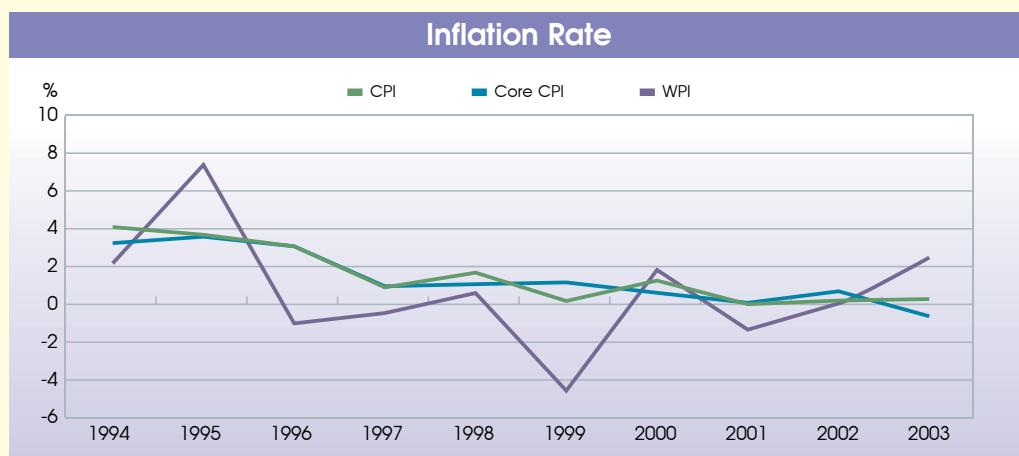


3. Prices

Throughout 2003, price movements followed divergent paths. Wholesale prices edged up by 2.48 percent, while consumer prices and core consumer prices (consumer prices excluding the categories of fresh fruits and vegetables, fish and shellfish, and energy) went down by 0.28 percent and 0.61 percent, respectively. In terms of the New Taiwan dollar, import prices increased by 5.16 percent, while export prices declined by 1.49 percent. Factors that contributed to the decrease in prices include: (1) decreasing housing rentals due to high vacancy rate, (2) weak domestic demand due to the high unemployment rate and the impact from SARS, (3) sharp competition in domestic goods markets, and (4) declining unit labor costs. On the other hand, factors that contributed to the increase in prices include: (1) upward adjustment in the prices of international primary commodities such as oil, (2) increasing medical care expenditure and tuition, and (3) higher vegetable prices.

Moderate Increase in Wholesale Prices

As the global economy gradually recovered, there was an increase in the demand for international primary commodities, such as petroleum, steel products, chemical materials, and paper pulp. Under these influences, prices of international primary commodities began to rise. As a result, import prices increased by 5.16 percent, and the WPI increased by 2.48 percent for the year 2003. The WPI is composed of three major categories: import prices, export prices, and the factory prices of products for domestic sale. During 2003, import prices increased by 5.16 percent, and this import price movement in turns affected the factory prices of products



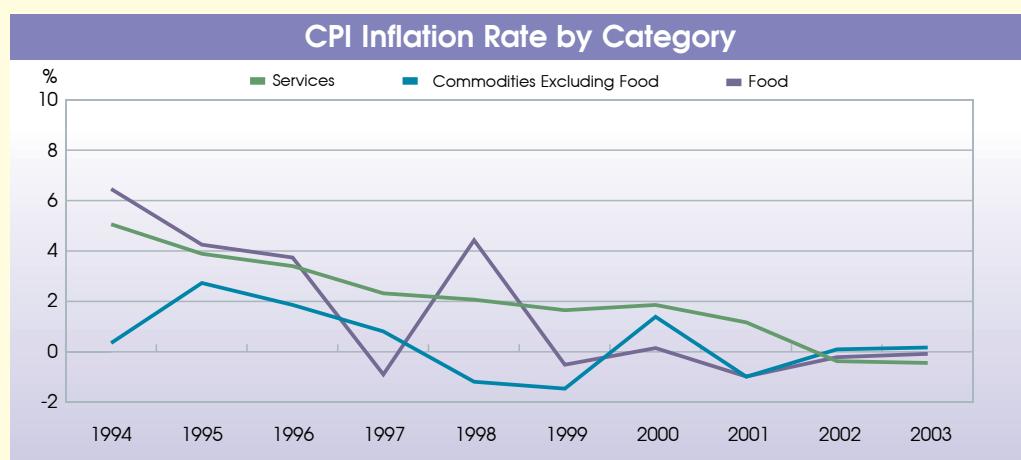
for domestic sale. Prices of domestic sales in the wholesale market went up by 4.34 percent. Export prices, however, dropped by 1.49 percent. As innovation and technology continuously advanced and the international markets remained highly competitive, prices of computers, communication, and audio and video equipment dropped, which was the main cause behind the drop in export prices.

Slight Decrease in Consumer Prices

Due to sharp competition in the retail market, the impact from SARS on consumption, and decreasing housing rentals, both the CPI and the core CPI dropped by 0.28 percent and 0.61 percent, respectively.

In terms of CPI sub-categories, prices in the non-food category and food category dropped by 0.33 percent and 0.08 percent, respectively.

(1) Non-food category: prices in the non-food category include services prices and commodities prices excluding food. In services, due to an excess supply of housing, housing rentals declined by 1.00 percent, which contributed to the drop in the CPI by 0.21 of a percentage point. Drops in services prices were also driven by falling prices in housing maintenance, and transportation maintenance, and entertainment services. Overall, services prices declined by 0.45 percent from the year before. As for non-food commodities, intense market competition and technological innovation, combined with weak consumption demand, resulted in drops in prices of non-food commodities, especially for consumer durables such as furniture, transportation equipments, educational equipments, and entertainment equipments. Prices of non-food commodities declined by 0.17 percent for 2003.



(2) Food category: food prices declined by 0.08 percent. While prices of vegetables, fish, and livestock increased by 8.60 percent, 2.61 percent, and 3.19 percent, respectively, prices of many other items in the food category were decreased. For example, prices of fresh fruits declined by 7.63 percent due to abundant domestic supply and the price of rice dropped by 4.96 percent because of the large quantity of rice imported.