

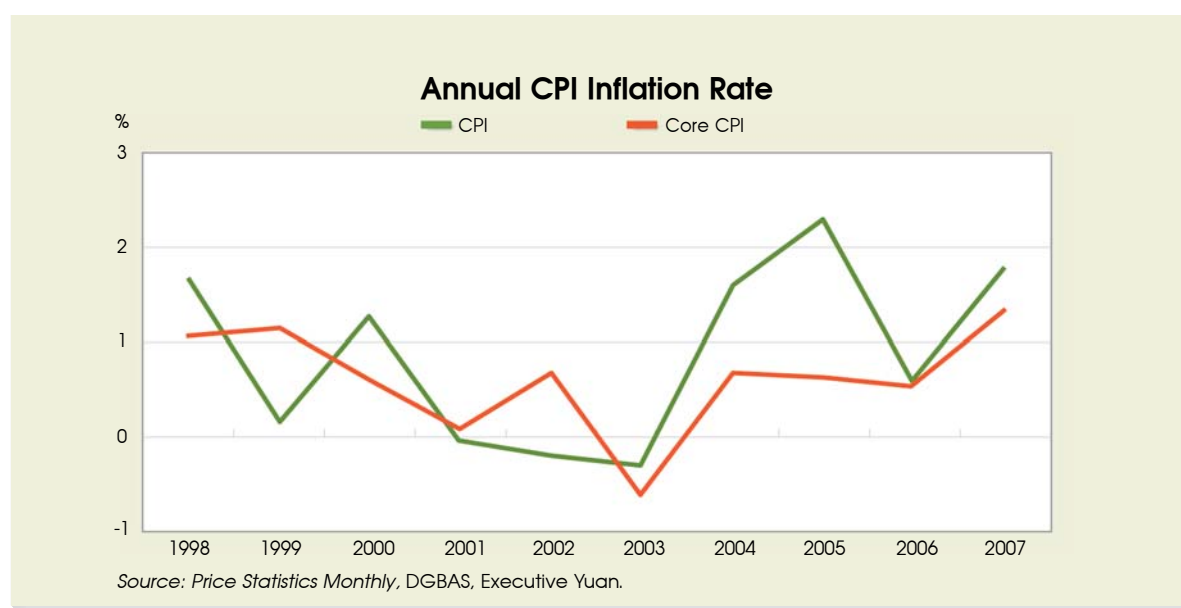
4. Prices

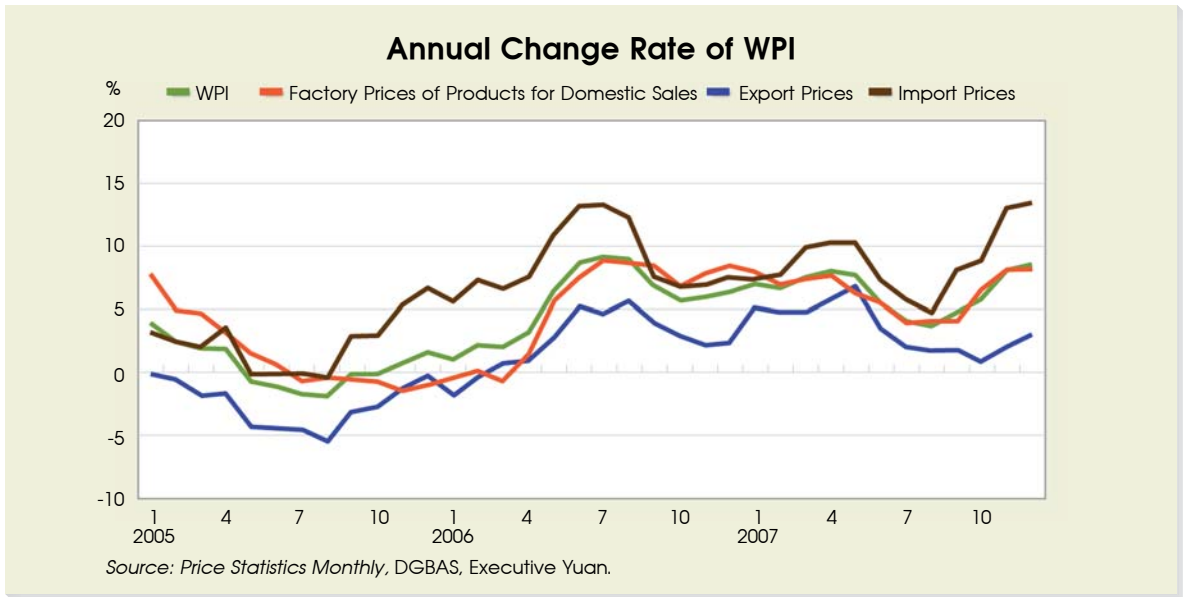
Taiwan's inflation was pushed up by soaring prices of international raw materials and crude oil in 2007. The wholesale price index (WPI) rose steeply by 6.47 percent, mainly attributable to rising global oil and commodity prices and a weak New Taiwan dollar. The headline consumer price index (CPI) went up by 1.80 percent, notably higher than the 0.60 percent increase in 2006. The hike in CPI inflation was caused by the rising import prices of oil, gas, medicine and food, and severe typhoons from August onwards. The core CPI (consumer prices excluding fruits and vegetables, fish and shellfish, and energy) rose by 1.35 percent in 2007, faster than the previous year's 0.52 percent.

Steep Increase in Wholesale Prices

The annual WPI inflation rate reached 6.47 percent in 2007, which was 0.84 of a percentage point more than in 2006. Broken down by the major components of the WPI, factory prices of products for domestic sales and import prices rose markedly, while export prices recorded a relatively moderate increase.

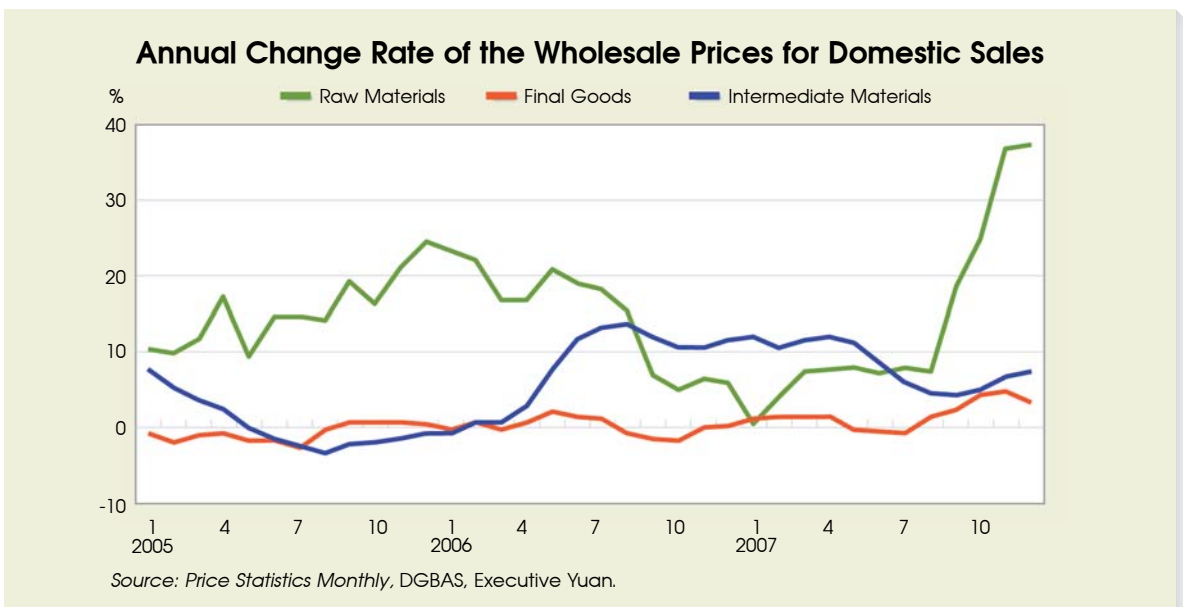
Import prices increased by 7.95 percent in US dollar terms, as prices rose sharply for grains, crude oil, chemicals, plastics and a variety of metals, such as iron, steel and copper. In local currency terms, import prices increased by 8.95 percent, with the difference largely reflecting





the depreciation of the NT dollar against the US dollar. Among the components of import prices, prices of raw materials, which weighed 70.02 percent, rose by 11.10 percent and accounted for 8.66 percentage points in the 8.95 percent increase. The prices of consumer goods rose by 4.18 percent, while the prices of capital goods decreased by 0.44 percent. In addition, export prices in terms of the US dollar and the NT dollar increased moderately by 2.59 percent and 3.56 percent, respectively.

Factory prices of products for domestic sales rose by 6.39 percent, despite the decline in the prices of domestic computers, communication and audio-video equipment, and electronic



components. The rise reflected growing import costs of primary commodities, as the prices of primary metal products, mineral products, petroleum and coal products, electrical equipment and apparatus, and chemicals rose by 18.84 percent, 18.01 percent, 10.89 percent, 9.07 percent, and 8.66 percent, respectively.

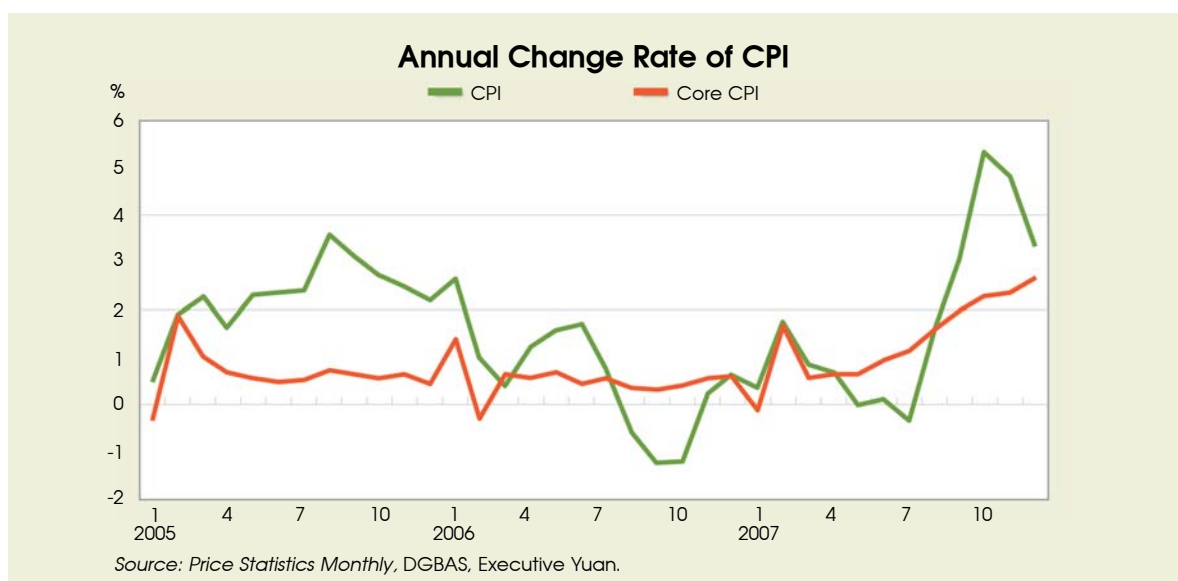
Wholesale prices for domestic sales rose by 7.59 percent in 2007. Broken down by the stages of production, the prices of raw materials and intermediate materials rose by 14.04 percent and 8.32 percent, respectively. These sharp movements were associated primarily with the hiking global commodity prices brought by robust demand for crude oil, primary metals, and raw materials, especially from emerging economies such as China and India. However, fierce market competition brought by globalization and liberalization made it difficult to pass on higher production costs to customers. Therefore, prices of finished goods rose moderately by 1.77 percent.

Moderate Increase in Consumer Prices

The core CPI rose by 1.35 percent in 2007. In the first three months of 2007, the core CPI inflation rate fluctuated due to the seasonal factor of Chinese New Year holidays. From April onwards, the core CPI inflation rate went up, reflecting increasing food prices induced by rising prices of imported grains and dairy products.

The CPI rose by 1.80 percent in 2007. CPI inflation remained stable in the first half of the year due to slack domestic demand and stable prices of services. In the second half of the year, typhoons induced a surge of vegetable prices, and the low-base effect added to an upward pressure. In October, the CPI rose by 5.33 percent as vegetable prices soared by 78.63 percent and accounted for 2.63 percentage points in the 5.33 percent increase.

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The main upward factors contributing to CPI inflation in 2007 were as follows:

- (1) The substantial increase in vegetable prices was the main upward pressure for CPI inflation in 2007. Due to severe damages caused by typhoons and the low-base effect, vegetable prices rose by 9.52 percent and contributed 0.32 of a percentage point to the CPI inflation rate.
- (2) The continuing hike in international petroleum prices affected domestic oil and gas prices, which rose by 6.10 percent and 9.99 percent and accounted for 0.18 and 0.11 of a percentage point in the CPI increase, respectively.
- (3) Prices of food away from home were driven up by higher raw food prices and gas costs and increased by 2.50 percent in 2007, contributing 0.18 of a percentage point to the CPI increase. The rise in feeding costs pushed up the prices of meats and dairy products by 3.26 percent and 5.78 percent, contributing 0.09 and 0.07 of a percentage point to the CPI inflation rate, respectively.
- (4) Prices of medicine rose by 18.34 percent due to the shortage of Chinese medicine materials imported from China, accounting for 0.15 of a percentage point in the CPI

Percentage Changes in the Major Components of the CPI in 2007

Item	Annual change rate (%)	Contribution to CPI inflation rate (percentage point)
CPI	1.80	1.80
Food	2.86	0.77
Vegetables	9.52	0.32
Food away from Home	2.50	0.18
Fish & Shellfish	6.19	0.11
Meat	3.26	0.09
Dairy Products	5.78	0.07
Other Cereals & Other Cereal Products	3.21	0.05
Fruits	-3.54	-0.11
Energy	5.70	0.31
Oil	6.10	0.18
Gas	9.99	0.11
Electricity	0.98	0.02
Core CPI	1.35	1.16
Education & Entertainment	1.83	0.20
Medicine	18.34	0.15
Tobacco & Betel Nut	3.83	0.10
Garment	3.17	0.10
Residential Rent	0.20	0.04
Durable Consumer Goods	-0.38	-0.03

Source: Price Statistics Monthly, DGBAS, Executive Yuan.

increase. The rising import costs of tobacco drove up tobacco and betel nut prices by 3.83 percent, which accounted for 0.10 of a percentage point in the CPI inflation rate.

- (5) Garment prices and education and entertainment prices went up 3.17 percent and 1.83 percent, contributing 0.10 and 0.20 of a percentage point to the CPI inflation rate, respectively.

During the same period, the main factors offsetting CPI inflationary pressures were as follows:

- (1) Ample supply of fruits due to good weather conditions during the first half of the year brought the year-on-year fruit prices down by 3.54 percent.
- (2) Slack domestic demand and severe market competition made it difficult for firms to pass on higher costs to consumers, causing a 0.38 percent decrease in the prices of durable consumer goods, such as motor vehicles, computers, communication and audio-video equipment.

