Taiwan GDP growth boosted by solid domestic demand

A larger-than-expected drag from net exports in the fourth quarter has led to a softer GDP reading despite a strong contribution from domestic demand. But full-year growth has remained in line with consensus forecasts

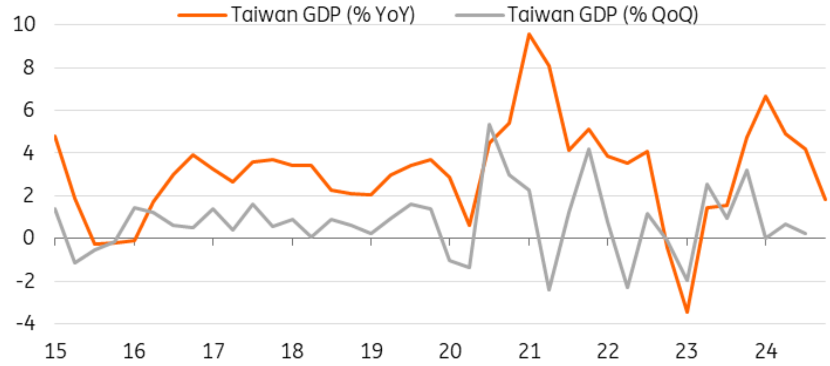
Xinyi District in downtown Taipei, Taiwan

4.3%

2024 GDP growth (year-on-year)

As expected

Taiwan's GDP growth slowed to 1.8% YoY in 4Q24



Sources: CEIC, ING

Taiwan's 2024 GDP growth of 4.3% marked a three-year high

Taiwan's 4Q24 GDP growth slowed sharply to 1.8% year-on-year, down from 4.2% YoY in 3Q24. This reading was softer than both our and the market's forecasts and marked the lowest YoY growth since 3Q23.

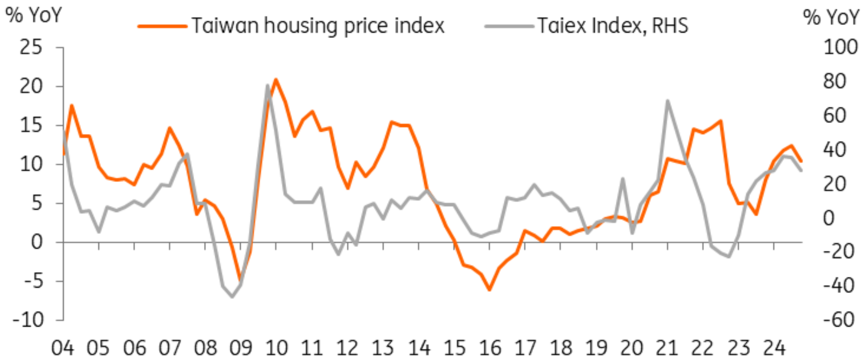
Nonetheless, growth was sufficient to keep full-year growth at a respectable 4.3% YoY, the fastest growth rate since the pandemic-skewed 2021.

Domestic demand was the primary driver of growth in 2024, and this was largely tied to very strong gross capital formation growth amid the semiconductor boom, with many companies investing heavily in machinery equipment, construction, and intellectual property products. Gross capital formation contributed a whopping 2.97ppt of the total 4.30% growth in 2024.

However, it was not solely a semiconductor story. Private consumption also saw decent growth continue, contributing a more modest but still respectable 1.36ppt to GDP growth. A positive wealth effect and solid wage growth contributed to the demand picture; Taiwan's TAIEX index rose 28.4% in 2024, the Sinyi Realty Housing Price index was up 10.4% YoY, and Taiwan's average regular earnings index grew by 3.0% YoY through the first 11 months of 2024. Taiwan also saw a minimum wage hike from NTD 26400 to NTD 27470 a month take effect at the start of 2024 - minimum wage hikes historically have been supportive for consumption as they directly help lower-income households with the highest propensity to consume.

On the other hand, net exports were on the disappointing side, knocking off a whopping 3.5ppt from growth in 4Q24. However, despite this drag, the breakdown was not too concerning, as exports still held up well. It was the surge in imports that more than offset this growth. We've mentioned in previous reports that Taiwan's exports have been a little heavily concentrated both in product category and export destination, with tech exports to the US as the key source of growth. This does present a certain amount of risk but is not unexpected given where Taiwan's competitive advantages lie; as the AI race continues, this should continue to benefit Taiwan's export picture, and it's likely that the base effect will turn more supportive starting in 2Q25.

Strong asset price performance has created positive wealth effects



Sources: CEIC, ING

2025 growth should moderate but outlook remains solid

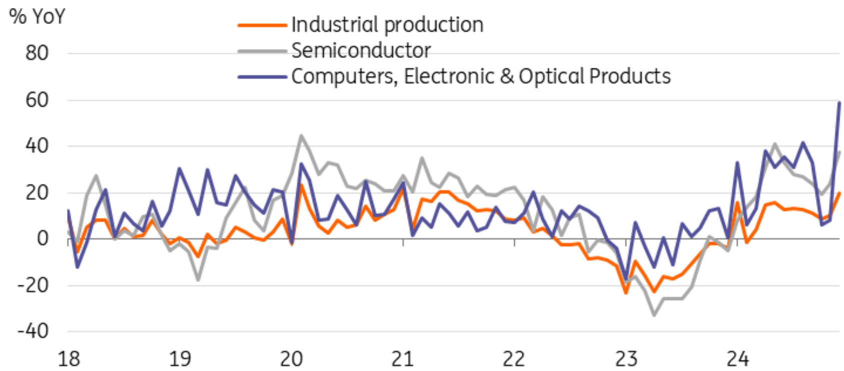
2024's growth rate benefited from a more supportive base effect, and this is set to fade in 2025. We have also seen Taiwan's leading indicators showing signs of slight softening in 2H24, which is not a strong cause for concern but suggests the momentum could be moderating somewhat. As a result, we are looking for full-year GDP growth to slow to around 2.7% YoY this year.

Despite some moderation expected, the outlook remains quite solid to start the year, and Taiwan continues to have much going in its favour. Taiwan remains one of the key beneficiaries of the global AI race; earlier released December industrial production data showed blistering growth of 58.8% YoY for Computers, Electronic & Optical Products and 37.5% YoY for semiconductors.

The conditions are still in place for consumption growth to continue, as another minimum wage hike took effect at the start of this year, and as strong corporate earnings should at least offer a backdrop for continued wage growth as well. Given both equity markets and housing markets are near or at historical highs, there's less certainty on whether or not a positive wealth effect will continue, but equity markets at the least have been off to a decent start to the year.

With growth more or less still on track, and inflation settling around the 2% target, conditions look ripe for policymakers to stay on hold, and we expect Taiwan's central bank to keep rates unchanged at their next meeting in March.

Taiwan has been a key beneficiary of the AI race



Sources: CEIC, ING

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