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CORPORATE & INVESTMENT BANKING

Asian Instant Insight

Taiwan: GDP (Q4 2008)

Key Facts

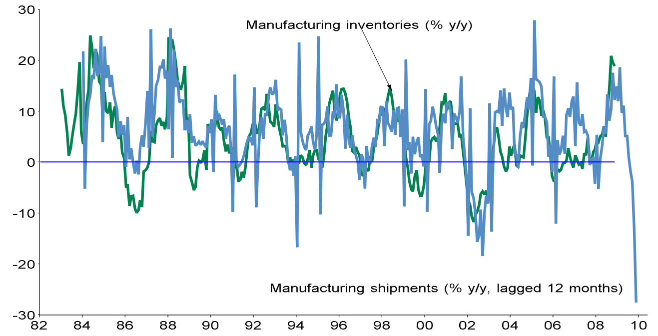
- **Q4 GDP slumped to -8.36% y/y from -1.05% y/y in Q3. Consensus -6.82%.**
- **Viewed by output, manufacturing output's collapse, down -21.7% y/y, led the way.**
- **By expenditure, plunging capex (-23.2%) and exports (-19.8%) were in the vanguard.**
- **Nominal GDP shrinks for a second quarter; down a record -9.1% y/y.**

Catastrophic GDP data from Taiwan confirming the worst fears about how rapidly the economy is shrinking. With export market still shrinking, industrial inventories elevated and the labour market set to deteriorate sharply, worse is yet to come. 2009 GDP forecast sliced to -6.6% from -3.3% previously. Emergency 25bp rate cut by CBC announced today an umbrella in a hurricane. The zero bound for policy rates in play. Pressure on TWD to continue.

The Taiwanese economy entered a tailspin in the fourth quarter, shrinking by a record -8.36% y/y in inflation-adjusted terms. Overall nominal GDP plunged by a record -9.1% y/y. These data cement Taiwanese unenviable position as the Asian economy hit hardest by the global financial crisis. Japan weighs in next with GDP down -4.6% y/y in the final months of 2008.

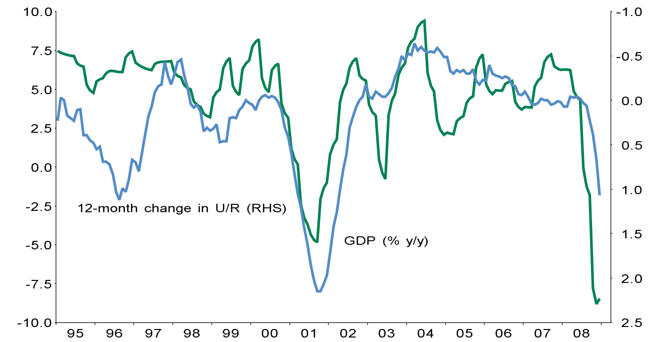
The diagnosis is straightforward. Given its heavy reliance on industrial, particularly electronic, exports, Taiwan is being battered by the collapse in the world trade since last September. Slumping export markets add up to plunging export volumes and capex spending (although falling imports provide a partial offset) or collapsing industrial production when looked at in output terms. The prognosis is sadly equally straightforward. There is little respite on the horizon and in the short term the economy will contract even more violently. Export markets are still falling with global capex demand, particularly for electronics, not yet at the bottom. Moreover, even after industrial demand begins to stabilise, the unprecedented demand shock of the last six months means that aggressive de-stock still needs to take place that will remain a drag on output likely through to the third quarter (Chart 1). Additionally, slumping GDP is inevitably leading to an accelerating rate of labour market deterioration. The unemployment rate, already at a historically high 5% in December, has

Key Chart: Aggressive De-Stocking To Come



Source: BNP Paribas, Reuters EcoWin Pro

Key Chart: Unemployment Rate Set To Surge



Source: BNP Paribas, Reuters EcoWin Pro

already surged by a record 0.9% points in Q4. Even sharper rises in the unemployment rate look inevitable (Chart 2) and are destined to swamp the government's efforts to stimulate household spending through shopping vouchers. Accordingly, our 2009 GDP forecast is cut back further to -6.6% from -3.3% previously with the y/y rate set to slump deep into 'double-digit territory' in the first quarter of 2009.

The CBC accompanied today's depressing data with a token 25bp, leaving the policy rate at a record low of 1.25%. For several months, we have targeted a low in policy rates of 50bp whilst stressing that given mounting deflation risks (our US-style core CPI measures slides in mild deflation this year as the headline rate collapses) the zero bound is very much in play. With the fiscal policy button already have been pressed, the continued progressive weakening of the TWD is the other policy tool available. Given the parlous state of the economy, further devaluation looks a given.

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