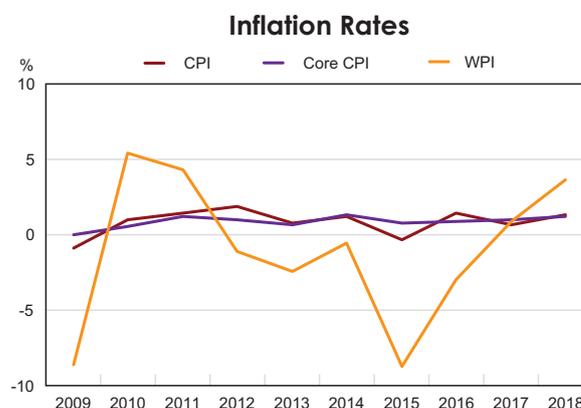


4. Prices

In 2018, Taiwan's wholesale price index (WPI) rose by 3.63% from the previous year's 0.90%. The rise in WPI inflation was largely attributable to elevated international oil prices amid robust growth in the global economy in the first half of the year. Headline inflation, measured by the consumer price index (CPI), averaged an annual rate of 1.35% in the year, showing a further increase from a rise of 0.62% in 2017, mainly reflecting price rises in fuel, gas, cigarettes, and food away from home. However, it was partly offset by a reduction in fruit prices induced by abundant supply amid favorable weather conditions. The core CPI, which excludes fruit, vegetables, and energy, rose by 1.21% compared with a 1.04% increase in the previous year.



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

Moderate Increase in Wholesale Prices

The WPI increased by 3.63% in 2018, up from 0.90% a year before. In terms of monthly movements, the annual WPI inflation rate generally posted an uptrend and reached an all-year high of 7.04% in July, driven by higher commodity prices amid continued global economic expansion. Afterwards, the rate gradually abated and slid to 0.77% in December owing to falling international raw material prices, reflecting slower growth in the global economy.

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 all increased moderately in 2018 on the back of steady global economic growth in the first half of the year.

Import prices, weighted at 31.92% of the WPI, rose by 7.09% in US dollar terms in 2018. However, a modest NT dollar appreciation against the US dollar over 2018 led the annual growth rate of import prices to narrow to a 6.11% increase in NT dollar terms. Among the components of import prices in terms of NT dollars, prices of raw materials went up by 8.45% and accounted for 6.12 percentage points in the import price increase, mainly caused by rising prices of mineral products and base metals. Prices of capital goods rose by a mere 0.01%, whereas consumer goods prices dropped by 0.44%.

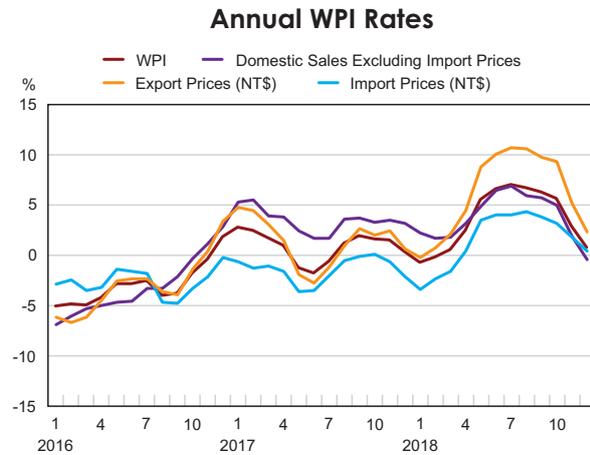
Export prices, weighted at 40.04% of the WPI, averaged a 2.42% increase in US dollar terms in

2018. As the NT dollar appreciated against the US dollar, export prices rose mildly by 1.45% in terms of the NT dollar. Among the components of export prices in terms of NT dollars, prices of raw materials moved up by 2.29%, contributing 1.84 percentage points to the export price increase, mainly led by higher prices of mineral products. In contrast, prices of consumer goods and capital goods decreased by 2.47% and 0.49%, respectively.

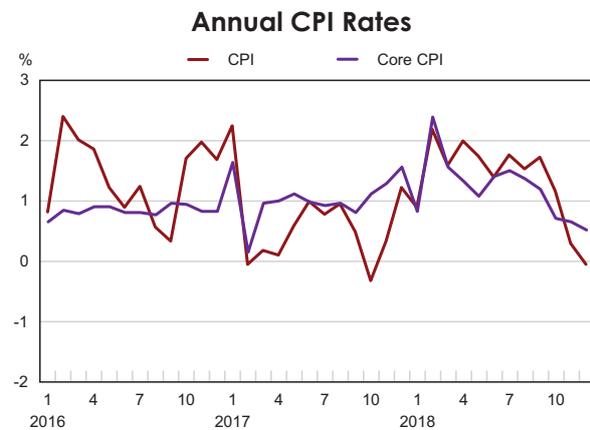
Driven by rising import costs of primary commodities, prices of domestic sales excluding imports, weighted at 28.04% of the WPI, increased by 3.73% in 2018. In terms of the basic groups, prices of manufacturing products accounted for the largest increase at 4.59%, largely attributable to rising prices of gasoline and diesel as well as the deferred effect from 2017's cigarette tax hike. On the other hand, prices of agriculture, forestry, fishing, and animal husbandry products slid by 5.29%, mostly dragged by falling prices of fruit because of abundant supply resulting from favorable weather conditions during the year.

Uptick in Consumer Prices

The CPI rose by 1.35% in 2018, higher than the 0.62% increase in the previous year. From the beginning of the year, owing to rises in vegetables, oil, and cigarette prices, the annual CPI inflation rate stepped up and climbed to 2.0% in April. From May onwards, the CPI increased at a slower pace and posted a growth rate of 1.54% in August on account of lower telecommunications rates, the receding effect of the cigarette tax hike, as well as declining prices of vegetables because of a higher base effect. The CPI inflation rate rebounded to 1.72% in September, affected by crop damage from torrential rain and higher oil prices. Afterwards, it went down and registered an all-year low of -0.66% in December, as prices of vegetables and fruit slumped amid favorable weather conditions, the effect of the previous year's cigarette tax hike diminished, and domestic oil prices plunged because of the downtrend in global oil prices.



Source: Price Statistics Monthly, DGBAS, Executive Yuan.



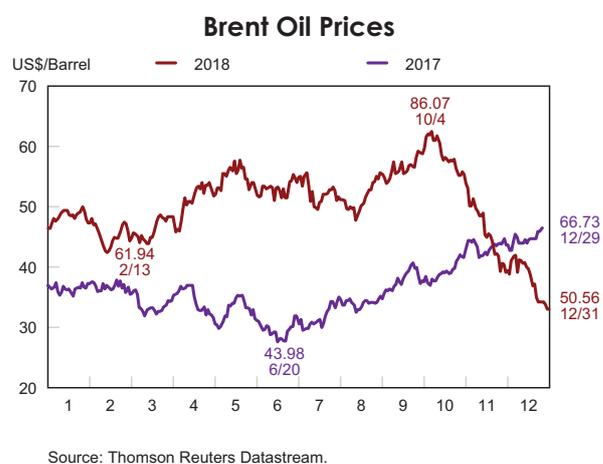
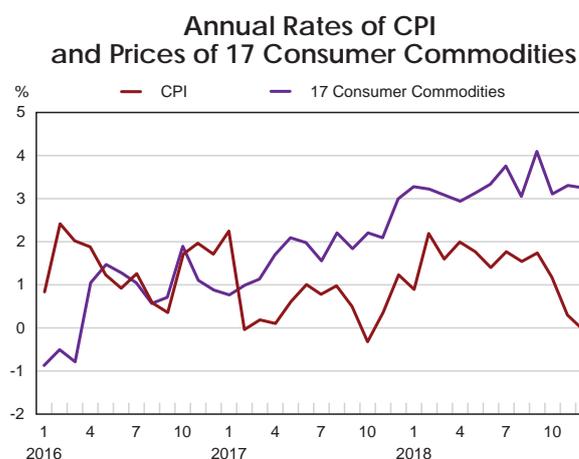
Source: Price Statistics Monthly, DGBAS, Executive Yuan.

The core CPI inflation rate was 1.21% in 2018. 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 to July, monthly core CPI inflation rates hovered between 1.07% and 1.56%. Later, the rate trended downward and slowed to an all-year low of 0.51% at the end of the year, mainly influenced by the fading effect of mid-2017's cigarette tax hike and a decline in prices of durable consumer goods.

Among the items people buy more frequently, the prices of 17 consumer commodities, weighted at 5.48% of the CPI and closely monitored by the Cabinet's task force on price stabilization, trended up and recorded an annual growth rate of 3.29% in 2018, much higher than the overall CPI inflation of 1.35%, and thus had a far larger impact on consumers' perceptions of price rises. The increase was primarily driven by steeper price rises in eggs, toilet paper, and milk, which climbed by 17.59%, 7.98%, and 6.90%, respectively.

The main factors contributing to the rise of CPI inflation in 2018 were as follows:

- (1) In early 2018, international petroleum prices moved down because of increased oil production in the US. From mid-February onwards, global oil prices rebounded and peaked in October, resulting from intensified geopolitical tensions in the Middle East, reduced Iranian oil exports, a decrease in US crude oil inventory, along with restricted oil supply after the OPEC and Russia decided not to lift output. Afterwards, international oil prices plunged and hit a yearly low at the end of the year, mostly dragged by increased production by the US, Russia, and the OPEC members, as well as weaker demand for oil amid a moderating global economy. Compared with 2017, the average Brent oil price rose by 30.97%. As a result, higher imported costs of petroleum and natural gas pushed up domestic oil and gas prices, which climbed by 13.27% and 6.06% and accounted for 0.37 and 0.06 percentage points in the CPI increase, respectively.
- (2) Reflecting the lingering effect of the previous year's cigarette tax hike, prices of tobacco and betel nuts rose by 25.19%, accounting for 0.37 percentage points in CPI inflation.
- (3) The rise in wages and higher prices of gas and raw food pushed up prices of food away from



home by 2.03%, contributing 0.18 percentage points to CPI inflation.

- (4) Prices of residential rent continued a mild uptrend and rose by 0.86%, contributing 0.14 percentage points to CPI inflation.
- (5) Affected by an increase in tour group fees, prices of education and entertainment services grew by 0.76%.

The main factors contributing to downward pressure on the CPI in 2018 were as follows:

- (1) Owing to ample supply amid stable weather conditions, prices of fruit fell by 10.72%, subtracting 0.26 percentage points from CPI inflation.
- (2) As consumer electronics products retailers continued discount promotions, prices of durable consumer goods decreased by 1.11%, accounting for -0.10 percentage points in CPI inflation.
- (3) Lower telecommunications rates from May onwards brought down communications fees by 2.62%, deducting 0.07 percentage points from the CPI inflation rate.

Percentage Changes in the Major Components of the CPI in 2018

Item	Annual Rate of Change (%)	Contribution to CPI Inflation Rate (Percentage Point)
CPI	1.35	1.35
Fuels & Lubricants	13.27	0.37
Tobacco & Betel Nuts	25.19	0.37
Food away from Home	2.03	0.18
Residential Rent	0.86	0.14
Vegetables*	-3.37	0.12
Gas	6.06	0.06
Education & Entertainment Services	0.76	0.06
Transportation Fees	1.89	0.05
Total		1.35
Fruit	-10.27	-0.26
Durable Consumer Goods	-1.11	-0.10
Communication Fees	-2.62	-0.07
Total		-0.43
Others		0.43

Note: * Since the weight of vegetables is altered monthly, the direction and extent of its effect on the general CPI may not correspond with those comparing with the previous period.

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