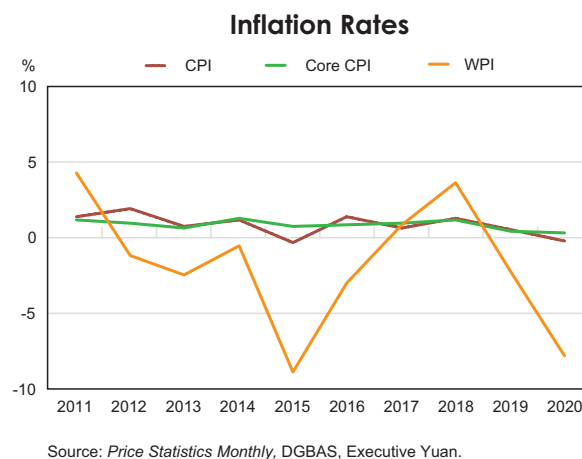


## 4. Prices

In 2020, with the COVID-19 pandemic battering the world economy, steep declines in international crude oil and other raw material prices dragged Taiwan's wholesale price index (WPI) down by 7.79%. Meanwhile, headline inflation, measured by the CPI, fell by 0.23% as the pandemic-induced plunge in international oil prices drove down domestic energy prices, the hospitality industry used discount offers to promote business, and communication fees stayed low. The core CPI, which excludes fruit, vegetables, and energy, increased by 0.35%, the lowest since 2010.



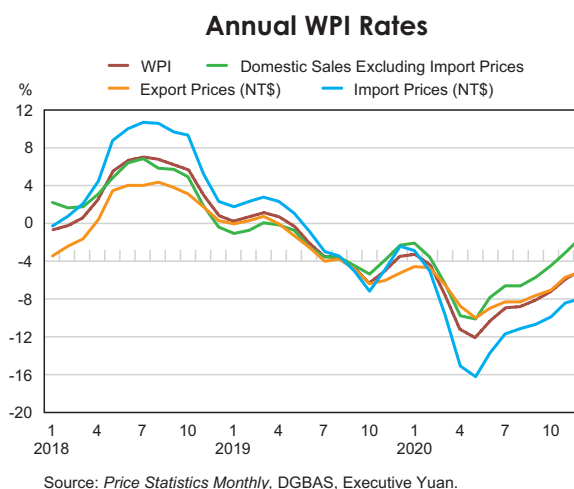
### Further Decrease in Wholesale Prices

The WPI fell further by 7.79% in 2020, lower than the -2.26% of the previous year. The decrease mainly reflected sharp drops in international raw material prices amid the coronavirus pandemic. In terms of monthly movements, the annual WPI inflation rate gradually trended down from the beginning of the year and hit an all-year low of -12.19% in May because of an international oil price slump. Later, the decline in the annual WPI inflation rate abated owing to a rebound in international oil prices boosted by the resumption of economic activity across the world, and the decrease narrowed to 5.04% in December.

Broken down by the three major components of the WPI, the annual rates of change in prices for imports, domestic sales excluding imports, and exports all declined in 2020 on account of marked drops in raw material prices.

Import prices, weighted at 31.92% of the WPI, decreased by 6.13% in US dollar terms in 2020. As the NT dollar appreciated against the US dollar over 2020, the annual growth rate of import prices posted a larger decrease of 10.28% in NT dollar terms. Among the components of import prices in terms of NT dollars, prices of raw materials moved down by 13.29% and accounted for 9.44 percentage points in the import price decrease, mainly because of falling prices of mineral products and chemical products. Prices of capital goods and consumer goods also declined by 3.76% and 1.89%, respectively.

Export prices, weighted at 40.04% of the WPI, slid by 2.91% in US dollar terms in 2020. Owing to the NT dollar appreciation against the US dollar, the annual change in export prices experienced a 7.21% decline in terms of the NT dollar. Among the components of export prices in NT dollar terms, prices of raw materials went down by 7.48%, contributing 6.06 percentage points to the export price decrease, primarily reflecting lower prices of mining products, chemical products, as well as plastics and rubber products. In addition, prices of capital goods and consumer goods dropped by 3.90% and 7.16%, respectively.



As global demand weakened amid the coronavirus pandemic, pushing down import costs of primary commodities, prices of domestic sales excluding imports, weighted at 28.04% of the WPI, slipped by 5.71% in 2020. In terms of the basic groups, prices of manufacturing products fell by 5.90%, mainly attributable to a larger reduction in prices of petroleum and coal products. Prices of water, electricity, and gas supply went down by 7.15%, while prices of quarrying and mining products dropped by 1.31%. Prices of agriculture, forestry, fishing, and animal husbandry products registered a decrease of 1.28%.

### Slight Decrease in Consumer Prices

The CPI slightly fell by 0.23% in 2020, the first yearly decline since 2016. In the first two months of the year, the annual CPI inflation rate fluctuated because of the seasonal factor of the Lunar New Year holidays. From March onwards, as domestic energy prices decreased significantly amid the pandemic-induced slump in international oil prices and hospitality businesses reduced prices to attract customers, the CPI inflation rate stayed negative and slowed to an all-year low of -1.21% in May. Subsequently, the CPI inflation rate climbed back up and registered -0.33% in August, with smaller declines in prices of domestic fuels and entertainment services thanks to the reopening of economic activity around the world. In September, the CPI inflation rate moved down to -0.58% owing to a higher base effect. Afterwards, driven by rises in airfares and vegetables prices, the rate went up and turned to positive 0.09% in November, and posted a smaller increase of 0.06% in December.

Compared to the slight downtrend in the CPI, the core CPI inflation rate rose mildly by 0.35% in 2020. In the first two months of the year, the rate experienced more fluctuations on account of

the seasonal factor of the Lunar New Year holidays. From March onwards, the pace of core CPI growth slackened and slowed to 0.06% in May, mainly owing to weak domestic demand affected by the pandemic. Later, with domestic demand rebounding amid the eased pandemic situation at home, the core inflation rate trended up and recorded 0.68% in December.

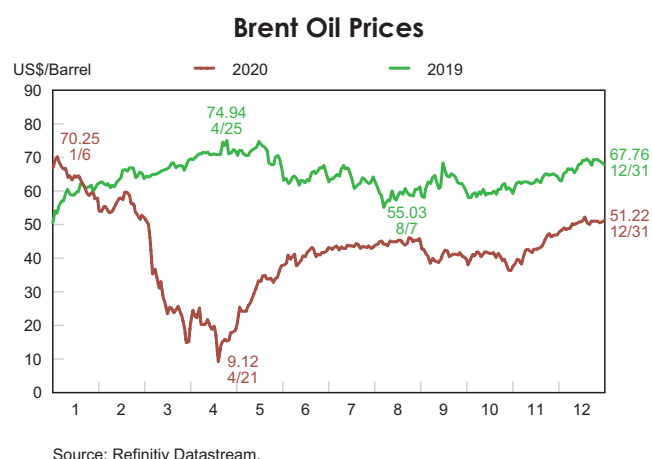
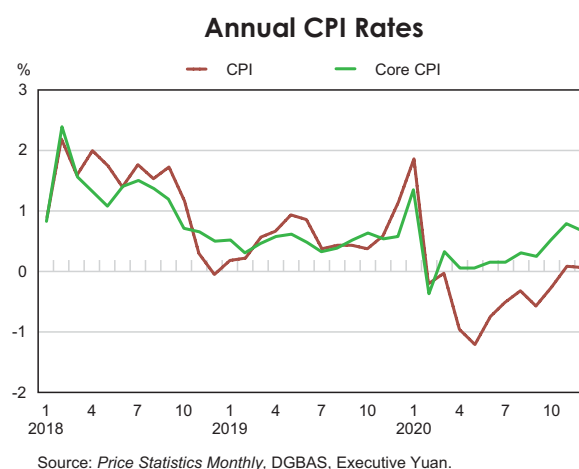
The main factors contributing to the decrease of CPI inflation in 2020 were as follows:

- (1) For 2020, Brent oil prices averaged US\$41.74 per barrel, tumbling by 35.16% from the previous year. As a result, the decline in imported costs of petroleum and natural gas lowered domestic oil and gas prices, which dropped by 17.46% and 16.45% and accounted for 0.48 and 0.07 percentage points in the CPI decrease, respectively.
- (2) Discount offers used by hospitality businesses to appeal to customers amid the pandemic pushed down prices of entertainment services by 3.19%, subtracting 0.18 percentage points from CPI inflation.

- (3) As domestic communication service providers continued with fee reductions, communication fees slipped by 3.62%, deducting 0.09 percentage points from CPI inflation.

The main upward factors contributing to CPI inflation in 2020 were as follows:

- (1) Prices of residential rent continued a mild uptrend and rose by 0.90%, contributing 0.13 percentage points to CPI inflation.
- (2) Increased prices of gold ornaments and jewelry led prices of personal effects to grow by 3.89%, accounting for 0.09 percentage points in the CPI inflation rate.
- (3) A minimum wage hike pushed up prices of food away from home by 0.95%, contributing 0.09 percentage points to CPI inflation.



- (4) Less discount promotions for clothing drove up prices of garments by 1.91%, accounting for 0.06 percentage points in the CPI increase.

### Percentage Changes in the Major Components of the CPI in 2020

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	-0.23	-0.23
Residential Rent	0.90	0.13
Personal Effects	3.89	0.09
Food Away from Home	0.95	0.09
Garments	1.91	0.06
Total		0.37
Fuels & Lubricants	-17.46	-0.48
Entertainment Services	-3.19	-0.18
Communication Fees	-3.62	-0.09
Gas	-16.45	-0.07
Total		-0.82
Others		0.22

Source: *Price Statistics Monthly*, DGBAS, Executive Yuan.