

2. National Output and Income

During 2006, Taiwan's economy remained robust, benefiting from the strength in global markets. External trade posted brisk growth in the first three quarters, while domestic demand grew at a moderate pace due to the adverse effect of the credit and cash card debt problem on private consumption and a slowdown in investment activities. For the year as a whole, real GDP expanded at an annual growth rate of 4.62 percent, up from 4.03 percent in 2005.

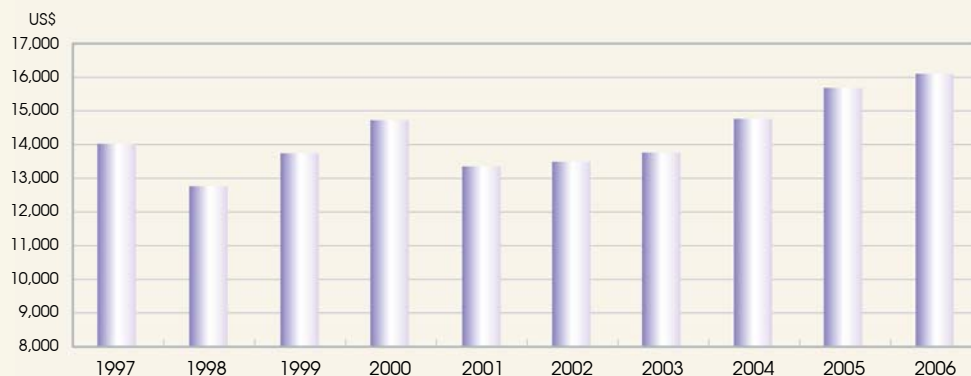
Largely driven by a surge in exports, real GDP increased by 4.92 percent year on year during the first quarter. Although growth appeared to be stable, gloom continued in the private sector. Both business investment and consumption expenditure showed signs of weakness amid concerns about unfavorable domestic macroeconomic conditions and soaring card debts and insolvent consumer loans. Accordingly, the pace of economic expansion decelerated during the second quarter with real GDP growth down to 4.57 percent. Due to a buoyant housing market, demand for equipment goods in industrial machinery picked up, and investment gradually recovered. Moreover, led by solid consumer electronics demand abroad, exports strengthened and pushed real GDP growth up to 5.02 percent in the third quarter. Nevertheless, due to a slowdown in export growth along with a high base effect, the fourth quarter's real GDP growth moderated to 4.02 percent. For the year, per capita GNP in nominal terms increased by US\$408, reaching US\$16,098.

Economic Growth Rate



Source: Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.

Per Capita GNP



Source: Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.

Expenditure Components of GDP

Given a favorable global economic environment, external trade (net exports) remained the main pillar of economic growth, contributing 3.50 percentage points to real GDP growth for the year. Domestic demand, however, remained relatively weak, contributing 1.12 percentage points for the year. Broken down by expenditure components, exports of goods and services accounted for 71.73 percent of GDP; however, the shares of both private consumption and gross fixed capital formation in GDP fell to 61.13 percent and 20.23 percent, respectively.

Expenditure on Gross Domestic Product

Unit: %

	2006			2005		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Private Consumption	61.13	1.53	0.88	62.10	2.74	1.60
Government Consumption	12.98	-0.23	-0.03	13.43	0.92	0.12
Gross Fixed Capital Formation	20.23	0.26	0.05	20.47	1.17	0.23
Change in Inventory	0.05	—	0.22	-0.23	—	-0.43
Exports of Goods and Services	71.73	10.14	6.57	65.89	7.28	4.57
(Less : Imports of Goods and Services)	(66.12)	(5.72)	(3.07)	(61.66)	(3.82)	(2.05)
Expenditure on GDP	100.00	4.62	4.62	100.00	4.03	4.03

Note: * Percentage point.

Source: Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.

(1) Slow Growth in Private Consumption

Despite ongoing improvement in the labor market, private consumption was subdued throughout the year with an annual growth rate of 1.53 percent, contributing 0.88 of a percentage point to economic growth. Since the beginning of the year, credit and cash card debt burdens led to increasing cases of consumer insolvency, which caused banks to contract their consumption loans. As a result, private consumption growth exhibited a downward trend, falling to 0.4 percent in the third quarter. Later, as local stock prices rose and the problem of card debts gradually subsided, consumption growth rebounded to 2.36 percent in the fourth quarter.

In terms of the private consumption categories, food consumption growth dropped from 1.06 percent in 2005 to 2.26 percent in 2006, and non-food consumption fell from 3.23 percent to 1.33 percent. Among the components of non-food consumption, outlays for household operation posted the largest growth because a persistent increase in the number of double-income households led to a rise in the demand for housekeeping services. Moreover, with greater popularity of IT products, such as internet-related products, digital audio players and game consoles, the consumption expenditure on recreation, entertainment, education and cultural services kept growing and made the second largest growth. On the other hand, household spending on transport and communication decreased considerably as banks tightened on car loan extension amid mounting credit and cash card defaults, decreasing motor vehicle purchases.

Real Growth Rate of Private Consumption Expenditure

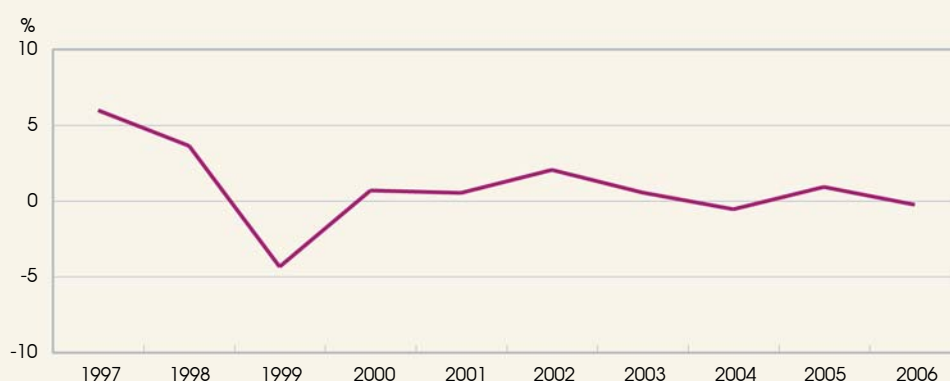


Source: *Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.*

(2) Slight Decline in Government Consumption

Government consumption slightly declined by 0.23 percent in real terms, which led to 0.03 of a percentage point decrease in real GDP for 2006, compared to a growth of 0.92 percent and 0.12 of a percentage point contribution in the previous year. The contraction in government consumption was attributed to the government's spending cut policy in response to public finance difficulties over the past few years.

Real Growth Rate of Government Consumption Expenditure



Source: *Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.*

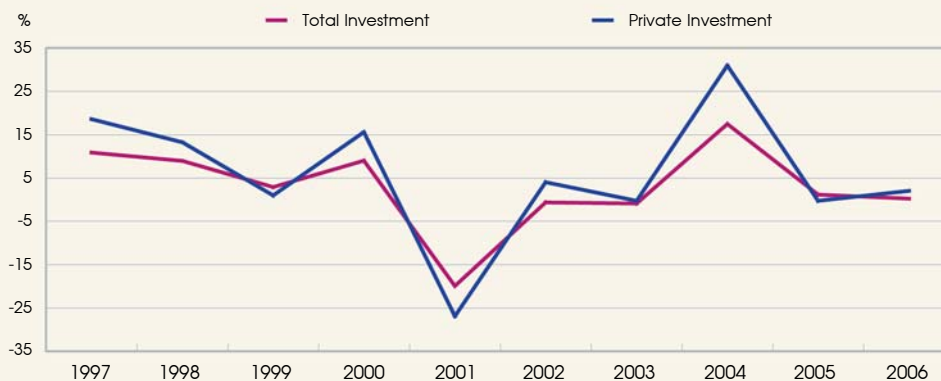
(3) Slackening Growth of Fixed Capital Formation

For 2006 as a whole, business investment exhibited a slackening growth. Real fixed capital formation lingered at a low level with the annual growth rate down to 0.26 percent, from 1.17 percent in the previous year, contributing a mere 0.05 of a percentage point to economic growth.

Broken down by the types of purchasers, real private investment showed a modest recovery after declining slightly in 2005. It gained 2.08 percent and contributed 0.29 of a percentage point to real GDP growth, reversing a negative 0.03 percentage point decrease in 2005. Due to the near completion of several major private investment projects, such as the high-speed rail and the fourth-stage expansion of the sixth naphtha cracking complex, the momentum of private investment slowed down, dragging the growth of private business spending into negative territory in the first two quarters. From third quarter onwards, real private investment was boosted by increased spending in industrial machinery as hi-tech firms enlarged their capacity and upgraded their technology. The rise in new capital outlays together with a low base effect led real private investment to post a double-digit growth in the fourth quarter. On the

other hand, investment carried by both government and public enterprise experienced a contraction as a result of the privatization of several public enterprises and the postponement of public construction projects. For the year as a whole, government investment and public enterprise investment declined by 4.06 percent and 6.35 percent, respectively.

Real Growth Rate of Investment



Source: *Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.*

Among the types of capital goods, investment in intangible fixed assets posted the biggest progress for the year at 5.81 percent, attributable to a popular trend of Internet and e-commerce transactions. Likewise, investment in the construction sector rose steadily by 3.44 percent as a result of the strong demand in the housing market. The growth rate of investment in machinery and equipment returned to positive territory and was up to 3.02 percent, a moderate improvement from the 3.25 percent decline in 2005. However, investment in transportation equipment slumped 33.73 percent for the year due to the large decline in demand for airliners and passenger trains, as opposed to the sharp increase of 33.16 percent in a year earlier.

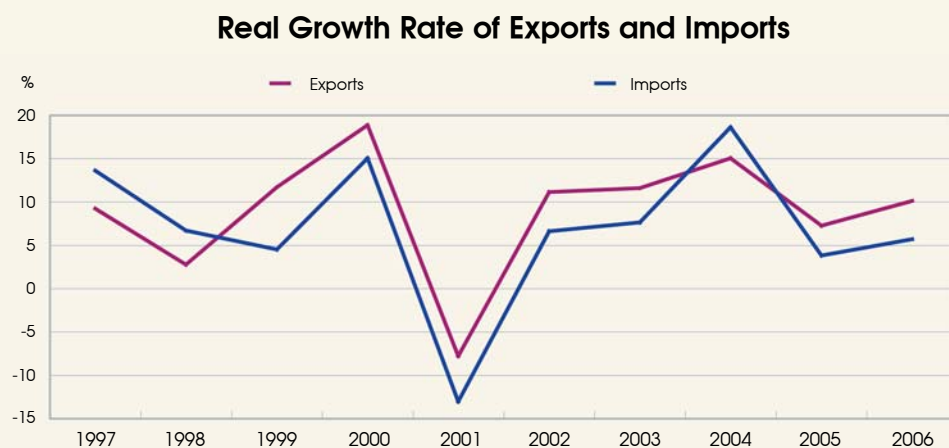
(4) Strong Expansion in Exports

Strengthening global economic growth, which started in mid-2005, continued over the course of 2006. Accompanied by vigorous worldwide demand for consumer electronics products, exports expanded at a double-digit growth rate during the first three quarters of the year. However, growth of exports went down to 2.69 percent in the final quarter due to a high base effect. Overall, real growth of exports of goods and services surged to 10.14 percent,

contributing 6.57 percentage points to economic growth in 2006. This expansion further pushed the share of exports in GDP up to 71.73 percent, from the 65.89 percent recorded in the previous year.

(5) Marked Increase in Imports

Driven by the derived demand from the brisk growth of exports, imports increased markedly over 2006 but with a slower pace than exports for lack of strong private spending support. For the year as a whole, the real imports of goods and services measured in NT dollars grew by 5.72 percent, subtracting 3.07 percentage points from real GDP growth. Like exports, the share of imports of goods and services in GDP grew as well, from 61.66 percent in 2005 to 66.12 percent in 2006.



Source: Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.

Sectoral Components of GDP

Output in all sectors – agricultural, industrial and services – posted rising growth in 2006. The services sector remained the predominant driving force for economic growth, pitching in 2.59 percentage points to economic growth for the year, up from 2.46 percentage points in 2005. Likewise, the contribution of the industrial sector to overall GDP rose from 1.70 percent in 2005 to 1.96 percent in 2006, reflecting an increase in export orders to meet robust global demand. In addition, the contribution of agricultural production to overall GDP reversed from negative 0.13 of a percentage point in 2005 to 0.08 of a percentage point in 2006.

Looking at sector shares of GDP in nominal terms, the agricultural sector's share of GDP

remained on a downward trend, slipping to 1.57 percent of total output for the year. The services sector made up 73.44 percent of GDP as the economy experienced a continuous shift from goods-producing jobs to service-sector jobs. The industrial sector's share remained almost flat, accounting for 24.99 percent of total output.

(1) Stable Growth of Agricultural Output

Thanks to favorable weather conditions, agricultural production, covering agriculture, forestry, fishing, and animal husbandry industries, posted a stable growth of 5.38 percent in 2006.

(2) Solid Growth in Industrial Output

Industrial production, which covered mining and quarrying, manufacturing, construction, and electricity, gas and water, rose at a robust pace of 6.67 percent in 2006, with activity in the first three quarters especially vigorous. The strong growth in manufacturing, the marked

Gross Domestic Product by Type of Activity

Unit: %

	2006			2005		
	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*	Share	Real Growth Rate	Contribution to Real Growth Rate of GDP*
Agriculture	1.57	5.38	0.08	1.70	-8.07	-0.13
Industry	24.99	6.67	1.96	24.97	5.90	1.70
Mining & Quarrying	0.33	-10.16	-0.02	0.31	-4.49	-0.01
Manufacturing	21.39	7.15	1.80	21.40	6.50	1.60
Construction	1.74	5.25	0.08	1.66	0.50	0.01
Electricity, Gas & Water	1.53	4.00	0.11	1.59	5.71	0.11
Services	73.44	3.74	2.59	73.33	3.54	2.46
Trade	18.92	6.48	1.08	18.27	6.90	1.12
Accommodation & Eating-drinking Places	2.18	4.29	0.09	2.17	7.23	0.14
Transport, Storage & Communications	6.26	3.95	0.26	6.36	4.19	0.28
Finance & Insurance	10.27	1.34	0.14	10.72	1.51	0.16
Real Estate, Rental & Leasing	8.39	4.48	0.36	8.31	2.61	0.22
Professional, Scientific & Technical Services	2.58	9.58	0.21	2.41	1.86	0.04
Educational Services	1.89	3.24	0.06	1.88	2.48	0.04
Health Care & Social Welfare Services	3.09	2.49	0.07	3.06	2.46	0.07
Government Services	11.00	0.67	0.07	11.28	1.02	0.11
Gross Domestic Product	100.00	4.62	4.62	100.00	4.03	4.03

Note: * Percentage point.

Source: *Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.*

improvement in construction, and the stable increase in electricity, gas and water were the main factors behind for the advance in industrial production.

Manufacturing production in 2006 grew by 7.15 percent, led by the the information and electronic industries, which showed a surge of 13.24 percent in the production index during the year. The strong gain in the the information and electronic industries was mainly attributed to a boom in internet related exports together with an optimistic outlook for the release of Microsoft Windows Vista. However, unlike the high growth of information and electronic industries, output growth in other manufacturing industries was relatively weak during 2006. For example, the production index of metal and machinery inched up a mere 0.09 percent and that of chemical industry, and food, textile and other industries decreased by 1.99 percent and 1.95 percent, respectively.

Production in the construction industry rose by 5.25 percent, up from the 0.05 percent in 2005. The significant growth, particularly in the second half of the year, reflected increased construction of residential building driven by an upward trend in housing prices.

Production in electricity, gas and water also increased steadily during 2006 at an annual growth rate of 4 percent, associated with a significant expansion in industrial output.

(3) Modest Growth in the Services Sector

Production growth in real terms in the services sector remained stable in 2006. While two major subsectors—trade, and finance and insurance—posted lower growth rates than those of the previous year, output of services gained 3.74 percent for the year, slightly higher than the previous year's 3.54 percent. The advance was mainly supported by the rising growth in professional services, real estate and educational services.

Professional, scientific and technical services experienced the largest increase in growth, from 1.86 percent in 2005 to 9.58 percent in 2006, mainly reflecting a higher demand for information and computer services. Real estate, rental and leasing posed a stable growth of 4.48 percent for the year, up from the previous year's 2.61 percent, reflecting the optimism in the housing market. Educational services registered a 3.24 percent growth because of an improvement in the quality of education and training. Moreover, an aging population led the growth of the health care and social welfare services industry to increase to 2.49 percent.

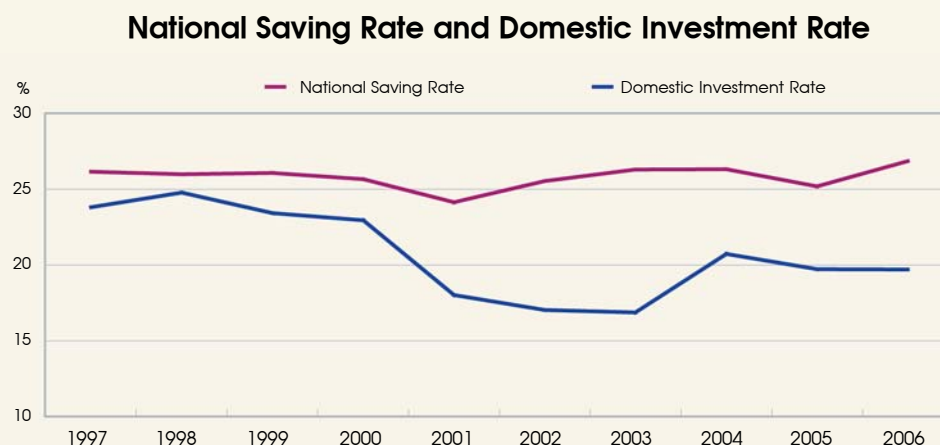
The other industries within the services sector recorded lower growth rates, compared with the previous year. For example, hampered by rising cash and credit card debt, growth of

tourism and eating-drinking places dropped from 7.23 percent in 2005 to a 4.29 percent in 2006. Growth of the trade industry also went down to 6.48 percent, compared with the 6.9 percent in the previous year. In addition, the government services sector recorded the smallest growth rate of 0.67 percent in 2006, down from 1.02 percent in 2005, reflecting the government's efforts to cut expenditure.

Rise in National Saving Rate

The national saving rate (national saving to GNP measured at current prices) increased from 25.19 percent in the previous year to 26.86 percent in 2005 as nominal national consumption (including both private consumption and government consumption expenditures) grew by a lower rate of 1.84 percent compared to the GNP growth rate of 4.11 percent. The decline in national consumption was due to the sluggish private consumption affected by credit and cash card defaults, and the decrease in the growth of government spending.

The excess saving, defined as national saving less gross domestic investment, to GNP ratio climbed up from 5.46 percent in 2005 to 7.16 percent in 2006 as a result of a greater increase in national saving than that in domestic investment.



Source: Statistics Abstract of National Income, DGBAS, Executive Yuan, February 2007.