Taiwan GDP boosted by government spending

Taiwan's growth rate increased in the third quarter, thanks largely to government spending. But the economy may suffer if those investment taps are turned off

Xinyi District in downtown Taipei, Taiwan

2.91%

Taiwan GDP growth Q3

From 2.4% in Q2

Government subsidies helping growth

Taiwan's GDP grew 2.91% in 3Q19, from 2.40% YoY in the previous quarter. It was mainly driven by a 3.68% YoY increase in government spending. We believe this spending includes subsidies to preferential investments, which has prompted some Taiwanese manufacturers to move their production lines from Mainland China to Taiwan. The Taiwanese administration estimated that the amount of investment could total TWD800 billion in 2019, which is around 4% of nominal GDP.

But the abnormality in the data shows that capital formation contracted by 1.01% YoY. We believe that these investments might only be registered and some of these factories have yet to be built. It's been reported that investors can find it difficult to have adequate electricity and water supplies and these investment gains may take time to be realised.

Net exports rebounded but only temporarily

The net export contribution was not bad. Exports and imports grew 4.23% YoY and 2.17% YoY respectively in 3Q19, better than the 4.13% and 3.68% in 2Q19.

However, it may not last. Smartphone sales have not been as good as expected after initial orders. Taiwan, which depends very much on Apple devices, will be hit directly in terms of production as well as exports.

So we expect exports' contribution to 4Q19 growth to subside.

Consumption benefits from a low base

Growth in consumption was 1.48% YoY in 3Q19, which was mainly from a low base effect last year of 1.11% YoY in 3Q18. It was, however, still slower than the 1.86% YoY in 2Q19.

There won't be much consumption upside if salaries stagnate should trade activities and the production of smartphones and their related parts slow. And whether the preferential investment scheme can actually turn into production activities, and therefore increase demand for workers, is uncertain.

Forecast

GDP growth is expected to slow with the ongoing US-China trade war and sluggish demand for new smartphones. Our GDP growth forecasts are 2.8% YoY in 4Q19, thanks to the low base effect last year, then moderating to 1.9% YoY, 1.8%, 1.2% and 1.3% in 1Q20 to 4Q20, respectively.

The strength of the Taiwan dollar should come from capital inflows from the investment scheme as well as the Taiwan stock market, which remains resilient compared with other Asian markets. USD/TWD is expected to hold steady near 30.50 by the end of 2019, and the TWD should strengthen to 30.30, 30.00, 29.70 and 30.00 in 1Q20 to 4Q20, respectively.

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com