

## **What is core CPI?**

1. While most countries use consumer price index (CPI) to observe inflation, the prices of some items comprising the consumer price index can be disturbed by short-term or occasional events (such as typhoons or wars, etc.). Since this type of factor usually has only a short-term effect, these factors can be eliminated in order to observe mid-/long-term consumer price fluctuations and trends. This is how the concept of core prices emerged. While there are differences in the factors eliminated by different countries, Taiwan's core CPI refers to the general CPI excluding prices of fresh fruits, vegetables and energy (such as gas, electricity, fuels and lubricants).
2. When observing the retail prices trends, apart from the CPI, it is even easier to see the big picture if core prices are also included. For instance, although many members of the public felt that consumer prices had soared in July 2007, actually the general CPI showed an annual decrease of 0.3%. This drop was largely attributed to the prices of vegetables and fruit, which had fallen by 28.8% and 12.7% respectively due to the favorable weather. In addition, the relatively high weighting of fruit and vegetables allowed their price drops to offset hikes in the prices of some other products, causing the general index as a whole to fall. However, the annual change of core CPI for the month had in fact increased by 1.2%. This was the second time since April 2005, except in the case of the months containing the Lunar New Year, that core consumer prices had increased by more than 1% on a YOY basis, and showed that consumer prices were indeed raising.

