

## 4. Prices

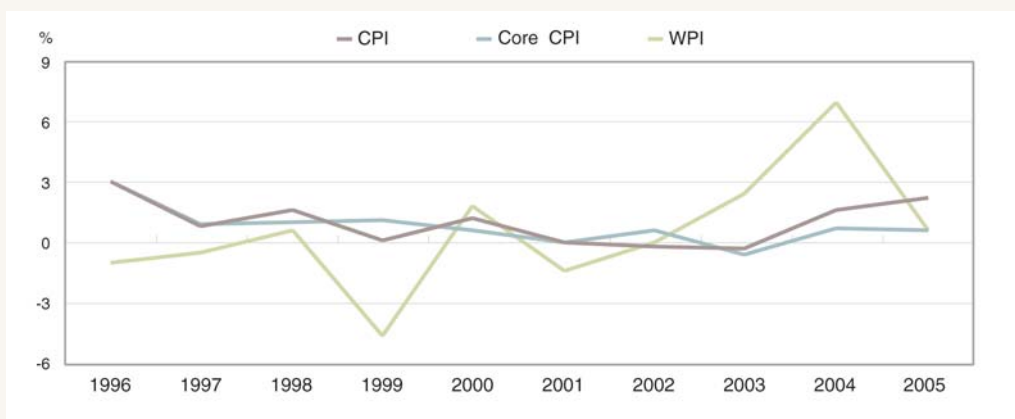
Taiwan's 2005 wholesale price index (WPI) rose a mere 0.61 percent as the strong New Taiwan dollar alleviated most of the upward pressure exerted by the rise in international primary commodity prices. Consumer price index (CPI) inflation rate rose to 2.30 percent mainly due to surges in fresh food prices and oil prices while the core CPI (consumer prices excluding fresh fruits and vegetables, fish and shellfish, and energy) rose by 0.65 percent.

### Slightly Increase in Wholesale Prices

Taiwan's WPI increased slightly by 0.61 percent in 2005. Broken down by the major components of the WPI, it is evident that the decrease in export prices offset part of the increases in import prices and the factory prices of products for domestic sales.

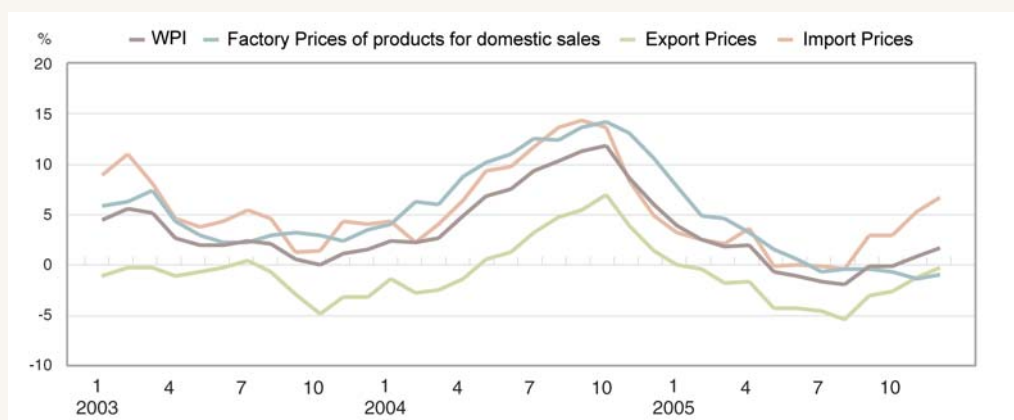
In US dollar terms, import prices increased by 6.38 percent as demand for crude oil, copper, rubber, and plastic remained robust, pushing prices for primary commodities up. In local currency terms, import prices increased 2.43 percent as the 3.9 percent appreciation of the NT dollar against US dollar offset some of the increases in prices. Factory prices of products for domestic sales rose by 1.49 percent, affected by the global increase in primary commodity prices. Alternatively, export prices decreased by 2.46 percent due to the NT dollar appreciation and considerable price cuts in major exporting products of computer, communication, and audio and video equipment.

### Inflation Rate



Source: Price Statistics Monthly, Republic of China, DGBAS, Executive Yuan.

### Annual Change Rate of WPI



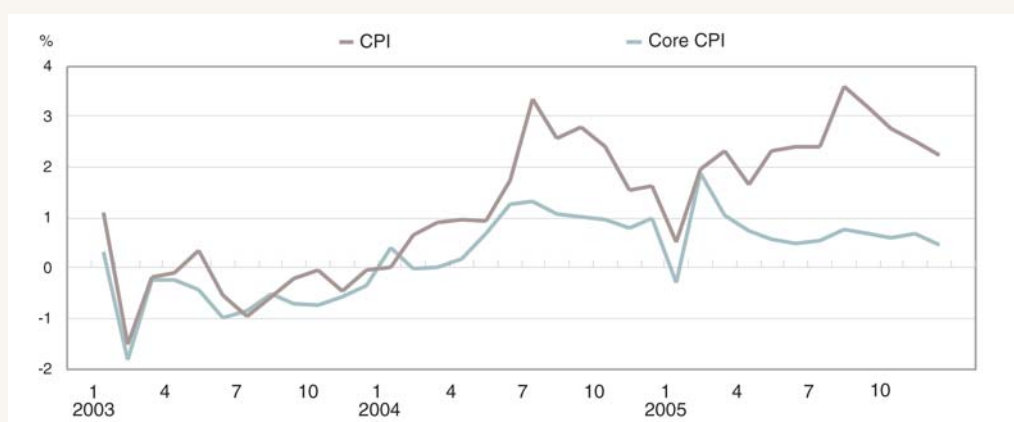
Source: Price Statistics Monthly, Republic of China, DGBAS, Executive Yuan.

### Moderate Increase in Consumer Prices

Core CPI inflation rate fluctuated sharply in first two months due to seasonal factors influenced by Chinese Lunar New Year holidays. However, from March onward, core CPI inflation rate remained in a steady range between 0.45 and 1.03 percent and edged up by 0.65 percent for the year as a whole. The mild core CPI inflation reflected intense domestic market competition and relatively stable services prices.

The CPI rose by 2.30 percent year over year in 2005. Sharp increases in food and energy prices accounted for a total of 96 percent or 2.20 percentage points of the CPI increase. Food

### Annual Change Rate of CPI



Source: Price Statistics Monthly, Republic of China, DGBAS, Executive Yuan.

prices shot up by 7.47 percent, a 13-year record high increase. They accounted for 84 percent or 1.93 percentage points of the CPI rise as a consequence of bad weather conditions. Damage associated with frosts in March and losses resulting from heavy rain and severe typhoons during the second half of the year pushed vegetable and fruit prices up considerably. Meanwhile, a drop in beef imports as fears of mad cow disease spread after an outbreak was reported in the United States and a decrease in the supply of poultry resulted from the extermination of chickens to eradicate bird flu led to meat price increases. As for eating out, prices for food away from home were driven up by increases in raw food prices.

Oil and gas prices accounted for a total of 12 percent or 0.27 of a percentage point of the CPI advance. The price of oil rose by 7.98 percent and gas by 6.70 percent, contributing 0.20 and 0.07 of a percentage point to the CPI inflation rate, respectively. Internationally, crude oil prices skyrocketed, peaking at around US\$70 per barrel. Reflecting this fact, oil prices were adjusted upward three times in Taiwan, which triggered the government to implement a temporary cut in the oil excise tax for three months beginning in October in order to relieve consumers from high oil prices.

Changes in consumer prices excluding food and energy prices accounted for less than five percent of the overall advance in CPI for a number of reasons. First, although raw material prices rose a stark 15.42 percent over the year, they accounted for a small share of total costs. Portions of the increase were transitory and cyclical swings had little effect on overall inflation. Second, competition promoted by trade liberalization and globalization made it difficult for

### Percentage Changes in the Major Components of the CPI in 2005

Item	Inflation rate (%)	Contribution to CPI inflation rate (percentage point)
CPI	2.30	2.30
Food	7.47	1.93
Vegetables	29.75	0.88
Fruits	19.31	0.51
Meat	6.05	0.16
Energy	4.97	0.27
Oil	7.98	0.20
Gas	6.70	0.07
CPI Excluding Food and Energy	0.14	0.10
Durable Consumer Goods	-2.31	-0.17
Medical Care Services	5.47	0.15
Tuition and Miscellaneous Fees	1.10	0.07

Source: Price Statistics Monthly, Republic of China, DGBAS, Executive Yuan.

firms to pass on higher input costs to consumers, thereby, causing a decrease in wholesale prices of finished goods (for domestic sales) of 0.57 percent for the year. Third, services prices remained stable. For example, rent prices continued on a downward stream for the fifth year and helped to lessen inflationary pressures. Fourth, driven by increased productivity and subdued upward pressure on wages, unit labor costs were down for the fourth consecutive year, thereby offsetting CPI inflationary pressures.

