

Latest 2004/05-based Consumer Price Indices

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Ladies and Gentlemen,

Introduction

Good morning. Thank you for coming to this press conference. The purpose of this press conference is to introduce the latest 2004/05-based Consumer Price Index (CPI) series. As you are aware, the CPI is one of the most important economic indicators. It measures changes in the price level of consumer goods and services generally purchased by households.

2. In compiling the CPIs, two sets of information are required. One is the expenditure patterns of households collected from a Household Expenditure Survey (HES) which is conducted by the Census and Statistics Department (C&SD) at five-yearly intervals. The other is the data on price movements collected by the department on a monthly basis.

2004/05 Household Expenditure Survey

3. The existing series of the CPIs are based on the data of the last HES conducted in 1999/2000. The C&SD has conducted a new round of HES during the period from October 2004 to September 2005 to collect up-to-date information on the expenditure patterns of households in Hong Kong.

4. About 6 100 households participated in the survey, representing a response rate of 81%. The survey lasted for a whole year in order to take into account variations in consumer spending in different seasons of a year. Each household taking part in the survey recorded details of their expenses in expenditure diaries for a period of 2 weeks.

2004/05-based CPI series

5. The results of the latest 2004/05 HES have been used in rebasing the CPIs. The

expenditure ranges and weighting patterns of the CPIs have also been updated.

6. The practice to rebase the CPIs once every five years in Hong Kong has been in place for a long time. This practice conforms to international standards and practices and ensures that up-to-date expenditure patterns of households are accurately reflected in the compilation of the CPIs.

Four CPI series

7. You are probably aware that three separate CPI series relating to households in different expenditure ranges are compiled in Hong Kong. This is because households in different expenditure ranges have different expenditure patterns and hence changes in price movements may have different impacts on them.

8. The CPI(A) relates to about 50% of households in the relatively low expenditure range. The CPI(B) relates to the next 30% of households in the medium expenditure range. The CPI(C) relates to the further next 10% of households in the relatively high expenditure range. About 10% of households which are at the top and the bottom of the expenditure scale are excluded from the coverage of the CPIs.

9. In addition, a Composite CPI for reflecting overall consumer price inflation is compiled based on the aggregate expenditure pattern of all of the households covered by the CPI(A), CPI(B) and CPI(C) taken together.

10. Based on the results of the 2004/05 HES, the expenditure brackets for the new CPI(A), CPI(B) and CPI(C) series have been re-defined.

11. To maintain comparability of the various CPI series, the rebased series of the CPI(A) continues to relate to about 50% of households, in the relatively low expenditure range. Their average monthly expenditure during the new base period of October 2004 to September 2005 was between \$4,000 and \$15,499.

12. The rebased series of CPI(B) relates to about 30% of households, in the medium expenditure range. These households spent between \$15,500 and \$27,499 a month in the same base period.

13. As for the rebased CPI(C), it relates to about 10% of households, in the relatively high expenditure range. Their monthly expenditure in the base period was between \$27,500 and \$59,999.

Changes in the expenditure weights of the CPIs

14. As mentioned earlier, information on price changes are combined with expenditure weights in compiling the CPIs. The expenditure weight of each item represents its relative importance in the total household expenditure. The expenditure weights of the CPIs are updated every five years based on the results of the HES.

15. Let me highlight some of the major changes in the weighting patterns of the CPIs between 1999/2000 and 2004/05. Please refer to Table 1 of the Press Release.

16. The expenditure weights of 'Meals bought away from home', which account for a significant share of the 'Food' section, increased by 0.5 to 0.7 percentage point in each of the four CPIs.

17. As regards 'Food, excluding meals bought away from home', the shares decreased by 0.5 and 1.4 percentage points in the CPI(A) and CPI(C) respectively but increased by 0.9 percentage point in CPI(B).

18. For 'Housing' section, the weights for households in CPI(B) and CPI(C) dropped by 2.0 and 1.6 percentage points respectively. This was mainly due to the general fall in rental for private housing compared to five years ago. As for households in CPI(A), a large proportion of whom resided in public housing, the expenditure share of housing increased by 1.4 percentage points.

19. The expenditure weights of 'Electricity, gas and water' increased by 0.4 to 0.9 percentage point in all the CPIs. Meanwhile, the weights of 'Alcoholic drinks and tobacco' decreased slightly in CPI(A) and CPI(B) but remained virtually unchanged in CPI(C).

20. As for 'Clothing and footwear', the expenditure shares dropped slightly in the CPI(A) and CPI(B) but rose marginally for households in CPI(C).

21. The weights of 'Durable goods' showed a decline of about 1 percentage point in the CPI(A) and CPI(B). This was mainly attributable to declines in the expenditure shares on video and sound equipment; and watches, clocks, camera and optical goods. Households in CPI(C), however, spent a slightly larger share of their expenditure on durable goods than five years ago.

22. For 'Miscellaneous goods', the expenditure weights for households in all four types of CPI have dropped, by 0.6 to 1.5 percentage points.

23. Regarding the 'Transport' section, the expenditure weights for households in different expenditure groups did not change in the same direction. The weight declined slightly in CPI(A) mainly due to decreases in the shares of taxi fares and expenses related to car ownership. The

weight, however, rose in CPI(C) mainly due to increased expenditure shares on motor fuel and parking fees. As for the CPI(B), the weight remained unchanged.

24. While a small decline in the expenditure share of 'Miscellaneous services' was recorded for households in CPI(A), notable increases of 2 to 3 percentage points are observed for the expenditure shares of 'Miscellaneous services' in CPI(B) and CPI(C). The latter was mainly due to the increases in the expenditure on education; medical services; and beauty treatment and fitness services.

Updating of the CPI basket

25. Apart from updating the weights of different items of goods and services in the CPI basket, we have also added certain new items and deleted obsolete ones based on their significance and popularity as indicated by the results of the HES.

26. Some items of goods and services added to the basket are olive oil, DVD recorder, digital single-lens reflex camera, cyber café charges and slimming service charges. Meanwhile, items such as walkman and discman, portable cassette, radio pager and recorded audio tape were removed from the basket as the expenditures on these items have become insignificant.

Pricing survey

27. While our theme today is on rebasing of the CPIs, let me take this opportunity to say a few words on the pricing survey. A Monthly Retail Price Survey is conducted by the C&SD to gather information on the price movements of almost 1 000 pre-selected commodity/service items from various types of retail outlets and service providers. On average, about 45 000 price quotations are collected from some 4 000 retail outlets and service providers each month. These price data, combined with the expenditure weights, enable CPIs to be compiled.

Movements of the 2004/05-based CPIs

28. The 2004/05-based CPI series and their year-on-year rates of change for the reference months from October 2005 to March 2006 are given in Table 2 of the Press Release.

29. Compared with the old (1999/2000-based) CPI series, the new (2004/05-based) CPI series generally shows smaller year-on-year rates of increase. This is because households tend to buy more of the goods and services with relatively smaller price increases (or relatively larger price decreases) and less of those with larger price increases (or smaller price decreases). Due to such

substitution effect, CPIs with expenditure patterns fixed to a base year tend to over-estimate price increases or under-estimate price decreases over time.

30. For instance, compared with five years ago, households spent a greater share of their expenditure on products such as mobile phone, digital MP3 player/recorder, digital camera and electrical massage equipment, the prices of which have been falling. The effect of this change in spending pattern was to lower the rate of change in the overall CPI.

31. While the magnitudes of the year-on-year changes in the 2004/05-based and 1999/2000-based CPIs are somewhat different, the general trend of a gradual pick-up in the inflation rate from the 4th quarter of 2005 to the 1st quarter of 2006 is observed in all the four new CPI series, as is in the old CPI series.

Publication of the 2004/05-based CPIs

32. The newly based CPIs for April 2006 and subsequent months will be published in the coming press releases and CPI monthly reports.

33. Concurrent with the 2004/05-based CPI series, the 1999/2000-based CPI series will continue to be compiled and published monthly until the reference month of December 2006.

34. A detailed report on the results of the 2004/05 HES and the rebasing of the CPIs will be available in June this year.

35. The 2004/05 HES has been conducted smoothly with the co-operation of the sampled households. I am very grateful to them and the retail outlets which provide price data to us continuously. With their support, the quality of the CPIs can be guaranteed.

36. Thank you. Questions from the floor are welcome.