

## Taiwan GDP surprises on the back of weaker imports

Taiwan's GDP surpassed our expectations, which is why we marginally revise our annual forecast to 2.48%. But if the trade war continues to escalate, we expect export-related manufacturing activities to slow. This time, Taiwan will have fewer measures to help itself from falling



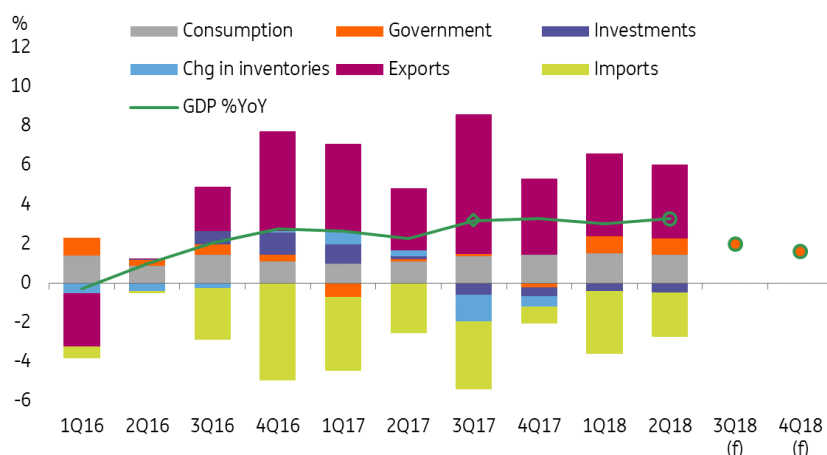
Source: Shutterstock

Taiwan's GDP came in at 3.29% year on year in 2Q18, surprisingly up from 3.02% in 1Q, surpassing our forecast of 2.8% and consensus 2.9%. However, the surprising growth doesn't imply a strong economy in fact, quite the opposite.

The main reason for the higher GDP growth was simply that import growth was smaller which reflects that exporters were cautious to import materials for manufacturing and therefore export growth should slow down too in the coming months. The cautious behaviour is probably due to rising concerns about the bilateral trade war between Mainland China and the US.

Due to the strong 2Q GDP growth, we revise our 2018 GDP growth to 2.48% from 2.4%.

## Taiwan GDP growth higher due to weaker imports



Source: ING, Bloomberg

## Not a single component tells a positive story

Every component in the GDP breakdown experienced slower growth than in 1Q18, but due to the negative nature of imports, the headline numbers look good. Consumption, government spending and exports all exhibited slower growth, and investment continued to shrink even more negatively than in the first quarter.

The interest rate is already at a low level of 1.375%, so there is little room for the central bank to cut rates any further. The slower government spending shows that fiscal stimulus, if any, would be small.

So, given that business owners cannot rely on fiscal or monetary policies, Taiwan's manufacturers have to find a way to save themselves - better to manufacture substitute goods for Chinese exporters. But this won't be easy either, especially when the trade war escalates to the extent that it affects the job market and global demand and inflation.

In short, Taiwan's economy looks somewhat shaky at the time of this bilateral trade war between China and the US.

[Why we've also revised our USD/TWD forecast lower too](#)