



Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 410-3274
Michael Pugliese, Economist
michael.d.pugliese@wellsfargo.com • (212) 214-5058

Consumption Drives Taiwanese GDP Growth in Q1

Real GDP growth in Taiwan was 3.0 percent year over year in Q1, led by private and government consumption. Fixed investment growth remained soft, and the threat of a trade war is lingering in the background.

Consumption Strength Offset by Imports, Investment Spending

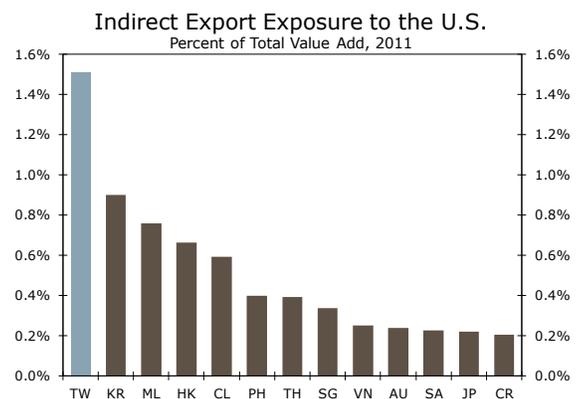
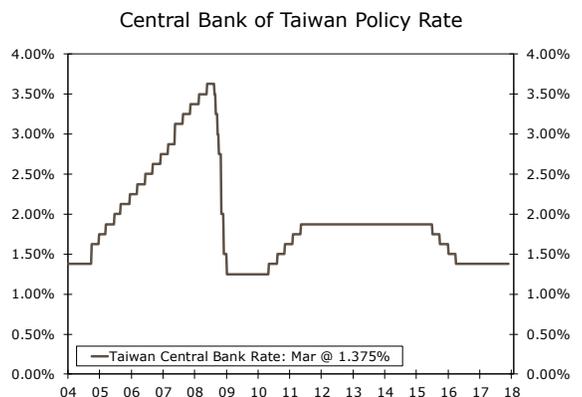
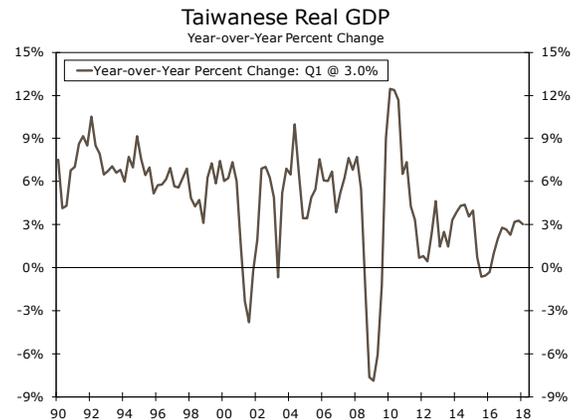
Data released this morning showed economic growth in Taiwan slowing slightly in Q1-2018, up 3.0 percent year over year (top chart). Private final consumption continued to accelerate, with growth strengthening for the fifth consecutive quarter and topping 3 percent for the first time since Q2-2015. Government final consumption also surged, up more than 6 percent year over year after four consecutive prints at 1 percent or lower. Export growth also remained solid as the global economic backdrop remained supportive of healthy aggregate demand from abroad.

Acceleration in imports and continued weakness in gross fixed capital formation (GFCF) prevented economic growth from reaching a multi-year high. With a working-age population that is expected to decline in the years ahead, Taiwan will need faster labor productivity growth to maintain its current pace of potential economic growth, a theme we highlighted in a special report in January that is available upon request. In short, if GFCF growth remains lackluster as it did in Q1, economic growth in Taiwan will continue to fall far short of the rates experienced in the past few decades.

At its last policy meeting in March, the Taiwanese central bank once again elected to remain on hold (middle chart). The central bank noted “robust” consumer confidence, which jives with today’s strong personal consumption numbers. Although the economic growth environment in Taiwan and abroad remains solid, the central bank noted that both current inflation and inflation expectations were “mild” and the output gap remained negative, suggesting there is still slack in the economy. With trade uncertainty pervasive (more on that below), the Taiwanese central bank may stay on hold for the foreseeable future unless its hand is forced by a further pick-up in growth and inflation.

Trade Troubles a Big Deal for Taiwan

Taiwan’s small, open economy is heavily reliant on trade, as foreign spending on Taiwanese goods and services accounts for about 40 percent of the value added that is generated in Taiwan. In a recent special report we published that is available upon request, our analysis shows that Taiwan would be the economy with the most to lose from a trade war between mainland China and the United States. Specifically, products that are exported from Taiwan to the mainland, assembled into final products and subsequently re-exported to the United States account for 1.5 percent of total value added in Taiwan, the most of any country (bottom chart). This finding makes intuitive sense due to the significant amount of exports from Taiwan to the mainland, which in 2017 totaled almost \$90 billion (nearly 30 percent of total Taiwanese exports). As a result, should trade relations between the United States and China deteriorate to the point of meaningful action, we would expect to see slower growth in Taiwan.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2018 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES