Taiwan GDP Likely to Increase +2.5% In 2020:4Q After +3.8% In 2019:4Q

- Taiwan Current Indicators Have Strengthened
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Taiwan GDP Likely to Increase 
+2.5% In 2020:4Q After +3.8% In 2019:4Q

Taiwan GDP increased a strong +3.8% y/y in 2019:4Q, and this regression model projects a +2.5% increase in 2020:4Q. GDP will be lifted by the lagged effects of faster growth in the US and faster money supply growth. Improved sentiment in the service sector is another plus. But slower growth in China is a partial offset.

The model does not capture fiscal policy, which is currently providing some stimulus, so there is upside risk to the model forecast. Our forecast is a little above the consensus, which is +2.2% for 2020.

The biggest risks are a greater slowdown in China GDP -- partly due to the impact of the coronavirus -- and a renewed clash with China over unification. There may also be some direct impact of the coronavirus in Taiwan.

Mar 21 (ING Think) -- The government has taken up the main role of supporting the economy. It will probably increase spending by 2.8%, and that will be around 11% of nominal GDP. This includes raising infrastructure spending and giving out rebates to consumers on energy-saving automobiles. It also includes increasing military spending by 5.6%.
Taiwan Current Indicators Have Strengthened

Taiwan GDP surged +7.0% q/q a.r. in 2019:4Q and was up +3.8% y/y. Most monthly indicators have strengthened: Taiwan’s mfg PMI has rebounded to slightly above neutral at 50.8% in Dec. Industrial production has been volatile with a rising trend and was up +3.3% y/y in Dec. Taiwan vehicle sales also have been volatile and jumped +27.2% y/y in Dec. The leading indicator index has a rising trend and has picked up recently, a positive sign for near-term growth.
Taiwan Consumer Spending Likely To Increase +3.0% In 2020

Consumer fundamentals suggest further gains ahead: Employment continues to increase and is at a record high, although the rate of increase has slowed. Consumer confidence has surged to a record high. Income growth, has been erratic but was up +2.6% y/y in 2019:4Q. On balance consumer spending is likely to increase +3.0% y/y in 2020:4Q after +2.9% in 2019:4Q.
Taiwan Capex Likely To Increase +4.0% In 2020

There are conflicting fundamental conditions for Taiwan capital spending: Company earnings have declined (-13% y/y) after reaching an all-time high. The PMI for mfg capacity utilization has hooked up after a sharp decline. Some cos are expected to relocate facilities from China. Capex has moved up in recent quarters, and probably increased +5.0% y/y in 2019:4Q; it is likely to increase +4.0% in 2020:4Q.

Jan 21 (BB) -- Taiwan’s economic growth accelerated in the final quarter of 2019, capping a year of better-than-expected performance amid investment returning from China.
Taiwan Trade Likely To Be Neutral For GDP

Taiwan exports increased +2.3% y/y in 2019:4Q while imports rose +4.3%. The surplus in net exports is large but has declined a little recently. The global expansion should accelerate some and help lift exports, as will low value of the Taiwan dollar. Exports are very important for Taiwan: They are equal to 68% of GDP, and 42% of the exports go to China and Hong Kong. The biggest concerns are the impact of the coronavirus, heightened political tensions with China, and ongoing protests in Hong Kong, all of which could disrupt global supply chains in which Taiwan plays a major role. On balance, net exports are likely to have a neutral impact on GDP.

Taiwan’s largest exports include: electronics, flat panels, machinery, metals, textiles, plastics, chemicals. Taiwan’s largest trading partners are: China (28%), Hong Kong (14%), US (12%), and Japan (7%).
Both the headline and the core CPI have been very subdued -- running far below the target. Concern about rapid house price increases has diminished in recent years. The Taiwan Central Bank (TCB) made its last easing move in early 2016; since then policy has been on hold.

GDP growth was surprisingly strong in 2019, especially in 4Q. Fiscal stimulus has been deployed to boost growth (see page 2). With inflation low, TCB has room to provide additional support, if necessary. But for now, the most likely path is no change in monetary policy.

June 20 (Central Bank of Taiwan) -- The Board judges that a policy rate hold and a continued accommodative monetary policy stance will help ensure price stability and foster sound development of the economy and the financial sector.
Mixed Taiwan Financial Conditions

Taiwan’s credit is rated AA- by both S&P and Fitch and Aa3 by Moody’s; each agency says the rating is stable.

Stock prices increased +23.3% in 2019 but are down -4.8% ytd (see Rich Ross’ technical perspective on the TWSE on page 10).

Company earnings have declined in recent quarters (see page 5). Electronics account for almost 40% of TWSE; the important semiconductor component (which alone accounts for 20% of the TWSE) increased +48.4% in 2019 but is down -5.0% ytd.

<table>
<thead>
<tr>
<th>Stock Markets</th>
<th>2020 YTD%</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>+0.8%</td>
</tr>
<tr>
<td>MSCI EM</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Singapore</td>
<td>-1.6%</td>
</tr>
<tr>
<td>South Korea</td>
<td>-2.3%</td>
</tr>
<tr>
<td>China</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>-6.2%</td>
</tr>
</tbody>
</table>
Taiwan Structural Positives and Negatives

Taiwan has important structural positives including a large current account surplus and large foreign exchange reserves. In addition it ranks well on competitiveness, ease of doing business, and economic freedom.

However, there are also important structural negatives including very slow population growth and a low birth rate.

Taiwan’s ties to China have increased significantly, but the relationship between the two governments remains strained: China has restricted private tourism to Taiwan. The re-election of President Tsai, who has resisted closer ties to the mainland, may further strain the relationship. Slower growth in China also has been a negative. Taiwan is heavily dependent on exports of technology products, and that can be either a positive or a negative.

Don Straszheim   Evercore ISI   Jan 30
For China, Taiwan is an economic afterthought, but a geopolitical core. There is no give on this relationship.

Taiwan Business Ranking (2018)

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness</td>
<td>13/140</td>
</tr>
<tr>
<td>Ease of Doing Business</td>
<td>13/190</td>
</tr>
<tr>
<td>Transparency - Corruption</td>
<td>31/180</td>
</tr>
<tr>
<td>Economic Freedom</td>
<td>10/180</td>
</tr>
</tbody>
</table>

Sources: World Bank, World Economic Forum, Transparency International, Heritage Foundation

Jan 13 (WSJ) -- Taiwan faces some real economic threats including worsening demographics and China’s attempts to restrict tourism to the island. Mainland tourist numbers fell sharply last year, although overall visitors still rose.
Rich Ross: Technical Perspective

Taiwan is in a Strong Position Absolutely and Relatively; 11K Key Support

TwSE Index (Taiwan Stock Exchange Weighted Index) Daily Weekly 31Jan2015-30Jan2
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