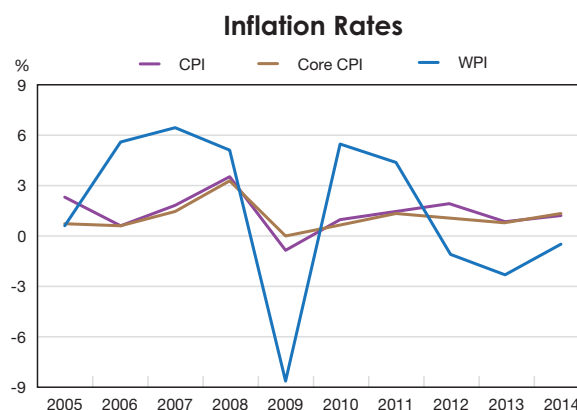


## 4. Prices

In 2014, the slow recovery of the global economy led to the weakening of international primary commodity prices. As a result, Taiwan's wholesale price index (WPI) fell by 0.57 percent. Headline inflation, measured by the consumer price index (CPI), rose by 1.20 percent from the previous year's 0.79 percent increase, mainly driven by a surge in food prices, though it was partly offset by reductions in domestic retail oil prices and prices of consumer electronics products. The core CPI, which excludes fruits, vegetables and energy, rose by 1.26 percent in 2014, up from a 0.66 percent increase in the previous year.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

### Slight Decrease in Wholesale Prices

For the year 2014, the WPI edged down by 0.57 percent over the previous year, mainly owing to the falling prices for international primary materials stemming from subdued global demand. In terms of monthly movements, the annual WPI inflation rate generally exhibited an upward trend from the beginning of 2014 and registered 1.15 percent in May. Afterwards, it trended downward and turned negative from September, yet the pace of the decrease in the annual WPI inflation rate gradually accelerated on account of the oil-price plunge and the decline was 4.78 percent in December.

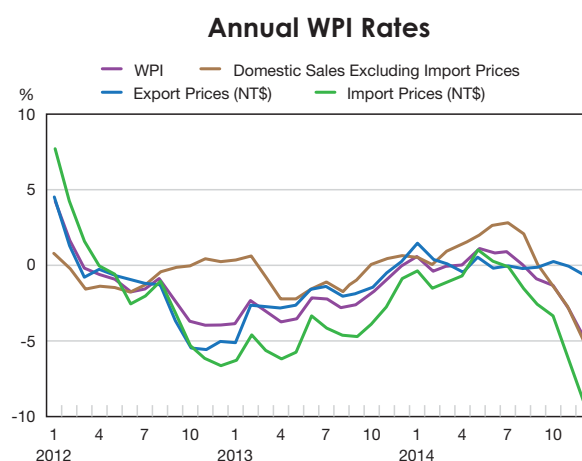
Broken down by the three major components of the WPI, the annual rate of change in prices for imports decreased moderately in 2014, whereas the annual rates of change in prices for domestic sales excluding imports and exports increased slightly.

Import prices fell by 4.03 percent in US dollar terms in 2014. The decline was mainly attributed to the falling prices of imported raw materials, such as glass, crude petroleum, iron ore, coal, cell phones and parts thereof, and electronic parts and components. As the NT dollar depreciated against the US dollar over 2014, import prices marked an annual decrease of 2.10 percent in NT dollar terms. Among the components of import prices, prices of raw materials and capital goods dropped by 2.47 percent and 1.25 percent, respectively, and accounted for 1.93 percentage points and 0.16 percentage points in the import price decrease. In contrast, prices of consumer goods

slightly rose by 0.05 percent.

Export prices in US dollar terms decreased by 1.92 percent in 2014. Owing to the depreciation of the NT dollar against the US dollar, export prices mildly moved up by 0.10 percent in terms of the NT dollar. In NT dollar terms, among the basic groups, prices of prepared foodstuffs, beverages, spirits and tobacco increased by 4.51 percent. However, prices of mineral products accounted for the largest decrease at 6.00 percent, mainly attributable to declines in the prices of gasoline, diesel, and fuel oil.

Prices of domestic sales excluding imports went up by 0.28 percent in 2014. Among product groups, prices of computers, electronic and optical products, petroleum and coal products, and chemical materials decreased by 10.98 percent, 3.14 percent, and 2.47 percent, respectively.

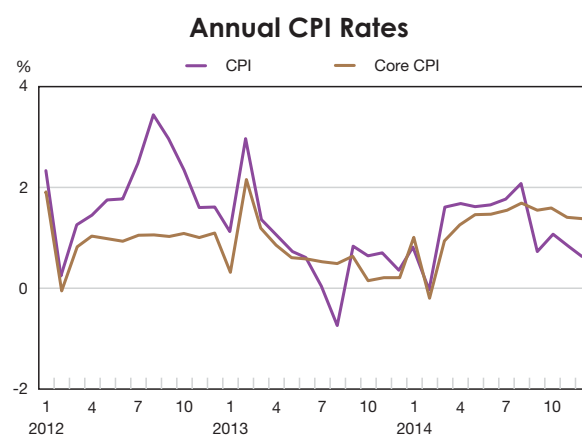


Source: Price Statistics Monthly, DGBAS, Executive Yuan.

## Moderate Increase in Consumer Prices

The CPI rose by 1.20 percent in 2014, higher than the 0.79 percent change in the previous year. From the beginning of 2014, monthly CPI inflation rates stepped up and peaked at 2.07 percent in August, mainly attributable to high food prices affected by supply-side factors such as infected piglets and unfavorable weather conditions. Afterwards, the monthly CPI inflation rate went down to 0.60 percent in December, as prices of vegetables fell because of a higher base effect and oil prices plunged reflecting the downtrend in global oil prices.

The core CPI inflation rate was 1.26 percent in 2014. In the first two months of the year, the rate fluctuated on account of the seasonal factor of the Lunar New Year holidays. From March onwards, owing to moderate growth in the domestic economy, monthly core CPI inflation trended modestly upward and grew by 1.68 percent in August, the highest in 2014. Subsequently, the core CPI inflation rate edged down to 1.37 percent in December.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

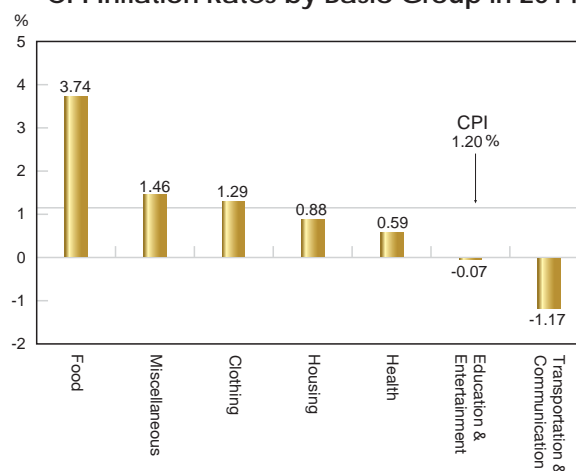
The advance in the CPI inflation rate in 2014

was largely boosted by food prices, which rose by 3.74 percent and contributed 0.97 percentage points to CPI inflation.

The main factors contributing to the rise of CPI inflation in 2014 were as follows:

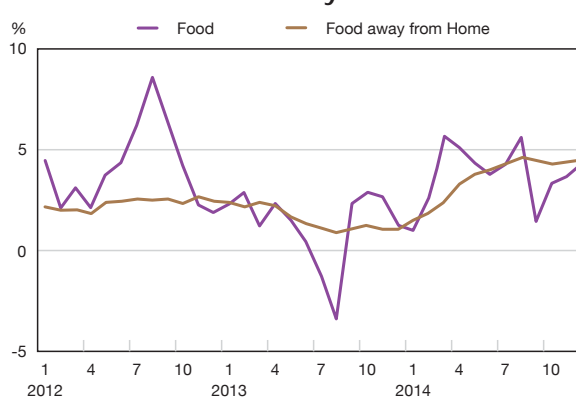
- (1) The rise in electricity costs and higher raw food prices such as pork, chicken and eggs, pushed up the prices of food away from home by 3.61 percent, contributing 0.36 percentage points to CPI inflation.
- (2) The prices of pork soared owing to a shortage of supply caused by infected piglets and higher demand for lard oil stemming from concerns over tainted cooking oil. On the other hand, prices of chicken increased on account of the substitution effect resulting from higher pork prices. As a result, prices of meat went up by 11.11 percent and accounted for 0.22 percentage points in the CPI increase.
- (3) With the supply constrained by unfavorable weather conditions such as typhoons in the second half of 2013, and severe coldness in the beginning of 2014, as well as heavy rainfall in summer, prices of fruits increased at an annual rate of 8.37 percent, contributing 0.19 percentage points to CPI inflation.
- (4) Prices of residential rent mildly rose by 0.73 percent, contributing 0.13 percentage points to CPI inflation.
- (5) Influenced by a decrease in the catch in offshore and deep-sea fisheries, prices of fish and shellfish continued a long-term upward trend and increased at an annual rate of 6.79 percent, accounting for 0.11 percentage points in CPI inflation.
- (6) Prices of electricity moved up by 4.27 percent, attributable to the second-stage electricity price hike taking effect in October 2013, as well as a higher subsidy standard as a measure to encourage electricity saving effective from August 2014.
- (7) In line with the increase in tour group fees, prices

**CPI Inflation Rates by Basic Group in 2014**



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

**Annual Rates of Change in Prices of Food and Food away from Home**



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

of education and entertainment services rose by 0.66 percent, contributing 0.09 percentage points to CPI inflation.

The main factors contributing to downward pressure on the CPI in 2014 were as follows:

- (1) Prices of durable consumer goods, such as equipment for communication, education and entertainment, decreased by 1.92 percent as consumer electronics products retailers continued discount promotions.
- (2) Since the second half of 2014, global oil prices have decelerated significantly, primarily induced by an increase in oil supply as a result of increased shale oil production in the US and the OPEC's decision to keep production quotas unchanged. In addition, weaker-than-expected global oil demand also contributed to the slump in oil prices. Reflecting the downward trend in global oil prices, prices of fuels and lubricants dropped by 3.18 percent.
- (3) Prices of vegetables fell by 3.51 percent on account of a higher base effect resulting from unfavorable weather conditions in the second half of 2013.

### Percentage Changes in the Major Components of the CPI in 2014

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	1.20	1.20
Food away from Home	3.61	0.36
Meat	11.11	0.22
Fruits	8.37	0.19
Residential Rent	0.73	0.13
Fish & Shellfish	6.79	0.11
Electricity	4.27	0.10
Education & Entertainment Services	0.66	0.09
Garments	1.72	0.05
Total		1.25
Durable Consumer Goods	-1.92	-0.15
Fuels & Lubricants	-3.18	-0.12
Vegetables	-3.51	-0.08
Total		-0.35
Others		0.30

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