economic uncertainties, businesses turned even more cautious on capital outlays, leading private investment to recede by 32.23 percent in the fourth quarter. For the year as a whole, private investment declined by 13.47 percent, deducting 1.98 percentage points from real GDP growth. Likewise, investment by public enterprises shrank 2.58 percent, taking 0.04 of a percentage point off economic growth for the year. On the other hand, government investment returned to positive growth, edging up by 0.34 percent for the year, because the government advanced the execution of the Program for Strengthening Local Construction to Expand Domestic Demand.



In regard to the types of capital formation, outlays on intangible fixed assets registered an increase of 10.22 percent, the biggest increase of the year and significantly higher than last year's 2.68 percent. Its growth was attributable to a higher demand for information processing and computer services. On the contrary, the absence of procurement of new aircraft by local airlines, slow growth in tourism, together with a high comparison base, led investment in

transportation to post a decrease of 35.69 percent, the steepest decline of the year. Meanwhile, under the influence of the ongoing weakness in the domestic economy and rising prices for construction materials, investment in machinery equipment and construction slid 15.23 and 6.16 percent, respectively.

#### (4) Exports Fell Less Than Imports

Exports of goods and services performed relatively well in the first half, but turned sour in the second half due to a sharp drop in global demand. Robust expansion in the first two quarters was mainly supported by resilient intra-Asia trade and strong demand from Taiwan's major trading partners. In the third quarter, with slowing growth abroad and plunging global demand for electronic goods, exports growth rates slipped into negative territory. Due to further weakening of the global economy, the growth rate of exports went down to negative 19.75 percent in the fourth quarter. For the year as a whole, exports contracted 0.17 percent and took 0.12 of a percentage point from economic growth, which was a considerable slowdown when compared with last year's 8.82 percent growth and 5.86 percentage point contribution to GDP growth.

In contrast to the 3.79 percent growth reported last year, imports of goods and services, fell 4.30 percent in 2008. The marked decrease particularly affected machinery and electrical equipment due to a cutback in business investment resulting from slackening external demand. As a sharp fall in imports more than offset a decline in exports, net exports posted a positive contribution of 2.17 percentage points to GDP growth.



## Sectoral Components of GDP

In 2008, overall production activity was relatively weak because of softening demand both at home and abroad. The services sector, the driving force for economic growth, decelerated significantly, contributing 0.5 of a percentage point to economic growth for the year, down from 2.90 percentage points in 2007. Likewise, the contribution of the industrial sector to overall GDP reversed from positive 2.83 percentage points in 2007 to negative 0.36 of a percentage point in 2008 owing to a sharp drop in output of the manufacturing industry as a result of a serious economic contraction in the fourth quarter. Meanwhile, the contribution of agricultural production to overall GDP remained negative, subtracting 0.02 of a percentage point from economic growth.

With regard to sectoral shares of GDP in nominal terms, the services sector continued to dominate Taiwan's economy and made up 73.17 percent of GDP in 2008, higher than the 70.71 percent registered in the previous year. The agricultural sector's share of GDP rose slightly, from 1.51 percent in 2007 to 1.68 percent in 2008. On the other hand, as a result of a cutback in

### Gross Domestic Product by Type of Activity

Unit: %

	2008			2007		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.68	-1.44	-0.02	1.51	-1.90	-0.03
Industry	25.15	-1.15	-0.36	27.77	9.31	2.83
Mining & Quarrying	0.42	-9.20	-0.02	0.41	7.92	0.02
Manufacturing	21.85	-1.00	-0.27	24.01	10.36	2.71
Construction	2.32	-2.55	-0.05	2.25	3.15	0.07
Electricity, Gas & Water	0.56	-0.96	-0.02	1.11	1.88	0.03
Services	73.17	0.75	0.50	70.71	4.26	2.90
Trade	19.23	0.82	0.14	18.51	5.37	0.90
Accommodation & Eating-drinking Places	2.17	-2.82	-0.06	2.11	2.61	0.05
Transport, Storage & Communications	5.85	0.99	0.06	5.83	2.16	0.14
Finance & Insurance	10.02	-1.77	-0.18	10.03	8.19	0.80
Real Estate, Rental & Leasing	8.59	2.42	0.19	8.15	4.64	0.38
Professional, Scientific & Technical Services	2.95	5.08	0.12	2.69	11.30	0.26
Educational Services	1.89	2.56	0.04	1.79	2.53	0.04
Health Care & Social Welfare Services	3.20	3.09	0.08	3.01	3.55	0.10
Government Services	10.45	0.72	0.07	10.10	-0.61	-0.06
Gross Domestic Product	100.00	0.12	0.12	100.00	5.70	5.70

Note: \* Percentage point.

Source: Statistical Abstract of National Income, DGBAS, Executive Yuan, February 2009.

manufacturing, the share of industrial output to GDP fell to 25.15 percent, down from 27.77 percent in 2007.

### **(1) Modest Decrease in Agricultural Output**

The agricultural sector, covering agriculture, forestry, fishing and animal husbandry industries, continued to shrink in 2008 but at a slower pace than in the preceding year. For the year, agricultural output decreased by 1.44 percent mainly due to an unfavorable climate and high petroleum prices that pushed up the cost of petroleum fertilizers and transportation.

### **(2) Mild Contraction in Industrial Output**

A combination of strong growth in the first half of 2008 and a large shrinkage in the second half resulted in a decrease in industrial production of 1.15 percent for the year, which was a sharp drop compared with the previous year's positive growth of 9.31 percent. All sectors of industrial production, namely mining and quarrying, manufacturing, construction, and electricity, gas and water, experienced contractions in 2008, but much of the decline was due to a softening in manufacturing activity, especially after the outbreak of the global financial crisis last fall.

Thanks to robust demand for consumer electronics goods, manufacturing production maintained its strength in the first two quarters. However, a severe setback of exports resulting from the worse-than-expected global economic slowdown kept manufacturing output in a marked downtrend through the fourth quarter, offsetting its strong gains in the first half of the year. Specifically, production indexes of the chemical industry, metal and machinery, and information and electronics all went down by approximately 20 percent over the last quarter. Output in food, textile and other industries was also relatively weak, decreasing by 5.80 percent for the year due to sharp declines in the demand for apparel, clothing accessories and other textile products, and wood and bamboo products. For the year, manufacturing output slipped 1 percent, reversing its double-digit growth of 10.36 percent in 2007.

In contrast to the previous year's 3.15 percent increase, output in the construction industry contracted 2.55 percent for the year, particularly reflecting a slowing housing market and gloomy economic environment in the latter part of the year. Meanwhile, due to the decline in construction activity, output of mining and quarrying dropped by 9.20 percent in 2008.

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

For the year, services output grew by a mere 0.75 percent, much slower than the pace of



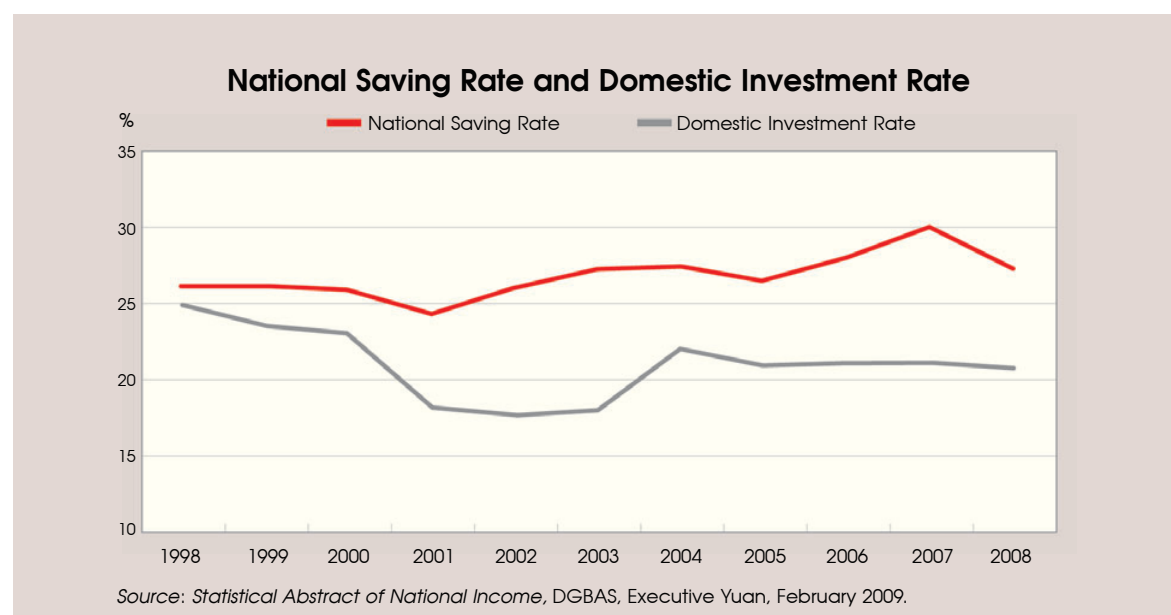
4.26 percent registered in 2007. Most of the services subsectors remained in positive growth, but recorded lower growth rates than in the previous year due to economic deceleration.

Among the services subsectors, the professional, scientific and technical services subsector continued to increase robustly, posting the largest growth of 5.08 percent for the year. Nevertheless, this was a considerable slowdown compared with the previous year's 11.30 percent. The increase mainly reflected steady demand for computer services, data processing services and information services in line with the prevalence of technology in business activity. The health care and social welfare services industry maintained a stable gain of 3.09 percent along with an aging population, but the increase was lower than the previous year's 3.55 percent growth. Affected by slowing economic activity, trade industry growth decelerated to 0.82 percent in 2008, significantly slower than the 5.37 percent in the previous year.

Moreover, weak economic activity and the global financial turmoil took a toll especially on the finance and insurance services and the eating-drinking places sectors. As opposed to positive growth of 8.19 percent in 2007, the finance and insurance services contracted 1.77 percent owing to a plunge in stock markets and a reduction in interest revenues. Likewise, a decrease in consumption expenditure caused food services and drinking establishments to shrink 2.82 percent for the year.

### Fall in National Saving Rate

As the economy suffered significant setbacks, the GNP dipped 2.09 percent for the year,



and growth in national consumption (including both private consumption and government consumption expenditures) slowed down to 2.04 percent in 2008. In addition, the national saving rate (national saving to GNP measured at current prices) fell, from 29.85 percent in 2007 to 27.18 percent in 2008. The excess saving, defined as national saving less gross domestic investment, to GNP ratio went down from 8.90 percent in 2007 to 6.56 percent in 2008, resulting from a greater decrease in national saving than in domestic investment.