

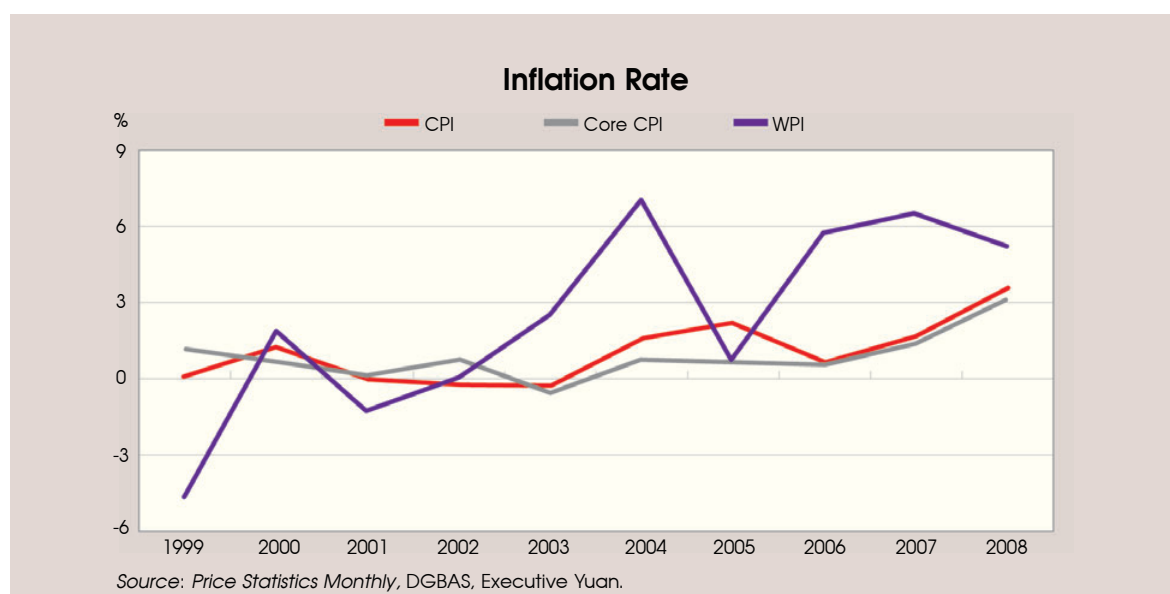
4. Prices

Taiwan's inflation was elevated during the first three quarters of 2008 due to sharp increases in energy and food prices. Afterward, a downturn in sales and production, along with steep declines in the prices of energy and other commodities and a strengthening NT dollar against the US dollar, contributed to a substantial lessening of inflation pressures. The headline inflation, as measured by the consumer price index (CPI), rose 3.53 percent in 2008, notably higher than the 1.80 percent increase in 2007. The core CPI, which excludes fruits and vegetables, fish and shellfish, and energy prices, rose by 3.08 percent in 2008, also faster than the previous year's 1.35 percent.

Steep Increase in Wholesale Prices

The annual growth rate of the wholesale price index (WPI) was 5.15 percent in 2008, 1.32 percentage points lower than in 2007. The pattern of WPI movements was uneven during 2008. In the first seven months of the year, the WPI moved upward and peaked at 11.44 percent in July due to the rising prices of oil and commodities; the development was reversed later in the year. In response to the rapid slowdown of the global economy and the dramatic decline in international commodities prices, the WPI decreased sharply toward the year-end and contracted by 9.64 percent in December.

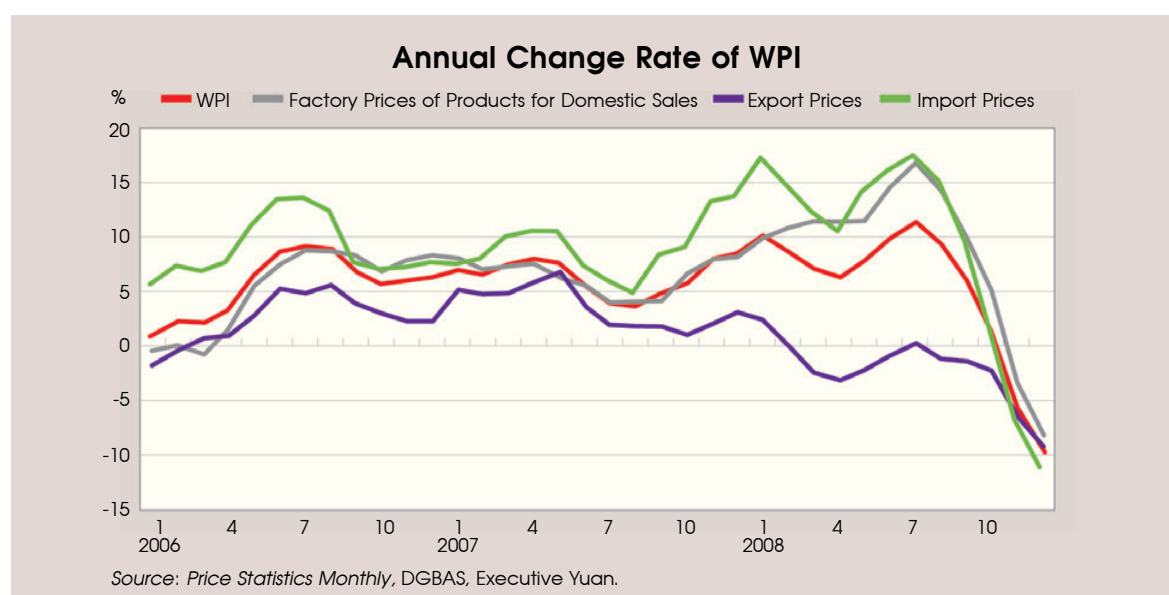
Broken down by the major components of the WPI, factory prices of products for domestic sales and import prices continued to rise markedly, while export prices recorded a relatively



moderate increase in terms of the US dollar.

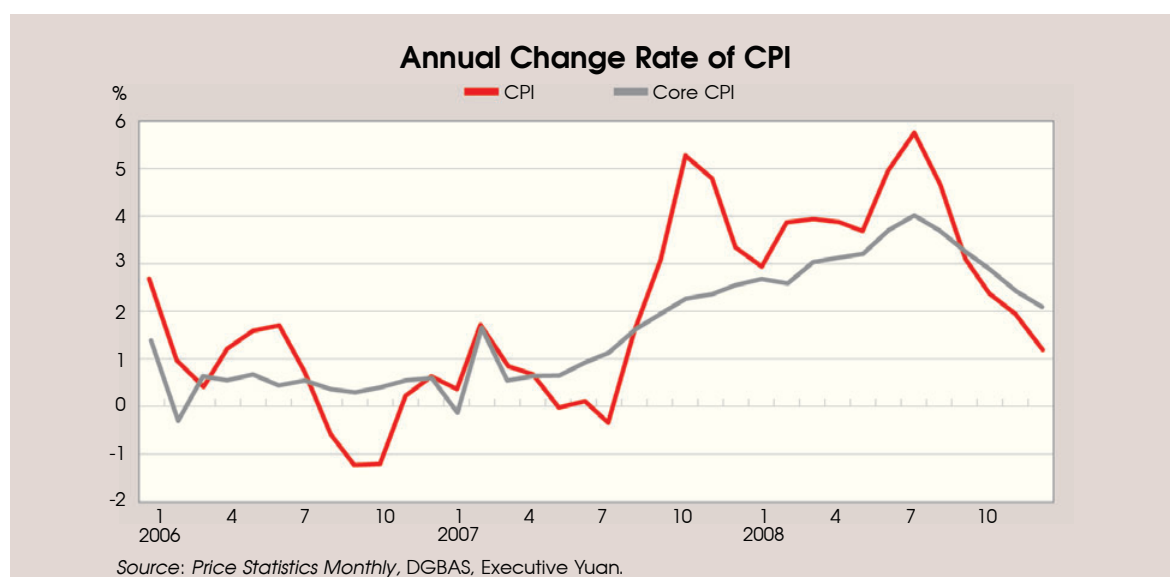
Import prices moved up further by 13.67 percent in US dollar terms, as prices of international raw materials soared in the first half of this year. In local currency terms, import prices only increased by 8.84 percent, down from the 8.95 percent increase in 2007, with the difference largely reflecting the appreciation of the NT dollar against the US dollar. Among the components of import prices, prices of raw materials, which weighed 77.19 percent, rose by 10.86 percent and accounted for 8.52 percentage points in the 8.84 percent increase. The prices of capital goods, which weighed 15.97 percent, increased by 1.30 percent. The prices of consumer goods only rose by 0.45 percent. In addition, export prices in terms of the US dollar increased moderately by 2.12 percent. Due to the appreciation of the NT dollar against the US dollar in 2008, export prices in terms of the NT dollar decreased by 2.14 percent, compared with the 3.56 percent increase in 2007.

Despite the consecutive decline in the prices of domestic electronic components, computers, and electronic and optical products, factory prices of products for domestic sales rose by 8.54 percent in 2008, higher than the 6.39 percent of the previous year. The rise reflected growing import costs of primary commodities in the first three quarters of 2008, as the prices of primary metal products rose by 21.21 percent, agriculture, forestry, livestock and fishery products 19.76 percent, quarrying and mineral products 17.29 percent, food 14.84 percent, and water supply, electricity, and gas 8.52 percent in the year.



Consumer Prices Stepped up

The CPI rose by 3.53 percent in 2008, 1.73 percentage points more than in the previous year. The core CPI increased at an annual rate of 3.08 percent during 2008. Reflecting the upward pressure of imported inflation, the CPI and core CPI rose by 5.81 percent and 4.06 percent in July, respectively, both of which were the peaks in 2008. However, as the prices of oil and international raw materials dropped dramatically in response to a sharp downturn of the global economy in the second half of the year, the pass-through effect of increases in the import prices of raw materials into the retail prices of fuel and food subsided gradually. In December, the CPI and core CPI declined to 1.27 percent and 2.13 percent, respectively.



The main upward factors contributing to CPI inflation in 2008 were as follows:

- (1) Prices of food away from home moved up further by 7.45 percent in 2008 mainly due to higher food prices and cooking costs, contributing 0.66 of a percentage point to the CPI increase.
- (2) Due to severe damages caused by typhoons and cold weather, fruit prices rose by 12.46 percent and contributed 0.33 of a percentage point to the CPI inflation rate.
- (3) The drought in Australia, flooding in the American Midwest, and strong global demand continued to push up import prices of grains in the first half of 2008. Prices of cereals & cereal products went up 11.25 percent and contributed 0.22 of a percentage point to the CPI inflation rate. In addition, the rise in feeding costs pushed up the prices of meat and dairy products by 14.94 percent and 10.94 percent, contributing 0.35 and 0.12 of a percentage point to the CPI inflation rate, respectively.

(4) Since peaking in July, prices of oil fell sharply in the second half of 2008. However, the continuing hike in international petroleum prices in the first half of 2008 affected domestic oil and gas prices, which rose by 7.01 percent and 9.90 percent and accounted for 0.24 and 0.10 of a percentage point in the CPI increase, respectively. In addition, the price of electricity moved up 2 percent in 2008 because of higher prices for fuel and heating oil inputs for electricity generation, accounting for 0.04 of a percentage point in CPI inflation.

(5) Education and entertainment prices went up 1.31 percent, contributing 0.22 of a percentage point to the CPI inflation rate.

As for the main factors offsetting CPI inflation pressures, slack domestic demand and fierce market competition made it difficult for firms to pass on higher costs to consumers, which caused a 1.39 percent decrease in the prices of durable consumer goods, such as computers, digital equipment, and communication and audio-video equipment, deducting 0.10 of a percentage point from the CPI inflation rate.

Percentage Changes in the Major Components of the CPI in 2008

Item	Annual change rate (%)	Contribution to CPI inflation rate (percentage point)
CPI	3.53	3.53
Food	8.55	2.26
Food away from Home	7.45	0.66
Meat	14.94	0.35
Fruits	12.46	0.33
Fish & Shellfish	12.47	0.22
Cereals & Other Cereal Products	11.25	0.22
Dairy Products	10.94	0.12
Clothing	1.81	0.08
Housing	1.44	0.40
Residential Rent	0.61	0.11
Gas	9.90	0.10
Electricity	2.00	0.04
Transportation and Communication	2.34	0.33
Fuels and Lubricants	7.01	0.24
Medicines and Medical Care	2.17	0.11
Education and Entertainment	1.31	0.22
Miscellaneous	1.58	0.09
Food and Energy		2.64

Source: Price Statistics Monthly, DGBAS, Executive Yuan.