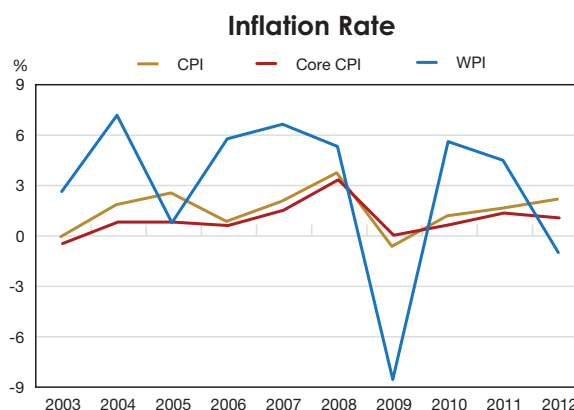


4. Prices

In 2012, the weakened global economy led to a decline in international primary commodity prices. As a result, Taiwan's wholesale price index (WPI) fell by 1.16 percent in 2012, down from a 4.32 percent rise in 2011. Headline inflation, measured by the consumer price index (CPI), rose by 1.93 percent, 0.51 percentage points more than the previous year, mainly owing to the weather-induced surge in vegetable and fruit prices in the second half of the year. The core CPI, which excludes fruits, vegetables, and energy, rose at an annual rate of 1.00 percent in 2012, down from a 1.26 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Slight Decrease in Wholesale Prices

The WPI slightly decreased at an annual rate of 1.16 percent in 2012, reflecting the deceleration of international raw materials prices resulting from a slowdown in global demand. In terms of monthly movements, the annual WPI inflation rate turned negative from March and exhibited a downward trend to the end of the year. In December, the annual WPI inflation rate fell to an all-year low of -3.95 percent.

Broken down by the three major components of the WPI, the annual rates of change in import prices, domestic sales excluding import prices, and export prices all decreased moderately in 2012 owing to the falling prices of international commodities.

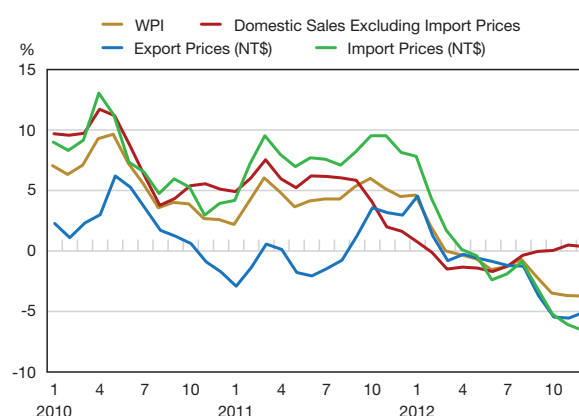
Import prices decreased by 1.91 percent in US dollar terms in 2012, compared with a 15.39 percent increase in the previous year. The decline in import prices mainly resulted from the falling prices of imported raw materials, such as cotton, iron and steel, copper, aluminum and chemical materials. As the NT dollar depreciated against the US dollar over 2012, the annual rate of change in import prices decreased by only 1.28 percent in NT dollar terms. Among the components of import prices, prices of raw materials, with a weight of 78.12 percent in the whole index, decreased by 1.86 percent and accounted for 1.48 percentage points in the 1.28 percent decrease. In contrast, prices of capital goods and consumer goods rose by 1.22 percent and 0.38 percent, respectively.

Export prices in US dollar terms decreased by 2.25 percent in 2012, down from an increase of 7.37 percent the year before. Owing to the depreciation of the NT dollar against the US dollar,

export prices fell by 1.62 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of chemical and industrial products accounted for the largest decline at 7.91 percent, whereas prices of primary metals and articles thereof decreased by 7.76 percent. In contrast, prices of animal products rose by 7.31 percent in 2012, mainly attributable to lower supply of eels and other frozen fish.

With the decrease in prices of primary commodities imports, prices of domestic sales excluding import prices went down 0.59 percent in 2012, compared with a 5.04 percent rise in the previous year. In terms of product group, prices of primary metal products, textile products and chemical materials fell by 7.80 percent, 5.83 percent, and 5.25 percent, respectively. In contrast, prices of petroleum and coal products rose by 7.16 percent in the year, as higher costs of crude oil were passed through to domestic oil, diesel and fuel oil prices.

Annual Rates of WPI



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

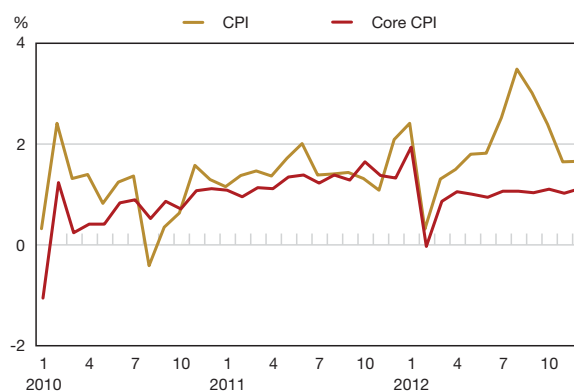
Moderate Increase in Consumer Prices

The CPI rose by 1.93 percent in 2012. The rise in CPI inflation was mainly caused by the fuel and electricity price hikes and the ensuing increase in related retail prices. In addition, typhoons and heavy rainfall induced a surge in vegetable and fruit prices, and a lower base effect added to the upward pressure on prices. After remaining stable in the first quarter of the year, monthly CPI inflation rates stepped up and peaked at 3.43 percent in August, as prices of vegetables and fruits soared because of weather-related disruptions. Subsequently, CPI inflation moderated to 1.60 percent in December.

The core CPI inflation rate was 1.00 percent in 2012. In the first two months of the year, the rate fluctuated on account of the seasonal factor of the Chinese New Year holidays. From March onwards, the core CPI remained moderate between 0.84 percent and 1.10 percent.

From 1998 to 2012, Taiwan's annual CPI inflation rate averaged merely 1.06 percent,

Annual Rates of CPI



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

and the standard deviation of the annual CPI inflation rate was also subdued at only 1.17 percent. Compared with major economies, Taiwan's inflation remained low and stable, conducive to maintaining the purchasing power of money and helping the general public make appropriate economic decisions.

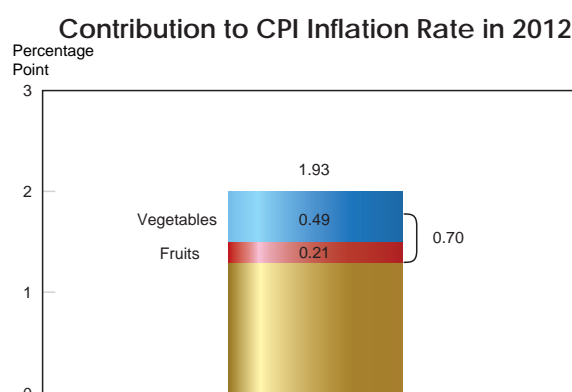
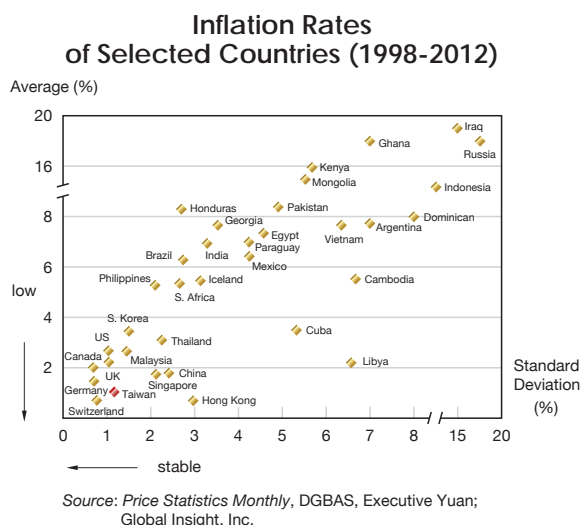
The advance in the CPI inflation rate in 2012 was mainly boosted by food and energy prices. Food prices rose at an annual rate of 4.16 percent and contributed 1.16 percentage points to CPI inflation. The main factors contributing to the rise of CPI inflation in 2012 were as follows:

(1) Owing to severe damage caused by typhoons and torrential rain as well as a lower base effect, prices of vegetables and fruits remarkably rose by 22.18 percent and 7.74 percent and accounted for 0.49 and 0.21 percentage points in the CPI increase, respectively.

(2) The rise in oil, electricity, and gas costs and higher raw food prices pushed up the prices of food away from home by 2.32 percent in 2012, contributing 0.22 percentage points to CPI inflation.

(3) International petroleum prices rose in early 2012, but the uptrend was later reversed and remained relatively flat through the second half of the year because of weak demand caused by slack global economic growth and abundant supply of shale oil from the US. Reflecting higher imported prices for petroleum and natural gas as well as the domestic oil and electricity price hikes announced in April, prices for domestic fuels and lubricants and gas moved up by 5.78 percent and 7.97 percent and accounted for 0.21 and 0.09 percentage points in the CPI increase, respectively.

(4) In line with the increase in tour group fees, prices of education and entertainment services rose by 1.47 percent, contributing 0.19 percentage points to CPI inflation.



The main factors contributing to downward pressure on the CPI in 2012 were as follows:

- (1) Prices of communication fees declined by 6.57 percent during 2012, as fees for cell phones, the internet, and telephones adjusted downward.
- (2) Prices of meat fell by 2.28 percent in 2012 owing to weak demand resulting from concerns over ractopamine-contaminated meat and a bird flu outbreak.

Percentage Changes in the Major Components of the CPI in 2012

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	1.93	1.93
Vegetables	22.18	0.49
Food away from Home	2.32	0.22
Fruits	7.74	0.21
Fuels & Lubricants	5.78	0.21
Education & Entertainment Services	1.47	0.19
Residential Rent	0.62	0.11
Gas	7.97	0.09
Fish & Shellfish	3.80	0.08
Garments	2.86	0.08
Tobacco & Betel Nuts	4.28	0.08
Cereals & Cereal Products	2.20	0.06
Electricity	2.40	0.05
Total		1.87
Communication Fees	-6.57	-0.17
Meat	-2.28	-0.06
Total		-0.23
Others		0.29

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