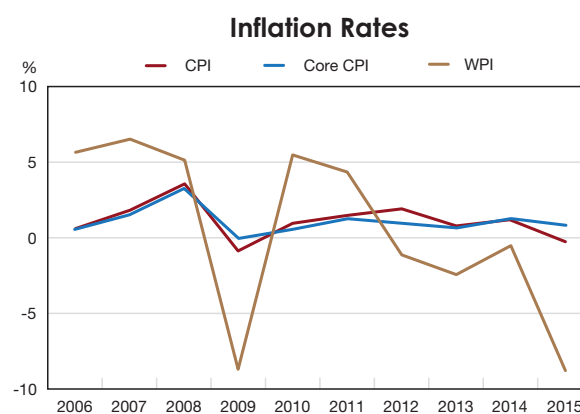


4. Prices

Taiwan's inflation fell into negative territory in 2015, largely driven by the steep decline in international commodity prices resulting from subdued global economic growth. The wholesale price index (WPI) decreased markedly by 8.84%, posting the biggest drop on record. Headline inflation, measured by the consumer price index (CPI), fell by 0.31% compared with the 1.20% increase in the previous year. The deceleration was mainly caused by falling energy prices and slack domestic demand, though it was partly offset by a rise in food prices. However, the core CPI, which excludes fruits, vegetables, and energy, rose mildly by 0.79% compared with a 1.26% increase over 2014.

Sharp Decline in Wholesale Prices

The WPI fell by 8.84% in 2015, the largest decline in history, mainly reflecting lower prices for international primary materials stemming from sluggish global demand. In terms of monthly movements, the annual WPI inflation rate displayed a downward trend in the first seven months of the year, and fell to an all-year low of -10.23% in July. Afterwards, the decrease narrowed to 7.29% in December.



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

Broken down by the three major components of the WPI, the annual rates of change in prices for imports, exports, and domestic sales excluding imports all declined substantially in 2015, mainly on account of marked drops in international raw material prices.

Import prices fell by 16.86% in US dollar terms in 2015, mainly attributed to the continuous plunge in prices of imported raw materials, such as crude petroleum, liquefied natural gas, iron and steel, copper, and electronic parts and components. As the NT dollar depreciated against the US dollar over 2015, the annual change in import prices alleviated to a 12.94% decline in NT dollar terms. Among the components of import prices in terms of NT dollars, prices of raw materials, capital goods and consumer goods declined by 15.90%, 3.39%, and 1.14% and accounted for 12.40 percentage points, 0.44 percentage points, and 0.10 percentage points in the import price decrease, respectively.

Export prices in US dollar terms dropped by 8.96% in 2015. Owing to the depreciation of the NT dollar against the US dollar, export prices fell by 4.67% in terms of the NT dollar. In NT dollar

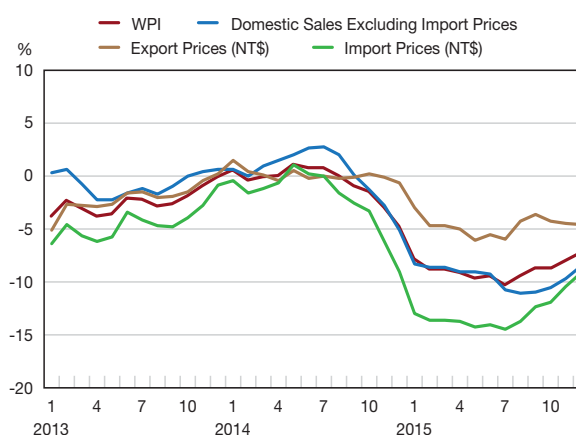
terms, among the basic groups, prices of mineral products accounted for the largest decline at 36.25%, contributing 2.11 percentage points to the decrease in export prices. This was primarily driven by plunging prices of gasoline, diesel, and fuel oil. In addition, prices of chemical materials, plastics and rubber products, and primary metal products decreased by 16.24%, 9.37%, and 6.56%, respectively, reflecting the weakness in raw material prices.

With declining import costs of primary commodities, prices of domestic sales excluding imports went down by 9.55% in 2015. In terms of the basic groups, prices of water supply, electricity and gas showed the largest decline at 12.01%, mainly attributable to the rebates of electricity charges at the beginning of the year as well as two rounds of reductions in electricity prices effective in April and October based on the new electricity pricing adjustment mechanism, together with falling gas prices. Prices of manufacturing products and quarrying and mineral products fell by 10.21% and 2.69%, respectively. In contrast, prices of agriculture, forestry and livestock products rose by 1.32% on account of rising prices of vegetables resulting from the shortage of supply caused by typhoons and torrential rain in the second half of the year.

Slight Decrease in Consumer Prices

The CPI dropped by 0.31% in 2015, the first yearly decline since 2010. In the first eight months of the year, monthly CPI inflation rates stayed in negative territory, mostly driven by a slump in

Annual WPI Rates



Source: Price Statistics Monthly, DGBAS, Executive Yuan.

Number of Price-Rising and Price-Falling Items in Each Month of 2015

(Compared with the Same Month of 2014)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Rising	233 (65.3%)	205 (66.7%)	218 (69.9%)	229 (69.2%)	209 (68.0%)	220 (66.5%)	218 (68.0%)	231 (68.7%)	233 (67.7%)	247 (71.6%)	256 (72.5%)	233 (71.4%)
Same	9 (2.5%)	8 (2.1%)	12 (3.3%)	10 (3.2%)	12 (3.2%)	11 (3.2%)	13 (3.3%)	11 (2.9%)	9 (2.6%)	11 (2.7%)	12 (2.9%)	13 (3.2%)
Falling	124 (32.2%)	153 (31.2%)	135 (26.9%)	126 (27.6%)	144 (28.8%)	134 (30.4%)	135 (28.6%)	124 (28.4%)	125 (29.7%)	108 (25.8%)	98 (24.6%)	121 (25.4%)

Notes: 1. There are 370 items of goods and services selected in the CPI basket.

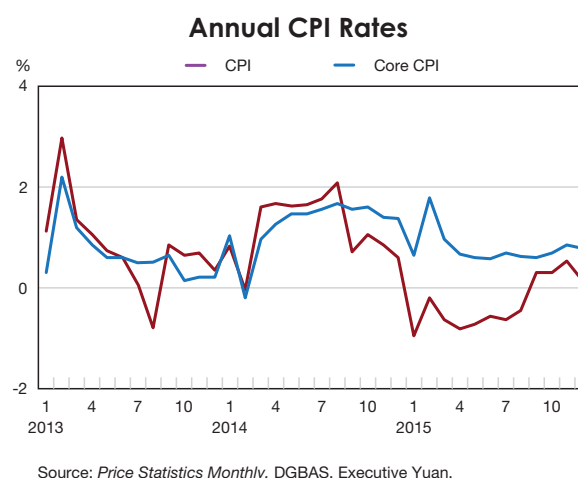
2. The total number of items per month is less than 370 as the number of fruit items not in season is excluded.

3. Numbers in brackets indicate the weight of each category as a percentage of all items.

Source: Price Statistics Monthly, DGBAS, Executive Yuan.

energy prices reflecting the weakening of global oil prices, as well as sluggish domestic demand. From September onwards, monthly CPI inflation rates turned positive and edged up to 0.14% in December, as prices of vegetables and fruits soared because of weather-related disruptions.

The CPI inflation rate was negative in 2015, mainly caused by considerable falls in energy prices. However, the number and weight of price-rising items significantly exceeded those of price-falling ones, indicating that overall prices did not broadly decline.



Compared to the slight downtrend in CPI, the core CPI inflation rate rose modestly by 0.79% in 2015. 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, monthly core CPI inflation rates hovered between 0.50% to 1.00%.

In 2015, Taiwan's CPI inflation was substantially held down by falling energy prices, primarily caused by the pass-through effect arising from the slump in imported oil prices and accounting for 1.39 percentage points in the CPI decrease. The main factors contributing to the decrease of CPI inflation in 2015 were as follows:

- (1) In early 2015, international petroleum prices rebounded and peaked in May, but the uptrend was later reversed and decelerated sharply through the second half of the year because of weak demand affected by lackluster global economic growth and abundant supply of oil from OPEC and non-OPEC countries. Compared with 2014, average international petroleum prices fell significantly by 46.96%. As a result, the large decline in import costs for petroleum and natural gas lowered domestic oil and gas prices, which dropped by 24.99% and 22.25% and accounted for 0.90 and 0.25 percentage points in the CPI decrease, respectively.
- (2) Affected by the rebates of electricity charges at the beginning of the year, as well as two rounds of reductions in electricity prices taking effect in April and October, electricity prices moved down by 10.27%, subtracting 0.24 percentage points from CPI inflation.

The main upward factors contributing to CPI inflation in 2015 were as follows:

- (1) With the supply constrained by unfavorable weather conditions such as typhoons as well as heavy rainfall, prices of vegetables rose by 15.59% and accounted for 0.36 percentage points in CPI inflation.

- (2) Despite the declines in oil, electricity and gas costs, higher raw food prices such as pork, chicken and vegetables pushed up the prices of food away from home by 2.25%, contributing 0.23 percentage points to CPI inflation.
- (3) Prices of residential rent continued a mild upward trend and rose by 0.88%, contributing 0.16 percentage points to CPI inflation.
- (4) Owing to a shortage of supply caused by a bird flu outbreak at the beginning of 2015 and the deferred effect from infected piglets since 2014, along with higher demand for pork on account of the substitution effect resulting from the bird flu outbreak, prices of meat increased by 3.23%.
- (5) Prices of education and entertainment services grew by 0.47%, mainly because of an increase in tour group fees.

Percentage Changes in the Major Components of the CPI in 2015

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	-0.31	-0.31
Vegetables	15.59	0.36
Food away from Home	2.25	0.23
Residential Rent	0.88	0.16
Meat	3.23	0.07
Education & Entertainment Services	0.47	0.06
Total		0.88
Fuels & Lubricants	-24.99	-0.90
Gas	-22.25	-0.25
Electricity	-10.27	-0.24
Total		-1.39
Others		0.20

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