

Hong Kong Watch

CPI inflation edged lower in December

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CPI inflation in Hong Kong further edged down to 2.4% yoy in Dec from 2.6% in Nov, largely in line with consensus of 2.5%. Inflation in majority of components were lower, notably utility prices. Netting out the government's one-off relief measures, the underlying inflation further moderated to 1.4% in Dec from 1.6% previously.

Lower utility & food inflation drove headline lower

By major components, food inflation continued to moderate (2.3% yoy vs 2.7% in Nov), driven by deflation in fresh vegetables (-6.5%) and pork (-5.9%) prices. Utility inflation contracted to -4.8% yoy after -2.4% in Nov, driven by deflation in electricity prices (-7.0%). Inflation in clothing & footwear decelerated to 4.0% yoy from 4.8%, while that in miscellaneous goods ticked down to 2.1% (from 2.6%).

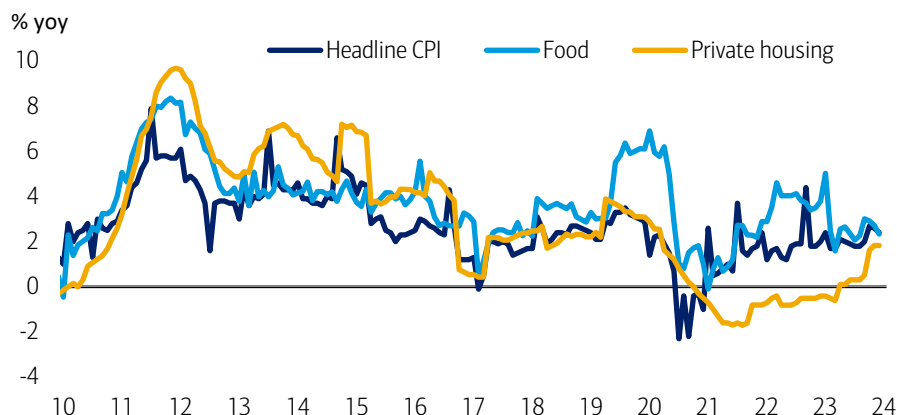
Inflation in housing and miscellaneous services remained unchanged at 2.9% and 3.2% respectively. Inflation in private housing rent also stayed the same (1.8%). Meanwhile, transport inflation edged up to 2.9%, while the deflation in durable goods narrowed to -1.0% (from -1.3%).

Weak growth & tight financial conditions keep CPI muted

In annual terms, headline CPI registered 2.1% in 2023, higher than previous years, but underlying inflation was relatively tepid at 1.7%. Although the continued economic recovery could exert pressure on domestic business cost, we expect only modest momentum amid tight financial conditions, lukewarm tourism recovery and price competition from mainland China. Therefore, headline inflation and service inflation should remain in check.

Exhibit 1: Hong Kong inflation trend

Headline CPI inflation further edged down in Dec



Source: Haver, BofA Global Research

BofA GLOBAL RESEARCH

22 January 2024

GEM Economics
Asia | Hong Kong

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Timestamp: 22 January 2024 04:36AM EST

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