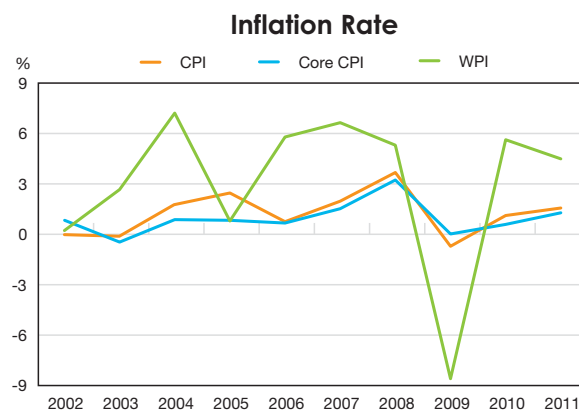


4. Prices

Taiwan's wholesale price index (WPI) rose by 4.32 percent in 2011, down from a 5.46 percent rise in 2010. The increase in WPI inflation in 2011 was mainly attributable to the surge of international primary commodity prices as well as the low base effect in the first half of the year. Headline inflation, measured by the consumer price index (CPI), edged up by 1.42 percent from the previous year's 0.96 percent increase, reflecting the pass-through to retail prices of the rise in the costs of imported goods.

The core CPI which excludes fruits and vegetables, fish and shellfish, and energy prices rose at an annual rate of 1.13 percent in 2011, up from a 0.44 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Continued Increase in Wholesale Prices

The annual WPI inflation rate was 4.32 percent in 2011, lower than the 5.46 percent rate of the previous year. The WPI was mainly boosted by higher prices of international raw materials, such as crude oil, cereals, cotton, and chemical materials. In terms of monthly movements, the annual WPI inflation rate in January registered 1.97 percent, the lowest increase in the year. It moved between 3.42 percent and 5.82 percent in the succeeding months of the year.

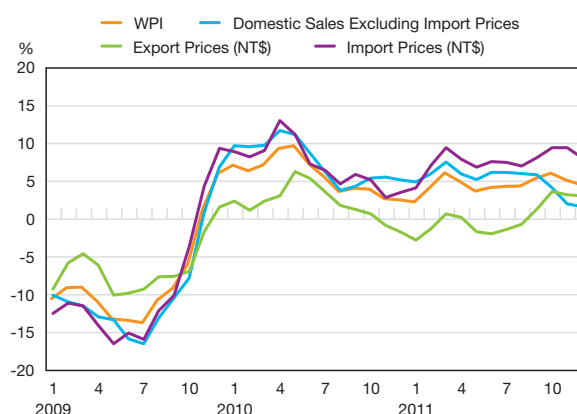
Broken down by the three major components of the WPI, the annual growth rates of import prices, domestic sales excluding import prices, and export prices in US dollar terms ran up markedly in 2011 as global commodity prices rose substantially in the first half of the year.

Import prices moved up sharply by 15.40 percent in US dollar terms in 2011. Due largely to rising international fuel prices brought about by robust demand from emerging markets and weather-induced instability in global agricultural product prices. However, the annual rate of change in import prices eased to 7.65 percent in terms of the local currency, reflecting the appreciation of the NT dollar against the currencies of major trading partners, which mitigated the inflationary pressure from import prices. Among the components of import prices, prices of raw materials, which account for 77.19 percent of the whole index, rose by 9.70 percent, and accounted for 7.55 percentage points in the 7.65 percent increase. Prices of consumer goods rose by 2.34 percent, while prices of capital goods declined by 0.39 percent.

Export prices in US dollar terms rose by an annual rate of 7.36 percent in 2011, higher than the 6.90 percent increase of the previous year. Due to the appreciation of the NT dollar against the US dollar in 2011, export prices in terms of the NT dollar showed a mere 0.09 percent increase, compared with a 2.03 percent increase in 2010.

Reflecting the rising costs of primary commodities imports, prices of domestic sales excluding import prices went up 5.04 percent in 2011, compared with the 7.44 percent rise in the previous year. In terms of product group, prices of fabric products, chemical materials, and petroleum and coal products rose by 14.38 percent, 13.84 percent, and 10.71 percent, respectively. In contrast, prices of electronic parts and components decreased by 6.57 percent in the year because of weaker than expected demand for semiconductor and liquid crystal displays.

Annual Rate of WPI



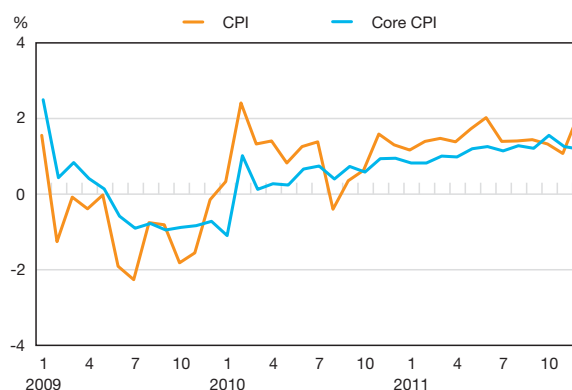
Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Moderate Increase in Consumer Prices

The CPI rose by 1.42 percent in 2011, 0.46 of a percentage point more than the previous year. The advance in CPI inflation was associated with rising energy, food and garment prices, reflecting the pass-through from commodity input costs to related retail prices. Prices of entertainment services also picked up, with the demand generated by moderate growth in the domestic economy. However, vegetable prices were low due to favorable weather conditions. In addition, telecommunication firms continued to cut communications fees to keep their market shares. Monthly CPI inflation rates remained stable throughout the year except in December, when the rate climbed to 2.02 percent, the highest in 2011, as vegetable prices soared due to severe damage caused by heavy rainfall.

The core CPI inflation rate was 1.13 percent in 2011. Monthly core CPI inflation rates trended modestly upward in the first ten months. Thereafter, the core CPI inflation rate declined

Annual Rate of CPI



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

from 1.53 percent in October, the highest in 2011, to 1.18 percent in December.

The main factors contributing to the rise of CPI inflation in 2011 were as follows:

- (1) International petroleum prices rose by 19.57 percent due to the geopolitical unrest in both North Africa and the Middle East, the continued increasing demand from emerging economies boosted by their robust economic growth and the depreciation of the US dollar. Reflecting higher imported prices for international petroleum and natural gas, prices for domestic fuels and lubricants and gas moved up by 7.30 percent and 4.22 percent and accounted for 0.25 and 0.05 of a percentage point in the CPI increase, respectively.
- (2) Given that the domestic economy grew modestly in 2011, increasing demand for travel pushed up the prices of foreign tour fees. In addition, international airline ticket prices and tutorial fees went up. As a result, prices of education and entertainment services rose by 1.57 percent, contributing 0.21 of a percentage point to CPI inflation.
- (3) Reflecting the long-term upward trend in prices of fish and shellfish due to a gradual decrease in the catch in offshore and deep-sea fisheries, prices of fish and shellfish continued to increase at an annual rate of 6.51 percent in 2011, accounting for 0.14 of a percentage point in CPI inflation.
- (4) The pass-through effect of the rise in imported prices of cereals and related raw materials into the retail prices of food and other processed goods pushed up food prices by 2.26 percent, contributing 0.63 of a percentage point to the CPI inflation rate.

Percentage Changes in the Major Components of the CPI in 2011

Item	Weight (%)	Annual rate of change (%)	Contribution to CPI inflation rate (percentage point)
CPI	100	1.42	1.42
Fuels and Lubricants	3.26	7.30	0.25
Education & Entertainment Services	12.96	1.57	0.21
Fish & Shellfish	1.67	6.51	0.14
Food away from Home	8.87	1.44	0.13
Meat	2.31	3.88	0.10
Fruits	2.76	3.61	0.09
Cereals & Cereal Products	1.97	4.06	0.09
Garments	2.70	3.32	0.09
Household Appliances	2.79	2.38	0.07
Medicines & Health Food	1.06	5.89	0.07
Residential Rent	18.54	0.36	0.06
Total	58.89		1.30
Communication Fees	3.18	-5.46	-0.16
Vegetables	2.48	-3.39	-0.08
Total	5.66		-0.24
Others	35.45		0.36

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

- (5) Prices of garments rose by 3.32 percent in 2011, mainly driven by the rise in prices of textile products resulting from a pick-up in international prices of cotton and chemical fibers.

The main factors contributing to downward pressure on the CPI in 2011 were as follows:

- (1) As fees for cell phones, the internet and telephones adjusted downward, prices of communication fees declined by 5.46 percent during 2011.
- (2) Prices of vegetables fell by 3.39 percent in 2011 due to ample supply resulting from good weather conditions during the year.

