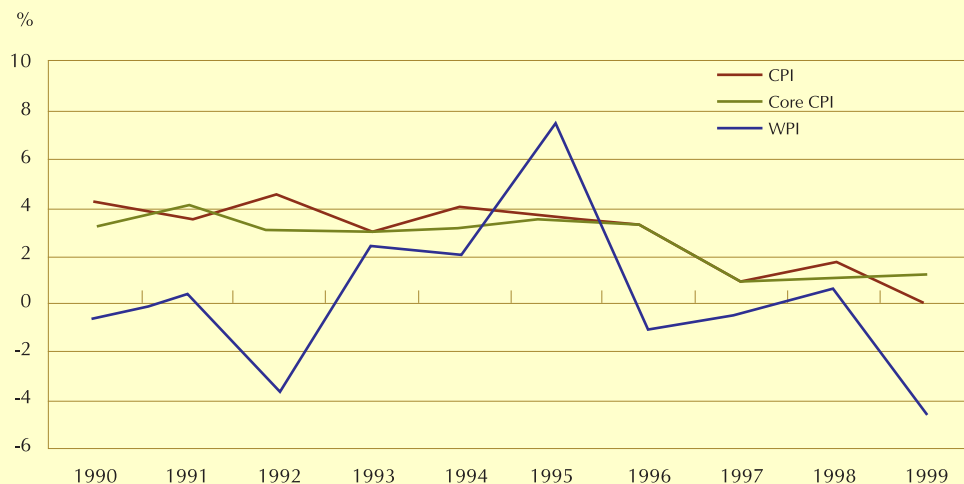


### 3. Prices

Prices remained stable throughout 1999. The appreciation of the NT dollar against the US dollar pushed the import price index and the wholesale price index (WPI) down by 4.10 percent and 4.55 percent, respectively, in 1999. The slower increases in the prices of services such as residential rent as well as restrained wage trends also helped to hold down upward price movements. As a result, consumer prices excluding food rose by only 0.44 percent, a record low in twelve years. Moreover, with a decline of 0.50 percent of food prices, the consumer price index (CPI) went up merely by 0.18 percent, the lowest since 1986. The Core CPI (the CPI excluding fresh fruits & vegetables, fish & shellfish and energy) moderately increased by 1.16 percent for the year as a whole.

Annual Rate of Change in CPI, Core CPI and WPI



#### Moderate Increase in the CPI

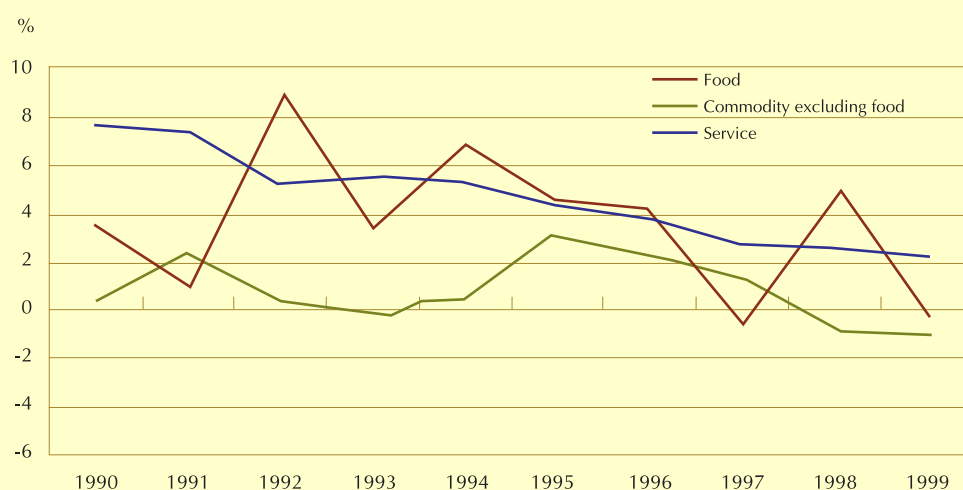
The most important fundamental factors that pointed to a moderate inflation were as follows:

- (1) The fair weather conditions: The prices of vegetables and fruits decreased by 18.27 percent and 6.20 percent, respectively, as a result of the fair weather conditions. The food price index therefore decreased by 0.50 percent, the second largest decline since 1986.
- (2) The modest decrease in the world prices of commodities: Owing to a modest decrease in the world prices of commodities, prices of

imported goods (in US dollar terms) fell by 0.55 percent as compared with the previous year.

- (3) The appreciation of the NT dollar against the US dollar: The NT dollar appreciated 3.7 percent against the US dollar in 1999 compared with 1998, causing prices of imported goods (in NT dollar terms) to fall by 4.10 percent as compared with the previous year.
- (4) The decrease in unit labor cost: The unemployment rate for 1999 rose to 2.92 percent, the highest reading since 1967. As a result the average monthly earnings of employee rose by only 3.22 percent in 1999, a second record low over the years. With the relatively improved productivity, unit labor cost in the manufacturing sector declined by 3.80 percent in 1999. The continuous weakening of unit labor cost since 1995 has been crucial to keeping inflation in a downward trend.
- (5) The weak growth in domestic demand: The real national consumption for 1999 grew by merely 3.54 percent, a record low level over the years. Since the slackened domestic demand intensified competition in product markets, the wholesale price index of domestic products and the consumer price index of commodities excluding food both dropped by 1.67 percent and 1.47 percent, respectively, as compared with the previous year.
- (6) The modest increase in the charges for services: Due to the gloomy real estate market in recent years, the pace of residential rent increase slowed down to 0.60 percent in 1999, the smallest increase over the years. Meanwhile, decreases in the charges for communications services and

**Annual Change Rate of CPI by Commodity Quality**



house maintenance & repairs also caused the prices of services to increase merely by 1.65 percent, a record low in twelve years.

- (7) The reduction in the customs tariff: The real customs tariff was estimated to fall by 7.67 percent as compared with the previous year.

### Larger decrease in the WPI

The WPI decreased by 4.55 percent in 1999. This was mainly the result of the decline of exports and imports prices owing to the appreciation of NT dollar. The prices of exports and imports decreased by 8.54 percent and 4.10 percent, respectively, reflecting the strengthening of the NT dollar. The prices of domestic products decreased by 1.67 percent. The main factors contributing to the decrease were the falling prices of intermediate materials such as electrical and electronic machinery, chemicals, primary metal, textile products and foods & beverages. Moreover, owing to a modest decrease in the world prices of commodities, prices of imported goods in US dollar terms fell by 0.55 percent as compared with the previous year. A rebound in the world prices of raw materials--especially petroleum--reversed the decline of the import prices (in US dollar terms) through the second half of 1999.

### Annual Rate of Change in Price Indices

Year/Month	Consumer Prices	Wholesale Prices	Import Prices	Export Prices
1997	0.90	-0.46	-1.40	2.05
1998	1.68	0.60	0.73	5.58
1999	0.18	-4.55	-4.10	-8.54
1999 1	0.40	-10.11	-14.22	-14.46
2	2.08	-7.84	-10.64	-11.02
3	-0.46	-6.01	-6.05	-8.12
4	-0.10	-6.10	-6.11	-9.47
5	0.50	-5.63	-6.45	-9.71
6	-0.83	-6.51	-7.51	-11.17
7	-0.82	-5.57	-5.76	-10.35
8	1.14	-4.63	-4.73	-9.52
9	0.59	-3.82	-0.81	-9.06
10	0.42	-0.48	2.94	-4.01
11	-0.90	1.10	5.88	-2.08
12	0.14	2.23	7.13	-1.60

Source: Commodity-Price Statistics Monthly, Taiwan Area, the Republic of China, DGBAS, Executive Yuan, R.O.C.