

### 3. Prices

Throughout 2002, prices followed a relatively stable trend as in previous years. On the one hand, there was a large increase in the prices of wines and tobaccos, tuitions and medical care expenses. A depreciation of the NT dollar also put upward pressure as well. On the other hand, sluggish domestic demand, increasing competition in the domestic goods market, and an increase in the supply of food weighed in the opposite direction on general prices. Overall, these mutually offsetting movements resulted in a slight downward shift of 0.20 percent in the consumer price index (CPI). However, the core CPI (the CPI excluding the categories of fresh fruits and vegetables, fish and shellfish, and energy) and the wholesale price index (WPI) increased by 0.69 percent and 0.05 percent, respectively.



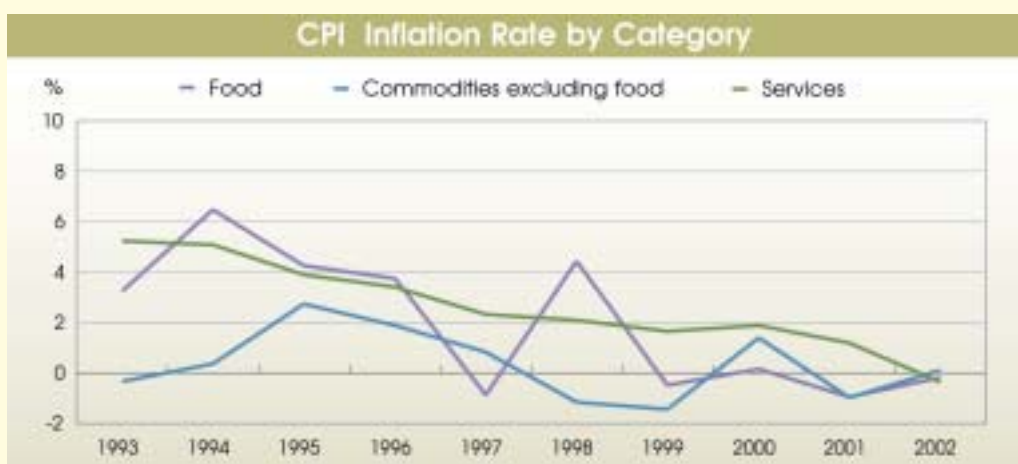
#### Slight Decrease in Consumer Prices

The CPI dropped by 0.20 percent in 2002. An upward adjustment in wines and tobaccos prices in compliance with WTO commitments as well as a depreciation of the NT dollar put upward pressure on consumer prices. Due to increases in international commodity prices, import prices denominated in NT dollars increased by 6.27 percent in the fourth quarter. These developments put extra upward pressure on consumer prices. During the same period, however, two other factors more than offset such pressure:

- (1) Private consumption increased by only 1.91 percent due to a slackened labor market and a sluggish stock market. In terms of the labor market, wages and salaries in the non-agricultural sector fell by 1.21 percent, while the unemployment rate rose to 5.17 percent. The stock market lost ground, with the year-on-year TAIEX stock price index dropping by 19.79 percent. These developments resulted in conservative consumer spending, which in turn created downward pressure on consumer prices.
- (2) Technological innovation, combined with falling wages and salaries, led to a decrease in production costs. Trade liberalization after Taiwan's WTO entry resulted in more foreign imports. These factors intensified competition in the local market and further cut down consumer prices.

In terms of CPI sub-categories, food and services prices declined by 0.20 percent and 0.38 percent, respectively, while commodities excluding food increased by 0.10 percent:

- (1) Food: Favorable weather conditions and an agricultural product market increasingly open to foreign imports led to an increase in the supply of fresh fruits and vegetables in the local market. As a result, prices of fresh fruits and vegetables dropped by 11.06 percent and 10.55 percent, respectively, which led to a drop in food prices by 0.20 percent.
- (2) Commodities excluding food : In compliance with WTO commitments, wines and tobaccos taxes were adjusted upward, which in turn led to a 30.80 percent increase in wines and tobaccos prices. It put an upward pressure on prices of commodities excluding food. On the other hand, sharp market competition led to drops in prices of oil, gas, household



durable equipment, communication services, education and entertainment. As a consequence, prices of commodities excluding food only increased by 0.10 percent.

- (3) Services: Due to drops in demand, housing rent and entertainment expenses recorded annual declines of 0.94 percent and 2.14 percent, respectively. Prices of household appliances, transportation and communications also declined. As a consequence, services prices dropped by 0.38 percent.

### **Stable Wholesale Prices**

The WPI increased by a mere 0.05 percent for the year 2002. The WPI is composed of import prices, export prices, and the factory prices of products for domestic sale. During 2002, the strength of the global economic recovery was far short of previous expectations. In US dollar terms, import prices and export prices dropped by 1.86 percent and 3.47 percent, respectively, in particular, due to the worldwide excess supply of computers, electrical and electronic products, precision instruments, and their components. Taking the 2.22 percent depreciation of the NT dollar against the US dollar into consideration, import prices slightly increased by 0.40 percent, while export prices declined by 1.49 percent, as measured in NT dollar terms. The factory prices of products for domestic sale increased by 0.96 percent. The upward adjustment of the prices of wines and tobaccos, and steel products in the primary metal category were the main factors behind the price increase.