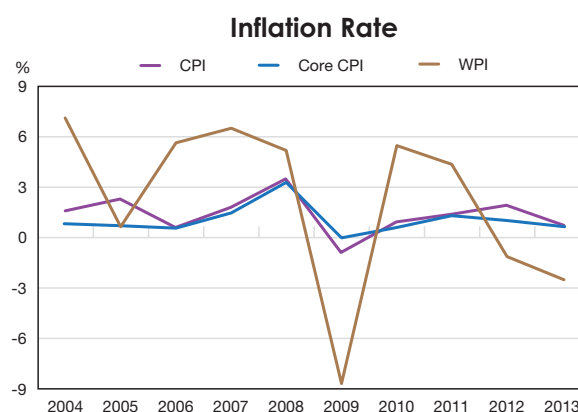


4. Prices

Taiwan's wholesale price index (WPI) fell by 2.43 percent in 2013, showing a further decline over the 1.16 percent decrease last year. The drop in WPI inflation was largely attributable to lower international primary commodity prices owing to a slow recovery in the global economy, as well as the falling imported costs of machinery and equipment from Japan resulting from the depreciation of the Japanese yen. Headline inflation, measured by the consumer price index (CPI), increased moderately at an annual rate of 0.79 percent in 2013, down from a rise of 1.93 percent over 2012, mainly owing to fuel, gas, and electricity price hikes and a surge in food prices, though these were partly offset by reductions in communication fees and consumer electronics products. The core CPI, which excludes fruits, vegetables, and energy, also rose slightly by 0.66 percent in 2013, compared with a 1.00 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Moderate Decrease in Wholesale Prices

The WPI decreased at an annual rate of 2.43 percent in 2013, mainly driven by the decline in international raw materials prices resulting from a slowdown in global demand caused by slack global economic growth, as well as lower imported costs of machinery and equipment from Japan on account of the depreciation of the Japanese yen against the NT dollar. In terms of monthly movements, the annual WPI inflation rate generally exhibited a downward trend for the whole year compared with the same period in 2012, yet the pace of the decrease in the annual WPI inflation rate gradually abated, and the decline was only 0.01 percent 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 continued their downward trends in 2013 owing to lower international commodity prices.

Import prices decreased by 4.81 percent in US dollar terms in 2013. However, as the NT dollar slightly depreciated against the US dollar over 2013, the annual rate of change in import prices decreased by 4.45 percent in NT dollar terms. The decline in import prices was mainly led by the falling prices of imported raw materials, such as glass, coal, copper, crude petroleum and liquefied natural gas. In addition, import prices were dragged down by declining import costs of machinery

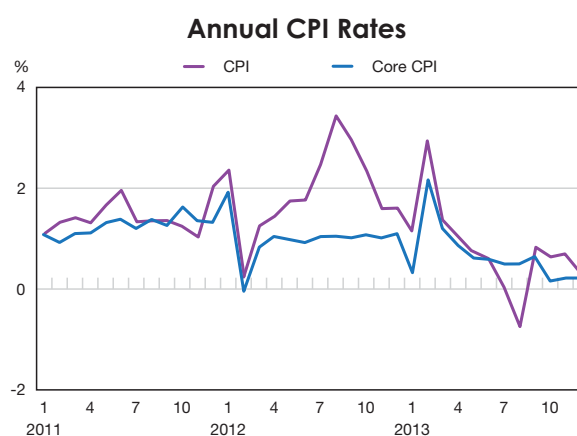
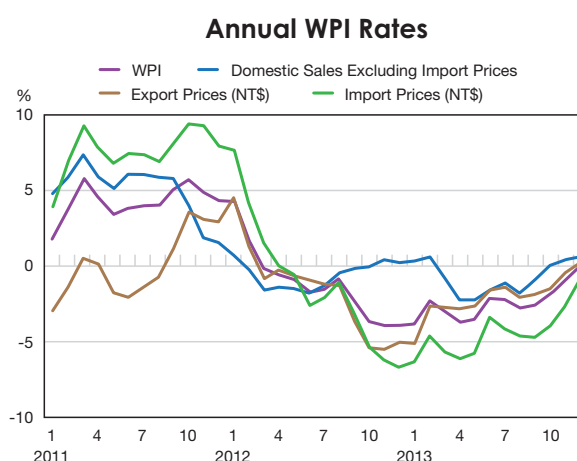
and equipment from Japan as a result of the depreciation of the Japanese yen. Among the components of import prices, prices of raw materials, capital goods and consumer goods fell by 3.94 percent, 7.80 percent and 3.20 percent, respectively, and accounted for 3.08 percentage points, 1.03 percentage points, and 0.28 percentage points in the import price decrease, respectively.

Export prices in US dollar terms dropped by 2.43 percent in 2013. Owing to the mild depreciation of the NT dollar against the US dollar, export prices fell by 2.06 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of animal products accounted for the largest decline at 18.76 percent, mainly attributable to the falling prices of frozen fish. Prices of primary metals and articles thereof and mineral products both decreased by 3.77 percent.

Prices of domestic sales excluding imports went down 0.71 percent in 2013. Among product groups, prices of computer, electronics and optical products, primary metal products, and non-metallic mineral products decreased by 10.13 percent, 6.88 percent, and 5.15 percent, respectively. In contrast, prices of furniture and fixtures rose by 4.80 percent in the year owing to the rising prices of wooden and metallic furniture.

Mild Increase in Consumer Prices

The CPI rose by 0.79 percent in 2013, down from an increase of 1.93 percent in the previous year. Owing to an increase in prices of fuel, fruits and tour group fees, the annual rate of change in the CPI in the first quarter rose to 1.80 percent. From April onwards, monthly CPI inflation rates continued the downward trend and lowered to -0.78 percent in August, influenced by a higher base effect stemming from the fuel and the first-stage electricity price hikes and weather-related factors in the previous year. Subsequently, monthly CPI inflation rates went up, as prices of vegetables soared following typhoons and heavy rainfall and the second-stage electricity price increase which took effect in October.



The core CPI inflation rate was 0.66 percent in 2013. 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 pace of the core CPI slackened and slowed to 0.21 percent in December, owing to constrained private consumption caused by subdued growth in the domestic economy.

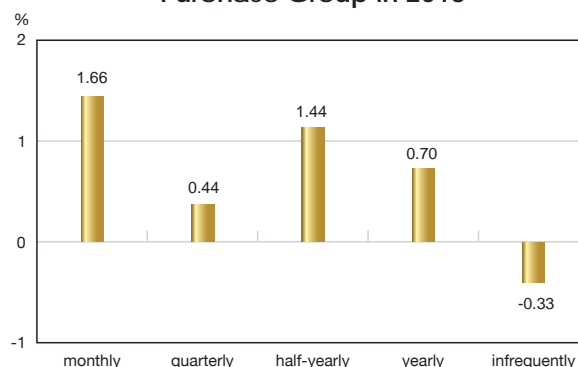
Compared with major economies, Taiwan's inflation remained low and stable during 2009 to 2013. Such an environment is conducive to maintaining the purchasing power of money and decreasing future economic uncertainties in order to help the general public arrange their economic activities such as production, consumption, saving and investment. This stable foundation should foster further economic growth.

Among the five components by frequency of purchase groups, the annual rate of change in prices of the most frequently purchased goods or services was pushed up by 1.66 percent due to a 1.27 percent rise in food prices that contributed 0.33 percentage points to CPI inflation.

The main factors contributing to the rise of CPI inflation in 2013 were as follows:

1. The rise in oil, electricity, and gas costs and higher raw food prices pushed up the prices of food away from home by 1.54 percent, contributing 0.16

CPI Inflation Rate by Frequency of Purchase Group in 2013



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Inflation Rates of Selected Countries

	2009	2010	2011	2012	2013	Average Annual Inflation Rate
World	1.64	2.87	4.10	3.23	2.98	2.96
United States	-0.32	1.64	3.14	2.08	1.47	1.60
Eurozone	0.24	1.51	2.55	2.32	1.29	1.58
Switzerland	-0.48	0.69	0.23	-0.69	-0.22	-0.09
Japan	-1.34	-0.70	-0.30	-0.03	0.03	-0.41
China	-0.70	3.32	5.40	2.65	2.62	2.66
Taiwan	-0.86	0.96	1.42	1.93	0.79	0.85
South Korea	2.76	2.95	3.99	2.21	1.32	2.64
Hong Kong	0.59	2.31	5.28	4.07	4.33	3.32
Singapore	0.59	2.83	5.25	4.53	2.39	3.12
Indonesia	4.81	5.13	5.36	4.28	6.98	5.31
Malaysia	0.58	1.73	3.17	1.66	2.11	1.85
Philippines	4.21	3.78	4.72	3.17	2.93	3.76
Thailand	-0.85	3.28	3.81	3.01	2.18	2.29
Vietnam	7.05	8.86	18.68	9.09	6.59	10.06

Sources : DGBAS; Global Insight.

percentage points to CPI inflation.

2. In line with the increase in tour group fees, prices of education and entertainment services rose by 1.12 percent, contributing 0.14 percentage points to CPI inflation.
3. Reflecting higher import prices for petroleum and natural gas, prices for domestic fuels and lubricants and gas rose by 2.70 percent and 4.29 percent and accounted for 0.10 and 0.05 percentage points in the CPI increase, respectively.
4. Owing to a shortage of supply caused by a bird flu outbreak, a ban on slaughtering poultry in traditional markets effective from May 17, and rising feed costs, prices of meat went up by 4.30 percent and accounted for 0.08 percentage points in the CPI increase.
5. With the supply constrained by typhoons and torrential rain in summer, prices of vegetables increased at an annual rate of 2.45 percent, contributing 0.06 percentage points to CPI inflation.
6. Prices of electricity moved up by 2.20 percent owing to the second-stage electricity price hike taking effect in October 2013 after the first hike launched in June 2012.

The main factors contributing to downward pressure on the CPI in 2013 were as follows:

1. Consumer electronics products retailers continued discount promotions because of slack domestic demand, causing a 1.84 percent decrease in the prices of durable consumer goods, such as equipment for communication, education and entertainment.
2. Prices of fruits fell by 2.58 percent owing to a higher base effect resulting from unfavorable weather conditions in the second half of 2012.

Percentage Changes in the Major Components of the CPI in 2013

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	0.79	0.79
Food away from Home	1.54	0.16
Education & Entertainment Services	1.12	0.14
Residential Rent	0.68	0.12
Fuels & Lubricants	2.70	0.10
Meat	4.30	0.08
Vegetables	2.45	0.06
Electricity	2.20	0.05
Gas	4.29	0.05
Fish & Shellfish	2.49	0.04
Tobacco & Betel Nuts	3.54	0.04
Total		0.84
Durable Consumer Goods	-1.84	-0.14
Fruits	-2.58	-0.06
Total		-0.20
Others		0.15

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