

# Annual Report on the Consumer Price Index 1992

## 一九九二年 消費物價指數年報



Census and Statistics Department, Hong Kong  
香港政府統計處編製

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**Consumer Price Index Section,  
Census and Statistics Department, Hong Kong**

**香港政府統計處消費物價指數組編製**

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注意：計算變動百分率時，均以多過一個小數點位的消費物價指數作為計算基礎。



## **I. Concepts and Methods**

1. The Consumer Price Index (CPI) measures and summarizes changes in the price level of goods and services which consumers purchase. The index also reflects the change in the purchasing power of money spent on consumer goods and services and is widely used as an indicator of inflation faced by consumers. Some employers also use it as a reference in salary and wage adjustments.
2. In compiling the price indices, two kinds of information are required. First, a weighting system which reflects the relative significance of goods and services purchased by households has to be established. Second, data on the price movements of goods and services have to be collected.
3. As consumers spend more on some items than on others, similar price movements in different items may have different impact on the overall price change. A weighting system, which represents the relative importance, in terms of expenditure, of every item in the basket of goods and services consumed by households is required in the compilation of the CPIs. To establish the weighting system, the Census and Statistics Department conducts every five years a Household Expenditure Survey (HES). In the survey, a number of households, forming a representative sample, are required to keep diaries of their household expenditure over a specified period of time.
4. Based on the expenditure patterns derived from the HES conducted between October 1989 and September 1990, three CPIs, which refer to households in different expenditure groups, are compiled. The CPI(A) and CPI(B), which refer to households in the relatively low and medium expenditure groups, are compiled by the Census and Statistics Department. The Hang Seng CPI (HSCPI), for households in the relatively high expenditure group, is compiled by the Hang Seng Bank. A Composite CPI, which refers to the household sector as a whole, is also compiled by the Census and Statistics Department.

5. The CPI(A) is based on the expenditure patterns of about 50% of urban households in Hong Kong, which had an average monthly expenditure of \$2,500-\$9,999 in the survey period of 1989/90. The CPI(B) is based on the expenditure patterns of the next 30% of urban households, which had an average monthly expenditure of \$10,000-\$17,499 in the same period while the Hang Seng CPI covers the next 10% of urban households with an average monthly expenditure of \$17,500-\$37,499 in the period.

6. While the CPI(A), CPI(B) and Hang Seng CPI are compiled based on the expenditure patterns of households in the low, medium and high expenditure groups respectively, a Composite CPI, which is based on the expenditure patterns of all households taken together, has been compiled by the Census and Statistics Department since 1992. Back data series to October 1980 are also compiled. Whereas the CPI(A), CPI(B) and Hang Seng CPI reflect the impact of consumer price changes on different groups of households, the Composite CPI reflects the impact of consumer price changes on the household sector as a whole.

7. It should be noted that the expenditure levels of households have increased generally over time in response to such factors as changes in income levels and prices. For instance, the CPI(A) households, which spent on average \$2,500 to \$9,999 a month in 1989/90, would be spending more than such amounts in 1992. However, the expenditure patterns (i.e. the relative expenditure amongst various items of goods and services) of households are not expected to have undergone very substantial changes within short period.

8. Thus the CPI(A) should continue to reflect price impact on the 50% of urban households with relatively low expenditure. Similarly, the CPI(B) and Hang Seng CPI continue to reflect price impact on the next 30% of urban households with medium expenditure and the further next 10% of urban households with relatively high expenditure.

9. Although spending patterns change only gradually, it is prudent to keep track of such changes. The next round of the Household Expenditure Survey is being planned for 1994/95. The expenditure brackets and weighting systems of the CPIs will then be updated based on the results of the survey.

10. As regards information on price changes, the Census and Statistics Department conducts a continuous pricing survey to capture the price changes of items included in the household consumption basket. Some 40,000 price quotations are collected each month from a representative sample of retail outlets in different locations by personal interviews or telephone enquiries. For those goods and services not purchased through retail outlets, e.g. transport services, electricity, telephone and postal services, etc., price information is collected directly from the producers concerned. Information on rent in the private sector is obtained from a regular sample survey of households, which covers new, renewed and continued lettings.

11. By applying the item-specific expenditure weights to the price changes recorded for individual items since the base period, the overall price change in terms of the percentage change in the CPI can be compiled. The procedure is equivalent to comparing the total expenditure required to purchase the same consumption basket in the current period with that in the base period. Further details about the computation method are given in the Appendix at the end of this report.

12. The CPIs measure changes in the overall cost of the basket of goods and services representative of the average consumption pattern of households. They therefore reflect the average impact of price changes on consumers, which is derived from the combined effect of expenditure weights and price changes. Hence, while the price of an individual commodity may have changed significantly, its effect on the change in the overall CPI can be mild if its weighting is relatively small. On the other hand, if the prices of those commodities with a large weighting in the CPI are relatively stable, they will have a stabilizing effect on the movement of the overall CPI.

13. The CPIs provide an objective assessment of the economy-wide inflation faced by consumers. They may differ from the assessments of individuals based solely on their own spending experiences or from impressions derived from reports of selective price increases. It should also be noted that changes in household expenditure may be due to other factors apart from the effect of price increases. For instance, a household may purchase more of certain commodities or services because of an increase in income hence increasing its expenditure, even though there may be little or no change in prices.

## II. Movements of the CPIs in 1992

14. The annual averages of the 1989/90-based CPI(A), CPI(B), HSCPI and Composite CPI for 1992 were 125.2, 125.1, 125.1 and 125.2, representing increases of 9.4%, 9.6%, 9.8% and 9.6% respectively over 1991. As measures of consumer price inflation in 1992, the annual rates of increase in the CPI(A), CPI(B), HSCPI and Composite CPI were 2.6, 2.0, 1.3 and 2.0 percentage points lower than in 1991. The annual rates of change in the CPIs in the past 10 years are given below:

<u>Year</u>	<u>Annual change in CPI(A)</u> (%)	<u>Annual change in CPI(B)</u> (%)	<u>Annual change in HSCPI</u> (%)	<u>Annual change in Composite CPI</u> (%)
1983	+9.9	+9.9	+10.3	+10.0
1984	+8.1	+8.5	+9.1	+8.6
1985	+3.2	+3.5	+4.0	+3.5
1986	+2.8	+3.5	+5.3	+3.8
1987	+5.5	+5.3	+6.4	+5.7
1988	+7.5	+7.4	+8.7	+7.8
1989	+10.1	+9.7	+11.0	+10.3
1990	+9.8	+9.7	+11.2	+10.2
1991	+12.0	+11.6	+11.1	+11.6
1992	+9.4	+9.6	+9.8	+9.6

15. An analysis of the movements of the CPIs in 1992, by comparing the indices in each month/quarter with both the preceding month/quarter and the same month/quarter in 1991, is shown in Table 1. Chart 1 presents the movements graphically.

16. As shown in Table 1, the year-on-year rate of increase decelerated gradually from 10.5% in January to 8.8% in May in the CPI(A), from 10.1% to 9.0% in the CPI(B) and from 10.2% to 9.1% in the Composite CPI during the same period. The subsequent months in the year saw some fluctuations in the year-on-year rates. Upturns in the rates for the CPI(A), CPI(B) and Composite CPI for example were observed in June, September and December. The range of fluctuations was from 8.3% to 9.9% in the case of the CPI(A); from 9.1% to 10.2% in the case of the CPI(B); and from 9.0% to 10.1% in the case of the Composite CPI. On the other hand, the HSCPI showed less volatile changes in the year-on-year rates in 1992, ranging from 9.5% to 10.2%. Upturns in the rate were observed in March, June, September and December.

17. As regards the month-to-month percentage change, it ranged from less than 0.05% to 2.2% in the CPI(A), from 0.3% to 1.6% in the CPI(B) and from 0.1% to 1.4% in the HSCPI during 1992. The corresponding range for the Composite CPI was from 0.2% to 1.8%. The month-to-month rates of increase recorded in February and September were the fastest in the year. The fast rate of increase recorded in February was mainly due to higher food prices and increased charges for hairdressing around the Chinese New Year while that in September was mainly due to an upsurge of prices of fresh vegetables, higher rent for some private housing units and an increase in the rentals in some public housing units after being frozen for a year as one of the anti-inflationary measures taken by the government in 1991.

18. Month-to-month percentage changes based on the original data series are affected by seasonal variations. The movements of the seasonally adjusted CPI(A), CPI(B) and HSCPI are discussed in the paragraphs 19-21 of this report.

### III. Movements of the Seasonally Adjusted CPIs in 1992

19. All the CPI figures quoted in the other sections of this report are not seasonally adjusted. The unadjusted data series are of general interest to consumers because they reflect the month-to-month movements of prices consumers actually pay for. However, in order to have a more complete analysis of the trend in the movements of the CPIs, seasonally adjusted CPIs should also be studied since seasonal adjustment enables the effects of seasonal factors to be eliminated from the original data series. Seasonal factors include factors such as weather conditions and holidays. The following are some illustrative examples: some food items are sold at higher prices just before the Chinese New Year; prices of fresh vegetables are higher during the typhoon season; clothing items are sold at much lower prices during summer and winter sales.

20. Seasonally adjusted CPIs are obtained by applying seasonal adjustments to the original data series. The seasonal factors are derived by applying the X-11 ARIMA Seasonal Adjustment Method to the CPI data series.

21. The monthly changes in the series of seasonally adjusted all-items indices are shown in Table 2. The month-to-month percentage changes during 1992 ranged from 0.1% to 1.4% in the CPI(A); 0.4% to 1.3% in both the CPI(B) and HSCPI; and 0.3% to 1.2% in the Composite CPI. After averaging on a moving 3-month basis, the monthly rates of increase in the seasonally adjusted CPI series moved within much narrower ranges : from 0.4% to 1.1% in the CPI(A); 0.6% to 1.0% in both the CPI(B) and HSCPI; and 0.5% to 1.0% in the Composite CPI.

#### IV. Movements of the CPIs in 1992 at Commodity/Service Section Levels

22. The commodities and services included in the CPIs are classified into a hierarchical system which consists of four levels, namely, Section, Group, Sub-group and Item. There are nine sections which are divided into 95 groups. The 95 groups are further sub-divided into 270 sub-groups and 965 items. The index at each level is a weighted average of the indices at the next lower level.

23. Compared with 1991, the CPI(A) and CPI(B) showed faster rates of increase in the indices for housing (13.0% in the CPI(A) and 13.6% in the CPI(B)); services (11.8% and 11.0%); and alcoholic drinks and tobacco (9.7% and 10.0%). The rates of increase in the indices for these three sections in the CPI(A) and CPI(B) were above the average for all items while the remaining six sections, namely food, fuel and light, clothing and footwear, durable goods, miscellaneous goods and transport, were below. The HSCPI, on the other hand, showed faster rates of increase in the indices for clothing and footwear (13.1%); housing (12.0%); and alcoholic drinks and tobacco (10.2%). Taking price movements of the three CPIs together, the Composite CPI showed faster rates of increase in the indices for housing (12.9%); services (10.8%); clothing and footwear (10.0%); and alcoholic drinks and tobacco (9.9%).

24. Among the nine sections, the lowest rate of increase, in the CPI(A), CPI(B) and Composite CPI, was recorded in durable goods, at 2.3%, 2.3% and 3.0% respectively; whereas the highest rate of increase was recorded in housing, at 13.0% in the CPI(A), 13.6% in the CPI(B) and 12.9% in the Composite CPI. As for the HSCPI, the lowest rate of increase was recorded in fuel and light (4.5%) and the highest rate of increase in clothing and footwear (13.1%). With the exception of the housing and the clothing and footwear sections, the rates of increase for the other commodity/service sections in 1992 were generally lower than the corresponding rates of increase recorded in 1991.



25. Tables 3(A), 3(B), 3(C) and 3(D) present respectively the CPI(A), CPI(B), HSCPI and Composite CPI by nine commodity/service sections. Movements of the section indices are presented graphically in Chart 2, in terms of both the index number and its year-on-year rate of change. Comparisons of the rates of change of the section indices in 1992 with those in 1991 are showed in Tables 4(A), 4(B), 4(C) and 4(D) and depicted in Chart 3.

## V. Movements of the CPIs in 1992 at Section and Group Levels

26. Tables 5(A), 5(B), 5(C) and 5(D) present respectively the CPI(A), CPI(B), HSCPI and Composite CPI by nine sections and 95 commodity/service groups.

### Food

27. The index for food increased by 8.8% in the CPI(A), 9.0% in the CPI(B), 9.3% in the HSCPI and 9.0% in the Composite CPI in 1992 compared with 1991. These percentage increases were lower than the corresponding rates of increase in the all-items indices. Due to the relatively large weightings of food in the CPIs (41.2% in the CPI(A), 35.3% in the CPI(B), 26.0% in the HSCPI and 35.1% in the Composite CPI), the increases in the prices of food accounted for significant proportions of the overall increases in the CPIs, being 39% in the CPI(A), 33% in the CPI(B), 25% in the HSCPI and 33% in the Composite CPI.

28. Amongst the various categories of food, the following groups experienced relatively more significant price increases in 1992 : fresh vegetables (15.5% in the CPI(A), 15.0% in the CPI(B), 14.6% in the HSCPI and 15.2% in the Composite CPI), edible oils (13.9%, 14.1%, 15.3% and 14.2%), flavourings and additives (13.2%, 13.4%, 15.3% and 13.7%), bread, cakes, biscuits and puddings (11.3%, 11.2%, 11.1% and 11.2%), tinned meat (10.7%, 10.8%, 11.9% and 10.9%) and carbonated drinks (10.5%, 10.6%, 10.8% and 10.6%).



29. Meals bought away from home is a major component in the food section and also the overall index in all the CPIs. This component constitutes about 50% of the weighting of the food section in the CPI(A), about 60% in the CPI(B) and HSCPI and about 55% in the Composite CPI. The increase in the charges for meals in restaurants and other eating places accounted for 62%, 69%, 73% and 67% of the increase in the index for food in the CPI(A), CPI(B), HSCPI and Composite CPI respectively, and for about one-fifth of the increases in the all-items CPIs. The year-on-year percentage increase in the prices of meals bought away from home in all the CPIs was smaller in 1992 than in 1991. Nevertheless, its contribution to the increase in the all-items index, in all the CPIs, was larger in 1992 than in 1991, due to the slower rate of increase in the all-items index.

30. As the price movements of fresh vegetables are more subject to seasonal variations, the price fluctuations observed during 1992 were the largest among all food groups. The month-to-month rates of change varied from -23% in May to +32% in January. For the entire year of 1992, the price index for fresh vegetables increased by 15.5% in the CPI(A), 15.0% in the CPI(B), 14.6% in the HSCPI and 15.2% in the Composite CPI.

## **Housing**

31. In 1992, the index for housing advanced by 13.0% in the CPI(A), 13.6% in the CPI(B), 12.0% in the HSCPI and 12.9% in the Composite CPI, accounting for 29%, 34%, 37% and 33% of the overall increase in the CPIs respectively. These contributions were significantly higher than those recorded in 1991. The increase in the component of rent (including rates) accounted for more than 90% of the increase in the index for housing in each of the CPIs.

32. The effects of the increase in water charges and other housing charges in 1992 on the housing index and the all-items index were relatively insignificant in each of the CPIs, due to the small weightings involved.