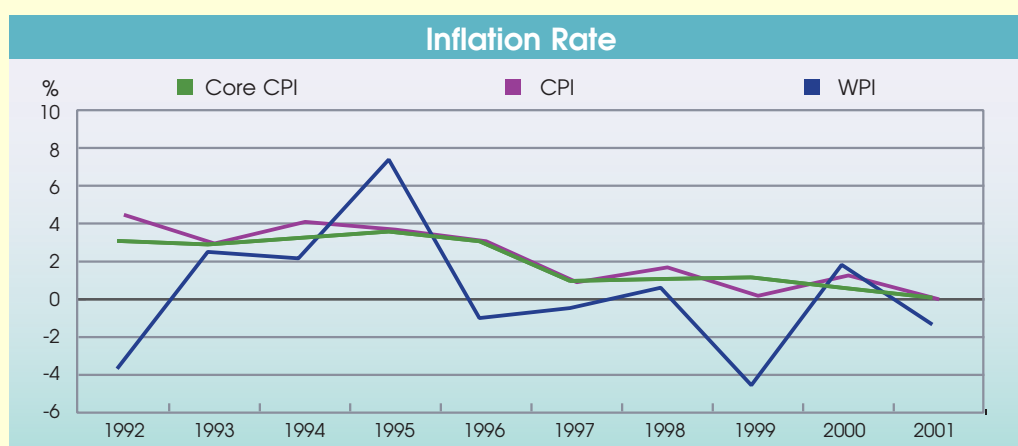


3. Prices

In 2001, the prices of goods declined, and the rise in the prices of services significantly decelerated, compared with the previous year. Falling prices of international commodities, fierce competition resulting from trade liberalization as well as technological innovation led to lower operation costs, which in turn were reflected in the prices of goods. Moreover, telecommunications charges continued to trend down and residential rents decreased. As a result, consumer prices excluding food increased moderately by 0.35 percent in 2001. As food prices registered a 0.98 percent decrease due to the oversupply of livestock and fishery products, the consumer price index (CPI) decreased by 0.01 percent over the year. The core CPI (the CPI excluding the categories of fresh fruits & vegetables, fish & shellfish and energy) increased a mere 0.08 percent.

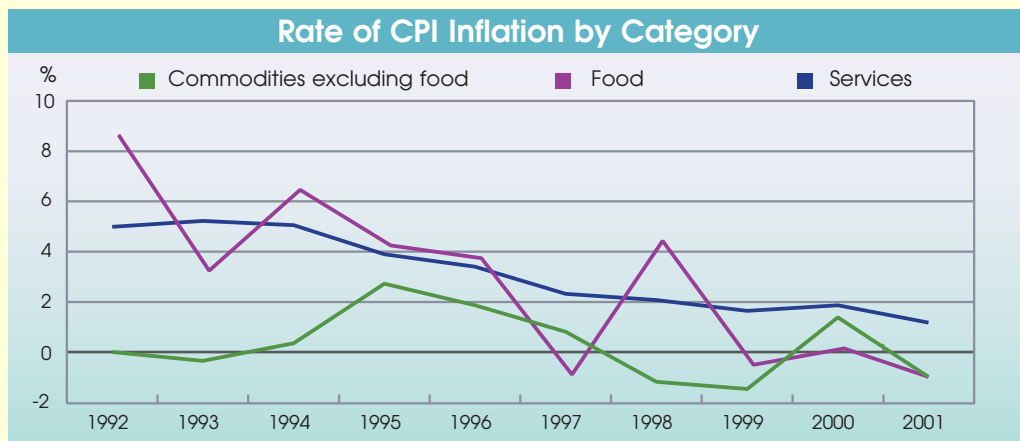


Stable Consumer Prices

The CPI declined by 0.01 percent in 2001, mainly as a result of the 0.98 percent decrease in goods prices. In January, the CPI went up more than 2 percent, mainly due to the Chinese Lunar New Year effect. In the months of February, November, and December, the CPI declined more than 1 percent, owing to the higher base caused respectively by the Chinese Lunar New Year for February and the serious typhoon for November and December in the previous year. The annual rate of CPI for the other months of the year lied within the range of -0.5 percent and 1 percent. The major factors leading to a low CPI inflation over the year

were as follows:

- (1) Falling international commodity prices: Due to the declines of international prices in the categories of raw materials, capital goods, and consumer goods, import prices (denominated in US dollar terms) dropped by 8.7 percent. Although the depreciation of the NT dollar against the US dollar helped partly to alleviate downward pressure on domestic prices, the import prices (in NT dollar terms) decreased by 1.25 percent. The factory prices of products for domestic sales decreased by 2.57 percent in response to the lower cost of imported raw materials.
- (2) Slackened domestic demand: With the sluggish performance of the economy, the unemployment rate in 2001 climbed up to 4.57 percent. The average monthly earnings of employees in the non-farm sector rose by only 0.21 percent, a record low increment over the years. Due to rising unemployment and the sluggish stock market, private consumption expenditure posted a record low growth rate of 1.37 percent for the year 2001.
- (3) Fierce competition and technological innovation: Trade liberalization and market transparency intensified competition in local markets and thus drove down the prices for household electronic appliances, furniture, entertainment equipment, and garments. Moreover, improving productivity resulting from technological innovation drove down the production costs and prices for information and telecommunications products.
- (4) Declining food prices: With the surging supply of livestock products owing to increasing imports, meat prices continued to decline. Prices for fishery and shellfish products continued their downward trend since the fourth quarter of 2000 due to abundant supply and rumors that some of the seafood products were polluted. Moreover, falling prices for food away from home since the third quarter, coupled with the slipping prices of beverages due to marked oversupply relative to demand, also contributed to the overall decline in food prices of 0.98 percent in 2001.
- (5) Moderate increase in services charges: The charges for medical care services, college tuition, airline ticket prices, and funeral expenses, as well as transportation fees trended up in 2001. However, due to the long lasting gloomy performance in the real estate market, residential rent charges posted a negative growth of -0.1 percent in 2001, the first ever drop seen. Moreover, the charges for house maintenance & repair services declined 4.11 percent. The fierce competition in the telecommunications sector caused a consequential slash in communications fees. Therefore, the combined prices of services rose moderately by 1.17 percent in 2001, the smallest reading ever-recorded over the years.



Moderate Decrease in Wholesale Prices

The wholesale price index (WPI) for the year 2001 slightly decreased by 1.34 percent. The WPI is composed of import prices, export prices and the factory prices of products for domestic sales. Due to the declines of international prices, import prices and export prices (both in US dollar terms) dropped by 8.7 percent and 7.28 percent, respectively. In spite of the 7.59 percent depreciation of the NT dollar exchange rate during the year, the import prices (in NT dollar terms) decreased by 1.25 percent while export prices (in NT dollar terms) rose by 0.32 percent. Meanwhile, the factory prices of products for domestic sales decreased by 2.57 percent, reflecting the declining prices for imported raw materials and weaker growth in domestic demand.