

## Hong Kong Watch

## CPI inflation edged up on housing inflation

**CPI inflation exceeded consensus on housing**

CPI inflation in Hong Kong edged up to 2.7% yoy in Oct from 2.0% in Sep, much above the market consensus of 2.1% and our forecast of 2.0%. The major driver was the rise in housing inflation (to 2.7% from 0.9% in Sep), due to the end of the rates concession and the one-year waiver of the extra public housing rent. Netting out the government's one-off relief measures, the underlying inflation moderated to 1.7% in Oct from 1.8% previously.

**Food & utility inflation moderated; Service prices rose**

By major components, food inflation slightly moderated (2.9% yoy in Oct vs 3.0% in Sep), driven by lower inflation in fresh vegetables and continued deflation in pork prices. Utility inflation sharply dropped to 0.2% yoy after 2.9% in Sep, driven by lower inflation in electricity and partly on favorable base effect. On the other hand, inflation in miscellaneous services accelerated further to 3.3% yoy (from 2.7%), the first above-3% figure since Jan 2020. Price inflation in most other categories stayed relatively stable.

**Tight financial conditions to keep CPI inflation muted**

While the headline inflation surprised on the upside again, we don't think it represents genuine underlying inflation pressure, as the inflation excluding government measures still stayed below 2%. We expect the tight financial conditions to keep headline inflation in check, even as the consumption recovery and tourism rebound are still under way. With our property team expecting flat home prices and only a moderate rise in rents in 2024, we expect overall pricing pressure to stay relatively muted in the near term.

21 November 2023

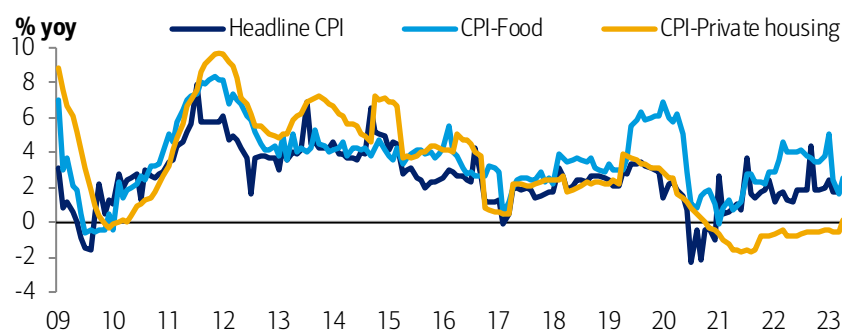
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**Exhibit 1: Hong Kong inflation trend**

Headline CPI inflation edged up on housing inflation



Source: Census and Statistics Department, CEIC

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Timestamp: 21 November 2023 05:49AM EST



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