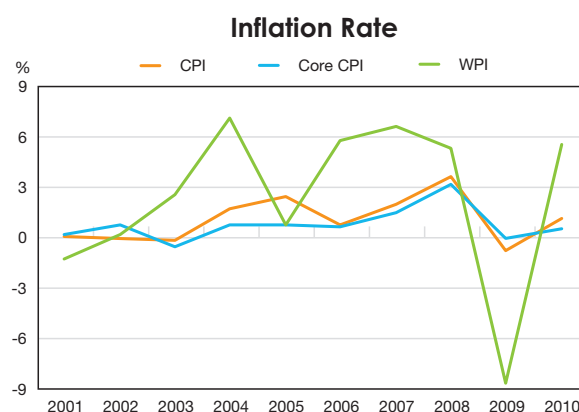


4. Prices

After a decrease of 8.74 percent and reaching a record low in 2009, Taiwan's wholesale price index (WPI) rose markedly by 5.45 percent in 2010, led by the increase in oil and commodity prices due to surging demand from emerging markets, extreme weather conditions, and market speculation. However, headline inflation, as measured by the consumer price index (CPI), recorded a moderate annual rate of 0.96 percent in 2010, compared with a decrease of 0.87 percent in 2009. The core CPI, which excludes fruits and vegetables, fish and shellfish, and energy prices, rose slightly by 0.44 percent in 2010, from a mere 0.14 percent decrease in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Steep Increase in Wholesale Prices

Compared with the steep decrease of 8.74 percent in 2009, the annual WPI inflation rate climbed to 5.46 percent in 2010, mainly driven by the pick-up in international raw material prices. In terms of monthly movement, the year-on-year WPI inflation rate peaked at 9.43 percent in May due to the low base effect. Afterwards, it exhibited a downward trend and eased to 2.31 percent in December, the lowest increase in the year.

Broken down by the major components of the WPI, the annual growth rates of import prices, domestic sales excluding import prices, and export prices rose markedly in 2010, reflecting rising global commodity prices.

The annual rate of change in import prices reached 12.16 percent in US dollar terms, a reversal of the historically low 13.89 percent decrease in the previous year. The rise was attributable to increasing pressure on the prices of international raw materials brought about by robust demand from emerging markets, short supply of weather-affected crops, and the depreciation of the US dollar induced by quantitative easing policies pursued by the United States. However, import prices increased by 7.04 percent in terms of local currency, and the difference largely reflected the appreciation of the NT dollar against the currencies of major trading partners, which alleviated the increasing pressure of import prices. Among the components of import prices, prices of raw materials, which account for 77.19 percent of the whole index, rose by 9.67 percent, and accounted for 7.32

percentage points in the 7.04 percent increase. The prices of consumer goods only rose by 0.83 percent, while the prices of capital goods declined by 2.12 percent.

Export prices in US dollar terms rose by an annual rate of 6.90 percent in 2010, compared with a 10.95 percent decrease in the previous year. Due to the appreciation of the NT dollar against the US dollar in 2010, export prices in terms of the NT dollar increased moderately by 2.03 percent, compared with a 6.60 percent decline in 2009.

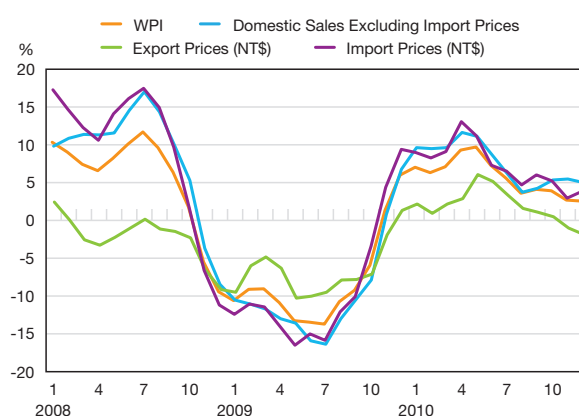
Reflecting the rising costs of primary commodities imports, prices of domestic sales excluding import prices went up 7.44 percent in 2010, notably in contrast to the 10.00 percent decrease in the previous year. In terms of product group, the prices of chemical materials, primary metal products, and petroleum and coal products rose by 21.76 percent, 18.66 percent, and 16.66 percent, respectively. In contrast, the prices of non-metallic mineral products decreased by 8.25 percent in the year because of the reduced demand for cement.

Mild Increase in Consumer Prices

The CPI rose mildly by 0.96 percent in 2010. The uptick in CPI inflation was tied partly to rising energy and commodity prices. Moreover, entertainment service prices picked up, with the increased demand generated by a robust domestic economy. However, vegetable and fruit prices were more stable due to favorable weather conditions. In addition, as market competition became more fierce, firms cut prices of consumer electronics to maintain their market shares. The monthly CPI inflation rates stood at moderately positive rates throughout the year except in August owing to the high base effect caused by typhoon damage in the previous year.

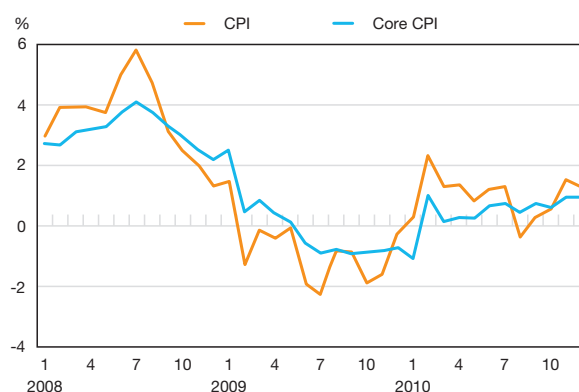
Monthly core CPI inflation rates stayed in positive territory during the course of the year, except in January due to the seasonal factor of the Chinese New Year holidays, leading to a core CPI inflation rate of 0.44 percent for 2010 as a whole.

Annual Rate of WPI



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Annual Rate of CPI



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

The main factors contributing to the rise of CPI inflation in 2010 were as follows:

- (1) In 2010, international petroleum prices rebounded and rose by 28.15 percent due to the continued global economy recovery, the depreciation of the US dollar and market speculation. Reflected by higher imported prices for international petroleum and natural gas, prices for domestic fuels and lubricants and gas moved up by 10.43 percent and 11.04 percent and accounted for 0.33 and 0.11 of a percentage point in the CPI increase, respectively.
- (2) In tandem with the solid recovery of the domestic economy in 2010, the demand for travel increased and prices of tour fees went up. As a result, prices of entertainment services rose by 3.88 percent, contributing 0.17 of a percentage point to CPI inflation.
- (3) In line with the rise in the tobacco health and welfare surcharge from NT\$10 to NT\$20 in June 1, 2009, prices of tobacco and betel nuts rose by 10.59 percent, accounting for 0.17 of a percentage point in CPI inflation.
- (4) Prices of fish and shellfish increased at an annual rate of 6.74 percent in 2010 as a result of a decrease in the catch in deep-sea fisheries and a decline in domestic aquaculture supply caused by typhoons and cold weather.
- (5) Prices of transportation and communication equipment increased by 3.40 percent, mainly owing to respective rises in the prices of cars and motorcycles by 4.54 percent and 5.90 percent, as well as the base effect stemming from tax deductions enacted as part of domestic policy stimulus measures in 2009.
- (6) Prices of garments moved up by 2.26 percent in 2010, mainly driven by the rise in prices of textile products resulting from a pick-up in prices of international cotton and chemical fibers, as well as less discounts by retailers because of the buoyant domestic economy.

The main factors contributing to downward pressure on the CPI in 2010 were as follows:

- (1) Severe market competition made it difficult for firms to pass on higher costs to consumers, causing a 1.14 percent decrease in the prices of durable consumer goods, such as cell phones, portable computers, digital cameras and video cameras.
- (2) Prices of fruits fell by 1.70 percent in 2010 due to ample supply of fruits reflected by good weather conditions during the year.
- (3) As fees for cell phones, the internet and telephones adjusted downward, prices of transportation services declined by 0.56 percent during 2010.

Percentage Changes in the Major Components of the CPI in 2010

Item	Weight (%)	Annual rate of change (%)	Contribution to CPI inflation rate (percentage point)
CPI	100	0.96	0.96
Fuels and Lubricants	3.26	10.43	0.33
Entertainment Services	4.28	3.88	0.17
Tobacco & Betelnut	1.47	10.59	0.17
Fish & Shellfish	1.67	6.74	0.13
Gas	0.97	11.04	0.11
Transportation & Communication Equipment	2.76	3.40	0.08
Garments	2.70	2.26	0.06
Total	17.10		1.05
Durable Consumer Goods	7.51	-1.14	-0.08
Fruits	2.76	-1.70	-0.05
Transportation Services	7.70	-0.56	-0.04
Total	17.97		-0.17
Others	64.93		0.08

Source: Price Statistics Monthly, DGBAS, Executive Yuan.