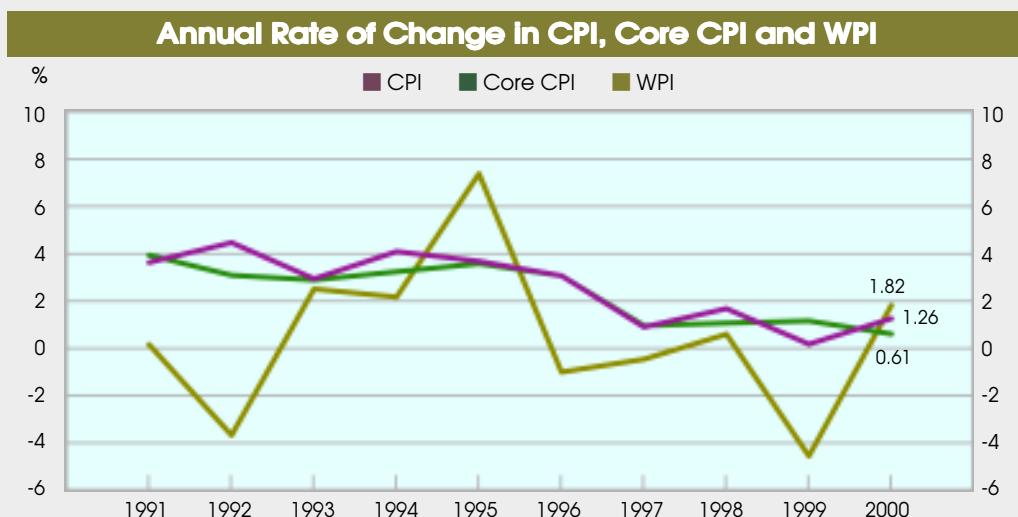


3. Prices

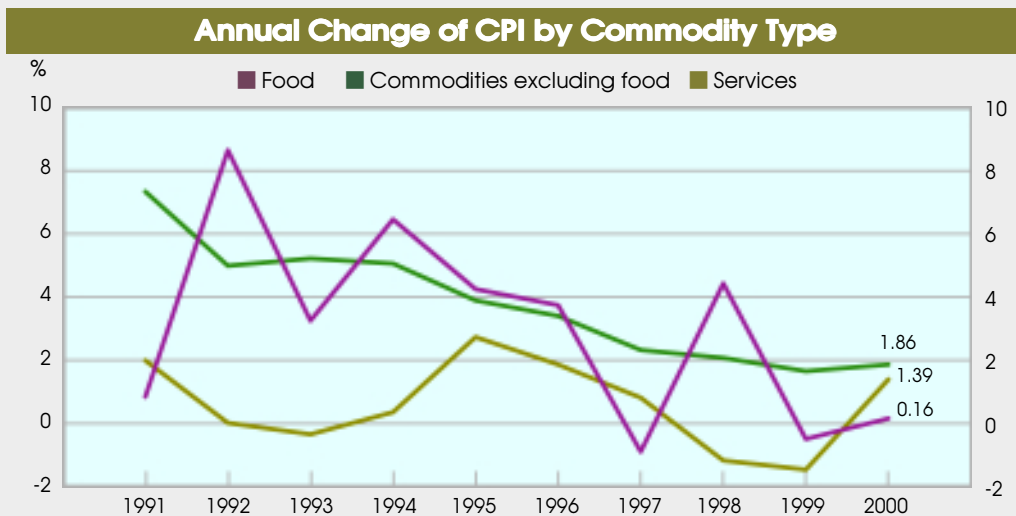
The year 2000 saw the prices of goods and services rise moderately. Despite higher oil and fuel prices in response to the increased import costs of these commodities, fierce competition resulting from trade liberalization as well as technological innovation of information and communication products led to lower operation costs, and in turn, to goods prices. Moreover, telecommunications charges continued to trend down and residential rents remained stable. As a result, consumer prices excluding food increased by 1.68 percent in 2000. Food prices registered a mere 0.15 percent increase due to the oversupply of livestock and poultry. As a result, the consumer price index (CPI) went up by 1.26 percent. The core CPI (the CPI excluding prices of fresh fruits & vegetables, fish & shellfish and energy) moderately increased by 0.61 percent, below the upper ceiling of 1.7 percent set by the government for the year.



Moderate Increase in the CPI

The CPI rose by 1.26 percent for the year 2000, mainly as a result of the 1.68 percent rise in non-food prices. Food prices increased by a mere 0.15 percent during this period. Despite the 2 percent reading posted in November due to surging fruit and vegetable prices after a strong typhoon crossed the island, the annual rate of CPI for the other months of the year averaged between 0.13 percent and 1.7 percent. The major factors that influenced inflation were as follows:

- (1) Surging international commodity prices: Due to the rebound of international prices in petroleum, pulp, and transportation equipment, import prices (in US dollar terms) rose by 8.07 percent. Although the appreciation of the NT dollar against the US dollar somewhat helped to alleviate the upward pressure on domestic prices, the import prices (in NT dollar terms) rose by 4.62 percent. Moreover, the factory prices of products for domestic sales rose by 2.01 percent in response to the higher cost of imported raw materials. Retail prices for domestic oil, gas, tissue paper, and petrochemical products were also adjusted upward as a result.
- (2) The mild increase in services charges: The prices for medical care services, tuition and miscellaneous fees, airline ticket prices, funeral expenses, and taxi fares in major cities trended up in 2000. However, due to the continued gloomy state in the real estate market, the pace of residential rent increase slowed to merely 0.15 percent in 2000, a record low level. Moreover, the fierce competition in the telecommunications sector caused a consequential slash in communications fees. Therefore, the combined prices of services rose moderately by 1.86 percent in 2000 as compared with the previous year.
- (3) Stable food prices: Prices for vegetables rose by 7.1 percent, due to the lower base of last year and the damages in the agricultural regions caused by Typhoon XangSang. The prices for fish & shellfish and food away from home continued their long-term upward trend and rose by 2.7 percent and 1.19 percent, respectively. However, on the whole food prices increased by a mere 0.15 percent, owing to the stable supply of livestock and poultry, price decline in meat, eggs, and dairy products, and falling betel nut prices due to marked oversupply relative to its demand.
- (4) The sustained decrease in unit labor cost: The unemployment rate in 2000 stood at 2.99 percent, a historically high level since 1967. As a result, the average monthly earnings of employees in the non-farm sector rose by only 2.6 percent, a record low increment over the years. With the relatively improved productivity, unit labor costs of all industry dropped 2.86 percent in 2000. The continuous drop of unit labor costs of all industries since 1995 has been crucial to keeping inflation in a downward trend.
- (5) Weaker growth in domestic demand and fierce competition in the market: Private consumption expenditure grew by 6.75 percent during the year 2000, the second-lowest figure posted in the last 15 years. Slackened domestic consumption, trade liberalization and market transparency intensified competition in local markets and thus drove down the prices for household electronic appliances and furniture, as well as garments. Moreover, improving productivity resulting from technological innovation drove down the production costs and prices for information and telecommunications products.



Soft Increase in the WPI

The wholesale price index (WPI) for the year 2000 slightly increased by 1.82 percent. Due to global economic expansion, which drove the rebound of international prices in petroleum, pulp, and transportation equipment, import prices (in US dollar terms) rose 8.07 percent. Although the appreciation of the NT dollar against the US dollar somewhat helped to alleviate the upward pressure on prices, import prices (in NT dollar terms) rose by 4.62 percent. Meanwhile, the factory prices of products for domestic sales accelerated by 2.01 percent, reflecting the rising prices for imported raw materials. Export prices edged down by 0.87 percent due to the strengthening NT dollar exchange rate. These factors all contributed to the moderate increase of 1.82 percent of the WPI in 2000. The monthly WPI growth rates averaged between 0.9 percent and 2.7 percent in 2000. If the 3.3 percent appreciation of the NT dollar exchange rate is excluded, export prices in US dollar terms would have risen by 2.43 percent.

Annual Rate of Change in Price Indices

Unit: %

Year/Month	Consumer Prices	Wholesale Prices	Import Prices	Export Prices
1998	1.68	0.60	0.73	5.58
1999	0.18	-4.55	-4.09	-8.54
2000	1.26	1.82	4.62	-0.87
2000 / 1	0.51	1.22	5.17	-3.54
2	0.93	0.93	4.85	-3.82
3	1.11	0.87	3.95	-3.98
4	1.24	1.20	3.36	-3.30
5	1.58	2.14	5.57	-1.65
6	1.37	2.64	7.43	-0.67
7	1.44	2.65	6.64	0.21
8	0.29	2.14	6.14	0.36
9	1.62	1.86	2.76	0.76
10	1.02	1.86	3.81	0.68
11	2.26	2.40	3.97	1.73
12	1.66	1.86	2.21	2.91

Source: Commodity-Price Statistics Monthly, Taiwan Area, the Republic of China, Directorate General of Budget, Accounting and Statistics, Executive Yuan.