

CHAPTER 7 : PRICES

Summary

- *Global inflationary pressures largely subsided in 2009 as most advanced economies around the world were mired in recession, particularly in the first half of 2009 amidst the global financial tsunami. Yet with the enormous rescue packages and concerted stimulus efforts by governments and central banks, the advanced economies began to bottom out in the third quarter, and deflationary pressures had receded towards the end of the year. During 2009, price pressures in Hong Kong largely followed the ebb and flow of the global inflationary forces.*
- *Consumer price inflation came down distinctly in the first half of 2009, dipping to the negative region for several months, before reverting to slight positive at year-end. For 2009 as a whole, the increase in the Composite Consumer Price Index ⁽¹⁾ was only 0.5%, much smaller than the 4.3% rise in 2008. The significant easing in inflation mainly reflected the effects of the Government's one-off relief measures, a modest price rise in basic foodstuffs, slower rise in rental costs, and continued falls in the prices of durable goods. Netting out the effects of the Government's one-off measures, underlying inflation averaged at 1.0% in 2009.*
- *Local business costs generally eased back during 2009, as wages and commercial rentals softened consequential to the economic downturn. External price pressures likewise disappeared. Yet as labour market conditions improved and business sentiment turned up, the downward pressures on wages and commercial rentals tended to abate progressively in the latter part of the year.*

Consumer prices

7.1 Inflationary pressures quickly subsided in the early part of 2009 as the economy slipped into a severe recession. Given the slack in the economy and softening import prices in the aftermath of the global financial crisis, underlying inflation turned slightly negative in July and held steady at the -0.3% level for five consecutive months. Towards the end of the year, however, the slight deflation has given way to slight inflation, thanks to the economic recovery. In the international markets, food and oil prices showed renewed increases during the year, aided partly by a weaker US dollar. Many other Asian economies

also saw a return to inflation in the latter part of the year⁽²⁾, notably with the Mainland's consumer price inflation turning positive in late 2009, due mainly to higher food prices. The *Composite Consumer Price Index* (Composite CPI) increased by a modest 0.5% in 2009, much slower than the 4.3% increase in 2008. Netting out the effects of the Government's one-off relief measures, underlying consumer price inflation in 2009 was 1.0%, also markedly lower than 5.6% in 2008.

Diagram 7.1 : Inflation turned slightly positive towards the end of 2009

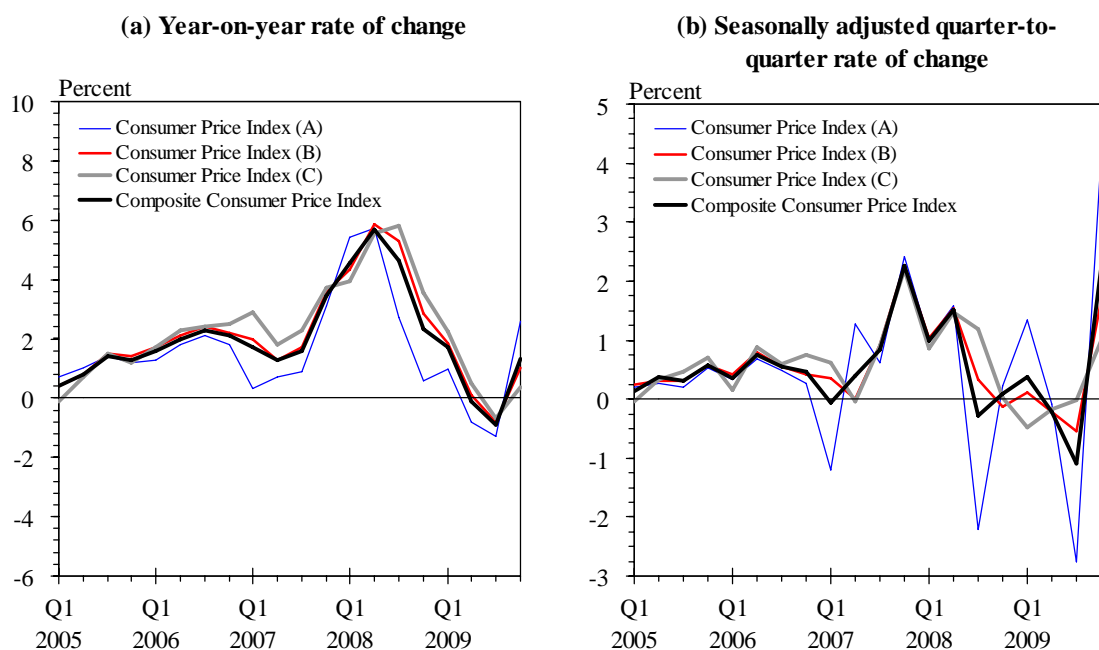


Table 7.1 : Consumer Price Indices
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2008	Annual	5.6	4.3	3.6	4.6	4.7
	H1	5.3	5.1	5.6	5.1	4.7
	H2	5.8	3.5	1.6	4.1	4.7
	Q1	4.9 (2.1)	4.6 (1.0)	5.4 (1.0)	4.3 (1.0)	3.9 (0.9)
	Q2	5.7 (1.5)	5.7 (1.5)	5.7 (1.6)	5.9 (1.5)	5.5 (1.5)
	Q3	6.3 (1.3)	4.6 (-0.3)	2.7 (-2.2)	5.3 (0.3)	5.8 (1.2)
	Q4	5.4 (0.4)	2.3 (0.1)	0.6 (0.2)	2.9 (-0.1)	3.6 (*)
	2009	Annual	1.0	0.5	0.4	0.5
	H1	2.1	0.8	0.1	1.0	1.4
	H2	-0.2	0.2	0.6	0.1	-0.1
	Q1	3.1 (-0.1)	1.7 (0.4)	1.0 (1.3)	1.9 (0.1)	2.2 (-0.5)
	Q2	1.2 (-0.3)	-0.1 (-0.2)	-0.8 (-0.1)	0.1 (-0.2)	0.5 (-0.2)
	Q3	-0.3 (-0.2)	-0.9 (-1.1)	-1.3 (-2.8)	-0.8 (-0.5)	-0.7 (*)
	Q4	-0.1 (0.5)	1.3 (2.2)	2.6 (4.1)	1.0 (1.7)	0.4 (1.0)

Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension of Employees Retraining Levy, and subsidies for household electricity charges.

Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(*) Change of less than 0.05%.

7.2 Among the major components, housing costs showed a moderate increase in 2009, but made the largest contribution to the increase of the Composite CPI given its large weighting in household consumption expenditure. The year-on-year increase in housing cost actually came down progressively over the course of the year, reflecting the gradual feed-through of the earlier downward adjustment in market rentals for private housing after the financial tsunami. Likewise, the food component, despite the modest increase in prices, was the second largest contributor to consumer price inflation. In contrast, the fall in electricity charges had helped to lower consumer price inflation visibly, largely reflecting the effect of Government's electricity charge subsidy. The transport component also recorded a decline, mainly reflecting lower prices of motor fuel and cross-boundary transport fares. Prices of durable goods continued their secular downtrend in 2009, and those of miscellaneous services

also fell on account of the implementation of the free senior secondary education starting from the 2008/09 school year and the suspension of the Employee Retraining Levy since August 2008. On the other hand, prices of alcoholic drinks and tobacco rose notably, mainly due to higher duty on cigarettes, while clothing and footwear and miscellaneous goods registered some mild increases in prices.

**Table 7.2 : Composite Consumer Price Index by component
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>			
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	26.94	10.1	1.3	4.6	1.5	-0.5	-0.3
<i>Meals bought away from home</i>	16.86	5.9	1.6	3.4	1.7	0.7	0.6
<i>Other foodstuffs</i>	10.08	16.8	0.9	6.5	1.2	-2.3	-1.5
Housing ^(a)	29.17	4.1	3.7	6.6	4.5	1.7	1.9
<i>Private dwellings</i>	23.93	6.8	3.6	7.7	5.1	2.0	*
<i>Public dwellings</i>	2.49	-27.2	9.5	-0.2	0.6	-7.0	45.4
				(0.2)	(0.2)	(0.2)	(*)
Electricity, gas and water	3.59	-6.5	-25.3	-42.7	-42.7	-26.1	32.3
				(-8.1)	(-8.2)	(-7.3)	(-2.9)
Alcoholic drinks and tobacco	0.87	0.1	18.7	7.6	22.6	22.9	22.0
Clothing and footwear	3.91	0.8	2.7	1.8	2.5	2.6	3.7
Durable goods	5.50	-2.0	-3.0	-2.9	-3.3	-3.1	-2.8
Miscellaneous goods	4.78	5.0	2.3	3.2	2.3	1.7	1.9
Transport	9.09	2.5	-0.9	0.7	-0.7	-2.4	-1.0
Miscellaneous services	16.15	0.8	-2.1	-1.7	-3.0	-2.8	-0.7
				(-1.1)	(-2.3)	(-2.1)	(*)
All items	100.00	4.3	0.5	1.7	-0.1	-0.9	1.3
				(3.1)	(1.2)	(-0.3)	(-0.1)

Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.

Figures in bracket represent the underlying rate of change after netting out the effect of Government's one-off relief measures.

(*) Change of less than 0.05%.

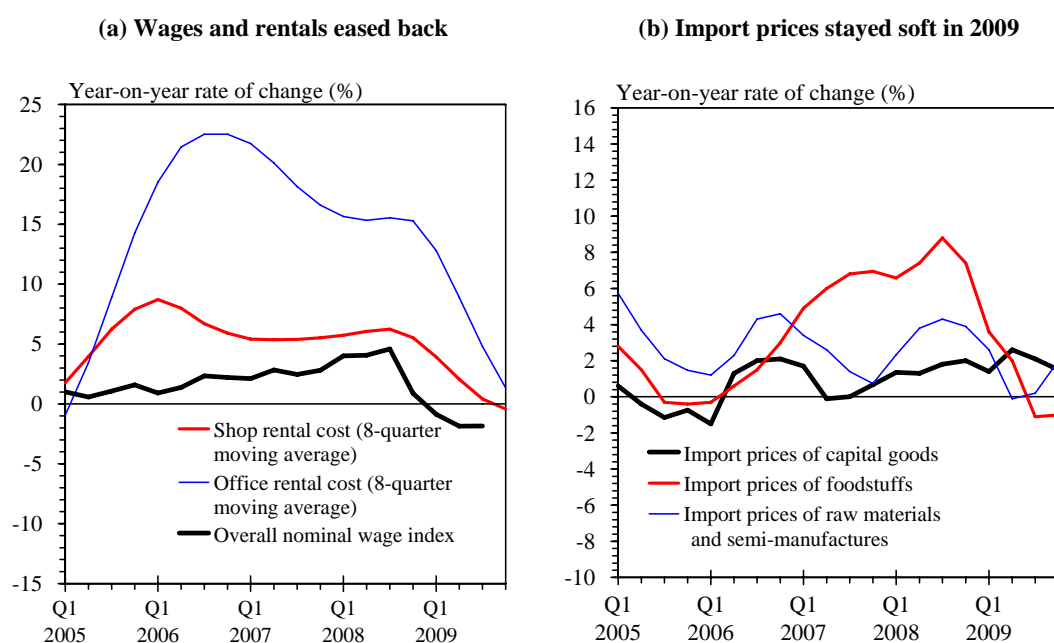
7.3 Deflationary pressures, which prevailed during most of 2009 on a relatively mild scale, abated notably towards the end of the year. Underlying

Composite CPI inflation edged up from -0.3% year-on-year in the third quarter of 2009 to -0.1% in the fourth quarter, and actually reverted to a positive 0.3% in December. This was also evident from the seasonally adjusted data series, which indicated that the average monthly rate of change in the underlying Composite CPI turned from broadly flat in the third quarter of 2009 to 0.2% in the fourth quarter. The receding of the deflationary forces accorded well with the concurrent revival in consumer demand as the economic recovery took hold.

Costs of factor inputs and import prices

7.4 Wages and commercial rentals eased back in 2009, reducing the pressure on business costs in the aftermath of the global financial crisis. Given that employment and income conditions had yet to fully stabilise in the early stage of economic recovery, wages were still lower than the levels in 2008, although there was some increase on a quarter-to-quarter basis in the third quarter of 2009. Likewise, rentals for the new letting of retail premises and offices fell notably in late 2008 and early 2009. With the upturn in business sentiment, shop and office rentals recouped some lost ground in the latter part of the year. Yet on an eight-quarter-moving-average basis, they continued to ease.

Diagram 7.2 : Costs of factor inputs and import prices



7.5 On the external front, import prices eased back in overall terms during 2009 amid the recessionary forces in the global economy. By the second quarter, import prices dipped into a decline and the easing trend continued into the third quarter, only to resume a slight increase in the fourth quarter. This profile in fact closely matched the dramatic changes in the external environment

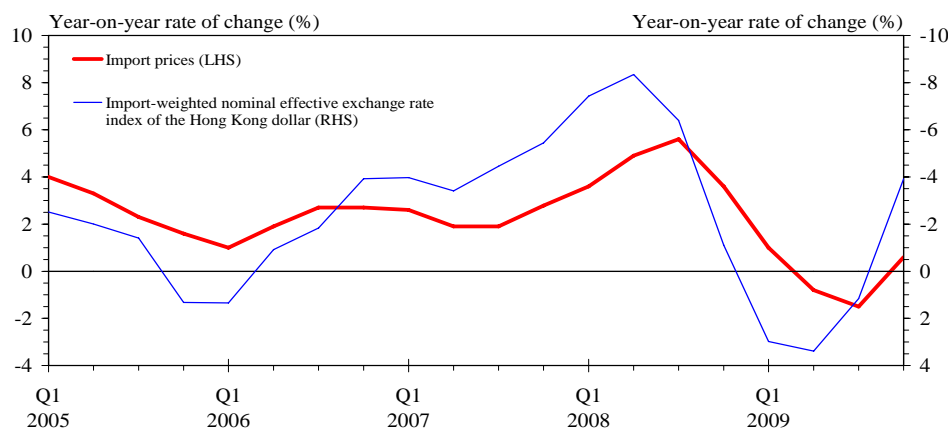
during the year. Analysed by end-use, import prices of fuels were on average markedly lower in 2009 than in 2008, even with the bounce-back in oil prices since early 2009. Import prices of both foodstuffs and consumer goods came down successively during the year, turning to a modest decline in the second half of 2009. Import prices of raw materials recorded a small increase in 2009 as a whole, much slower than in 2008. Import prices of capital goods recorded modest increases all through the four quarters. Conceivably, this was partly due to the strength of yen against the US dollar, with Japan being the second largest source of Hong Kong's capital goods intake.

**Table 7.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2008	Annual	7.5	4.8	3.6	33.0	1.6	4.4
	H1	7.0	3.9	3.1	51.2	1.3	4.3
	H2	8.0	5.8	4.1	18.1	1.9	4.6
	Q1	6.6	3.7	2.3	41.5	1.4	3.6
	Q2	7.4	4.1	3.8	59.3	1.3	4.9
	Q3	8.8	6.1	4.3	49.0	1.8	5.6
	Q4	7.4	5.6	3.9	-7.6	2.0	3.6
2009	Annual	0.9	-0.2	1.2	-32.1	2.0	-0.1
	H1	2.8	1.7	1.1	-41.5	2.1	*
	H2	-1.0	-1.9	1.1	-23.1	1.8	-0.5
	Q1	3.6	2.9	2.6	-38.8	1.4	1.0
	Q2	2.0	0.6	-0.1	-43.2	2.6	-0.8
	Q3	-1.1	-2.1	0.2	-37.6	2.1	-1.5
	Q4	-1.0	-1.8	2.0	-3.6	1.5	0.6

Note: (*) Change of less than 0.05%.

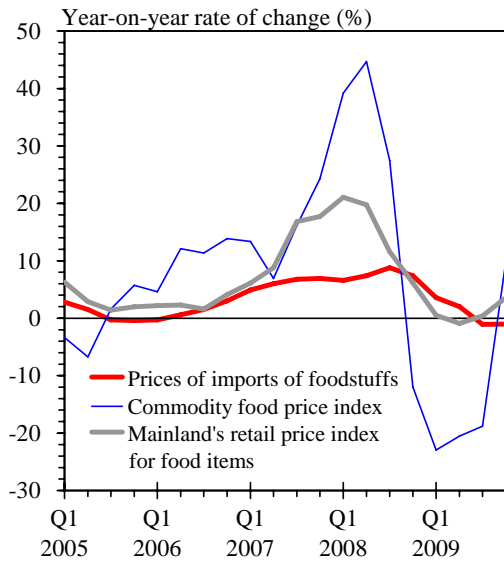
Diagram 7.3 : Import prices edged up towards the end of the year, amid the global gradual recovery and a weakened HK dollar



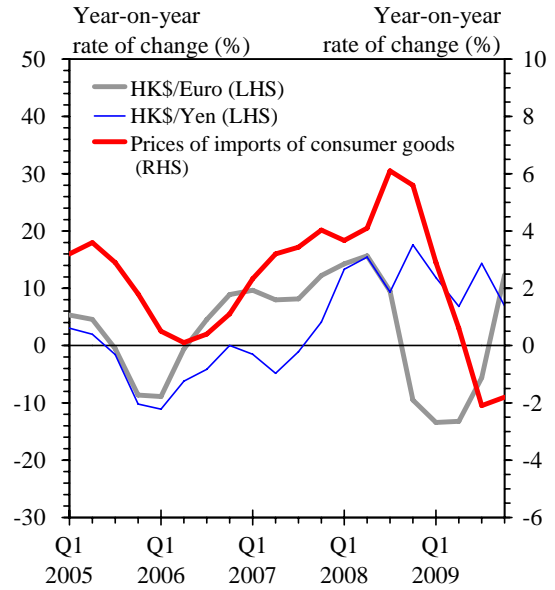
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

Diagram 7.4 : Import prices by end-use categories

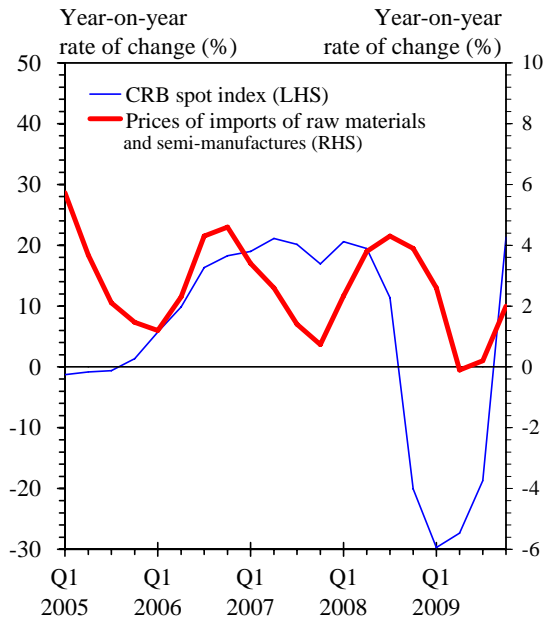
(a) Import prices of foodstuffs came down successively



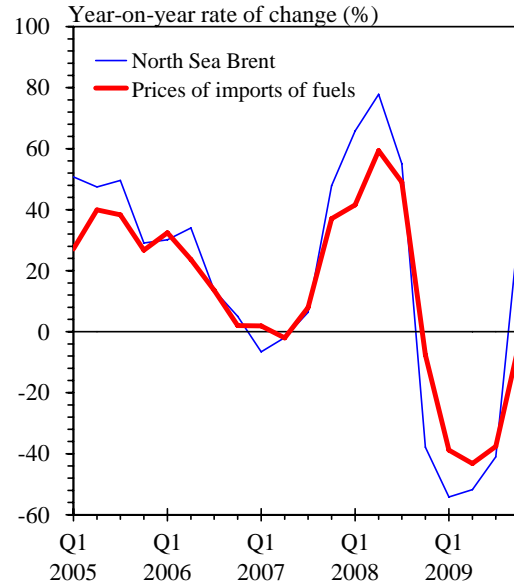
(b) Import prices of consumer goods turned to decline in latter part of 2009



(c) Import prices of raw materials edged up slightly towards year-end



(d) Fuel prices rebounded but were still markedly lower in 2009 than 2008



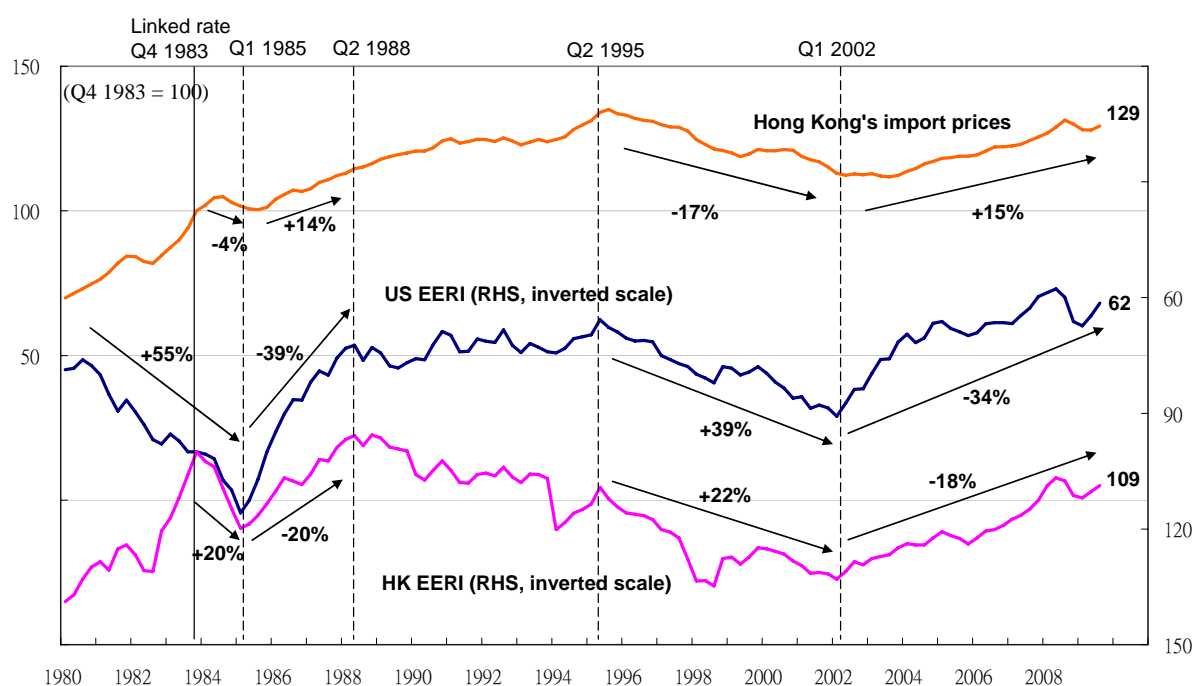
Box 7.1

Relationships between exchange rate and import price movements

The outlook for the US dollar is currently subject to considerable uncertainty. There is a concern about whether imported inflation in Hong Kong will go up in the event of a notable weakening of the US dollar. By reviewing the past experience, this article tries to gauge the extent to which Hong Kong's import prices are influenced by exchange rate movements. It also gives a brief comparison with the experiences of other Asian economies.

Chart 1 shows the movements of the US dollar and Hong Kong dollar in terms of their nominal effective exchange rate index in inverted scale, juxtaposed against those of Hong Kong's import prices. The inverted scale is to reflect the inverse relationship between exchange rate and import price movements.

Chart 1: The US dollar has gone through several major ups and downs, and so have the HK dollar and import prices*



(*) The chart shows the quarterly movements of the US trade-weighted major currencies effective exchange rate index (EERI) and the import-weighted HK EERI, and the corresponding peak-to-trough or trough-to-peak percentage changes.

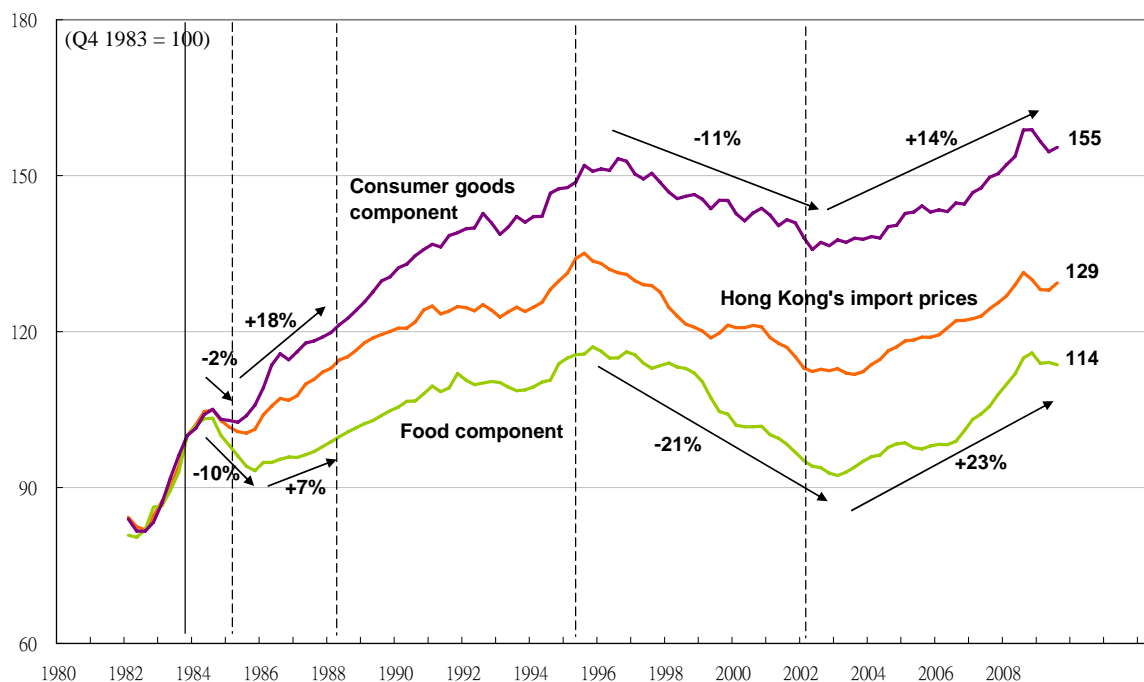
The US dollar went through several rounds of major ups and downs over the past decades. It appreciated sharply by 55% from 1980 to 1985, driven by the success of a tight monetary policy to rein in inflation and by the higher real interest rate resulting from an expansionary fiscal policy. The strong dollar, however, hurt exports and worsened the trade balance. In September 1985, the US reached the Plaza Agreement with France, the then West Germany, Japan and the UK (the then Group of Five) to manage the depreciation of the US dollar against the Japanese yen and the deutschemark. As a result, the US dollar depreciated by 39% from 1985 to 1988, which helped to reduce the current account deficit. The dollar experienced a lingering period of modest depreciation from 1988 to 1995 on the back of a

Box 7.1 (Cont'd)

strong deutschemark and a strong yen, and rose by a further 39% on a robust economic outlook and strong dollar rhetoric from 1995 to 2002. Then sentiment switched, and thereafter the dollar was on a downtrend, falling by a cumulative 34% between 2002 and mid-2008 amid mounting concerns over its deteriorating trade deficit. The Hong Kong dollar has generally moved in tandem with but to a smaller extent than the US dollar. There was some divergence in movements during the period 1988-1995, mainly due to difference in trade compositions and divergent movements of the currencies of major trading partners. At that time, China took up roughly 30% of the Hong Kong effective exchange rate index and the renminbi had been depreciating gradually until the unification of renminbi exchange rates in 1994.

From the chart, it can be seen that the movements of Hong Kong's import prices correspond roughly to the movements of the US dollar and Hong Kong dollar against their major trading partners. As higher import prices may pass through to consumer prices as imported inflation, a further look is taken at the components of import prices by end-use categories that are more relevant to final consumption. *Chart 2* shows that the consumer goods and food components of import prices have tended to broadly follow the overall import price movements.

Chart 2: Consumption related components of import prices have tended to follow the overall import price movement*



(*) Based on quarterly data.

Box 7.1 (Cont'd)

The results of Granger causality tests likewise suggest that exchange rate movements are one of the relevant factors influencing Hong Kong's import prices⁽¹⁾. Further analysis confirms Granger causality from exchange rate movements to the import prices of consumer goods, but little evidence of causality from exchange rates to import prices of food⁽²⁾. The latter is due to the fact that food prices are also significantly affected by global supply and demand conditions apart from exchange rate factors. For example, the surge in food prices in 2007-2008 was more of a worldwide phenomenon triggered by low levels of world cereal stocks, crop failures in major exporting countries, and rapidly growing demand for agricultural commodities for biofuels, according to the UN's Food and Agriculture Organization (FAO).

Looking at data since the inception of the linked exchange rate system in 1983, there is however little evidence to suggest that Hong Kong's import prices have exhibited greater volatility or larger increases than those of many other Asian economies, or global inflation for that matter (*Table 1*). Indeed, Hong Kong's import prices have been rising generally in tandem with world commodity prices, and actually are less volatile than the import prices of other Asian economies adopting flexible exchange rate regime. In fact, the linked exchange rate system may have shielded Hong Kong's import prices from the sharp volatilities experienced by Thailand and Korea in their import prices during 1997-98, when the Asian financial crisis struck.

Table 1: Hong Kong import price has been more stable and contained than other Asian economies and global inflation

Between 1983 Q4 and 2009 Q3 (26 years)

	<u>Cumulative change</u> (%)	<u>Average annualised change</u> (%)	<u>Standard deviation[#]</u> (%)
Global inflation			
World Bank's estimate	232.4	5.6	5.5
IMF's estimate	1430.7	11.2	7.8
Hong Kong's import prices	29.4	1.0	4.1
Compared with import prices of:			
Korea	85.0	2.4	12.9
Singapore	-15.4	-0.6	4.9
Thailand	175.5	4.0	12.2
Taiwan	10.4	0.4	7.5
World commodity prices	39.3	1.3	11.1

(#) Standard deviation of the year-on-year % change.

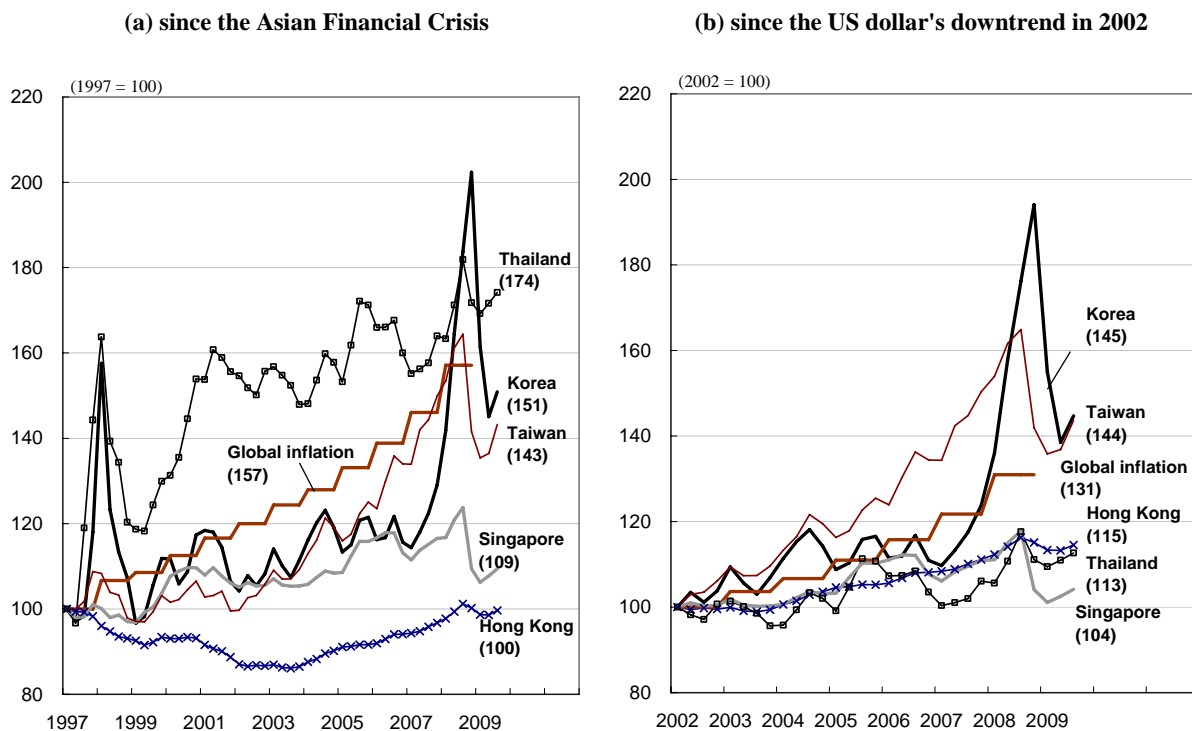
(1) Granger causality tests were run using quarterly data from Q1 1983 to Q3 2009 and four lag periods were included. The results suggest significant Granger causality relationships of US and Hong Kong dollar exchange rates on Hong Kong's import prices, at the 5% and 1% levels respectively.

(2) Granger causality tests were run using quarterly data from Q1 1983 to Q3 2009 and four lag periods. The results suggest significant Granger causality relationships of the US and Hong Kong dollar exchange rates on Hong Kong's import prices of consumer goods, both at the 1% level, but not on import prices of food.

Box 7.1 (Cont'd)

Looking at different time periods to discern the US dollar's influence on Hong Kong's import prices more closely, it is found that in the past 13 years after the Asian Financial Crisis, during which most Asian currencies became de-linked with the US dollar, Hong Kong's import prices had barely moved compared with the 1997 level whereas other Asian economies had seen their import prices fluctuate wildly and increase at a rapid pace (*Chart 3a*).

Chart 3: Hong Kong's import prices are less volatile and increase more slowly than many other Asian economies*



(*) Import prices are based on quarterly data; global inflation on annual data from the World Bank.

Even in more recent years after 2002, when the US dollar turned and embarked on a persistent downtrend, and along with this the Hong Kong dollar correspondingly declined, the increase in Hong Kong's import prices had been slower than those of many other Asian economies, and also global inflation (*Chart 3b*). This suggests that while exchange rate is a prominent factor affecting import prices, other factors such as world commodity prices and the compositions of imports have also been in play. In particular, the Mainland has been instrumental in keeping import prices down, thanks to our increasing trade ties with the hinterland.

Output prices

7.6 Output prices, as measured by *Producer Price Indices*⁽³⁾, declined during the first three quarters of 2009 in most of the economic sectors. With the sluggish import demand in the overseas markets, prices of manufacturing output fell across a wide range of products. Within the services sector, output prices of accommodation services fell notably, despite a relative improvement in inbound tourism in the third quarter of 2009. Along with reduced global trade flows, output prices of land, maritime and air transport continued to decline markedly. Meanwhile, prices of telecommunications services continued on a secular downtrend due to technological advancement and keen competition in the sector, while those of courier services posted a modest increase.

Table 7.4 : Producer Price Indices for the local manufacturing sector and selected service sectors (year-on-year rate of change (%))

<u>Industry group</u>	<u>Annual</u>	<u>2008</u>				<u>2009</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u> [@]
Manufacturing	5.6	5.9	6.9	5.8	3.9	-1.4	-3.0	-2.0
Selected services sector ^(a)								
Accommodation services	7.8	11.1	10.7	10.7	-0.5	-7.0	-10.8	-10.9
Land transport	0.4	0.6	1.5	1.1	-1.5	-0.6	-1.5	-2.0
Maritime transport	2.1	5.3	3.1	3.4	-3.1	-12.7	-21.0	-20.8
Air transport	5.1	3.3	8.8	9.0	-0.5	-10.3	-13.6	-14.3
Telecommunications	-2.6	-1.8	-2.0	-3.4	-3.2	-2.5	-2.8	-2.5
Courier services	3.5	3.9	4.4	4.1	1.8	2.1	1.9	1.9

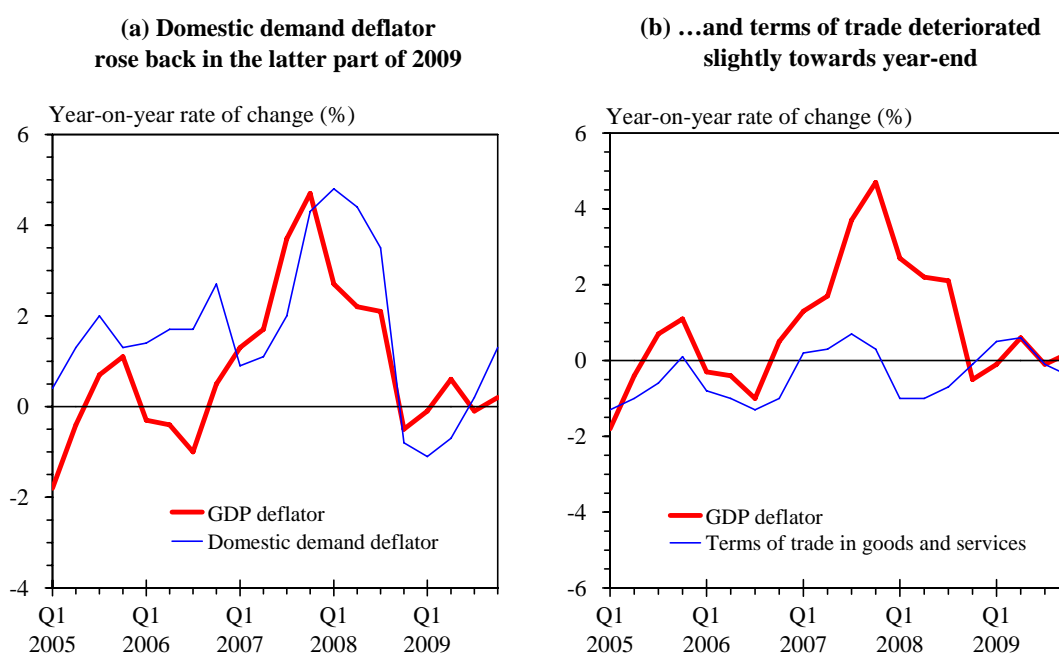
Notes: (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the producers often do not charge their customers explicitly.

([@]) Provisional figures except manufacturing.

GDP deflator

7.7 As a broad measure of the overall change in prices of the economy, the *GDP deflator* ⁽⁴⁾ rose only slightly by 0.2% in 2009, slower than the 1.5% increase in 2008. The moderation was due mainly to the significant easing in local inflationary pressures during 2009. For the year as a whole, there was a marginal improvement in the *terms of trade* ⁽⁵⁾, as import prices eased off slightly faster than export prices. Taking out the external trade component, the domestic demand deflator went down more visibly in the first quarter of 2009 before gradually rising back along with the concurrent upturn in local demand.

Diagram 7.5 : GDP deflator



**Table 7.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))**

	<u>2008</u>					<u>2009</u>				
	<u>Annual[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Annual⁺</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4⁺</u>
Private consumption expenditure	2.8	5.0	5.2	3.2	-1.8	-1.2	-1.1	-2.0	-2.2	0.3
Government consumption expenditure	4.9	4.2	5.6	5.7	4.3	0.1	3.2	-0.8	-1.6	-0.7
Gross domestic fixed capital formation	1.9	4.9	0.3	3.1	*	4.1	-2.0	4.8	8.3	4.4
Total exports of goods	3.4	2.3	3.4	4.4	3.3	0.3	1.8	-0.3	-1.0	0.7
Imports of goods	4.1	3.4	4.6	5.4	3.1	-1.1	-0.1	-2.2	-2.1	*
Exports of services	3.4	4.2	5.0	5.1	-0.3	-5.9	-7.5	-8.4	-7.0	-1.6
Imports of services	3.8	5.8	5.8	4.7	-0.7	-2.2	-5.8	-5.7	-3.1	5.5
Gross Domestic Product	1.5	2.7 <-0.9>	2.2 <*>	2.1 <0.9>	-0.5 <-0.5>	0.2	-0.1 <-0.4>	0.6 <0.6>	-0.1 <0.1>	0.2 <-0.1>
Total final demand	3.2	3.3	3.9	4.3	1.6	-0.8	-0.6	-1.5	-1.6	0.5
Domestic demand	2.8	4.8	4.4	3.5	-0.8	*	-1.1	-0.7	0.2	1.3

Notes : Figures are derived based on the new series of chain volume measures of GDP. They are subject to revisions when more data become available.

(#) Revised figures.

(+) Preliminary figures.

< > Seasonally adjusted quarter-to-quarter % change.

(*) Change of less than 0.05%.

Notes :

- (1) The Consumer Price Indices (A), (B) and (C) are compiled by reference to the average expenditure patterns for different groups of households as obtained from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by the above three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 2004/05-based CPIs are shown below:

	<u>Approximate proportion of households covered</u>	<u>Average monthly expenditure range during Oct 2004 to Sep 2005</u>
	(%)	(\$)
CPI(A)	50	4,000 to 15,499
CPI(B)	30	15,500 to 27,499
CPI(C)	10	27,500 to 59,999

The weightings of the various components in the 2004/05-based CPIs are as follows:

<u>Expenditure Component</u>	<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
	(%)	(%)	(%)	(%)
Food	26.94	32.10	27.32	20.41
<i>Meals bought away from home</i>	<i>16.86</i>	<i>18.63</i>	<i>17.65</i>	<i>13.74</i>
<i>Other foodstuffs</i>	<i>10.08</i>	<i>13.47</i>	<i>9.67</i>	<i>6.67</i>
Housing	29.17	30.54	27.70	29.66
<i>Private dwellings</i>	<i>23.93</i>	<i>22.07</i>	<i>23.89</i>	<i>26.11</i>
<i>Public dwellings</i>	<i>2.49</i>	<i>6.18</i>	<i>1.25</i>	--
<i>Maintenance costs and other housing charges</i>	<i>2.75</i>	<i>2.29</i>	<i>2.56</i>	<i>3.55</i>
Electricity, gas and water	3.59	4.84	3.37	2.45
Alcoholic drinks and tobacco	0.87	1.35	0.79	0.42
Clothing and footwear	3.91	2.81	4.28	4.67
Durable goods	5.50	4.01	5.67	6.99
Miscellaneous goods	4.78	4.68	4.76	4.91
Transport	9.09	8.07	9.05	10.35
Miscellaneous services	16.15	11.60	17.06	20.14
All items	100.00	100.00	100.00	100.00

- (2) The table below presents the year-on-year rates of consumer price inflation in selected economies.

	<u>2008</u>	<u>2009</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	<u>Annual</u>	<u>Annual</u>				
Selected developed economies						
US	3.8	-0.4	*	-1.2	-1.6	1.4
Canada	2.3	0.3	1.2	0.1	-0.9	0.8
EU	3.7	1.0	1.6	0.9	0.4	1.0
Japan	1.4	-1.4	-0.1	-1.0	-2.2	-2.0
Major emerging economies						
Mainland China	5.9	-0.7	-0.6	-1.5	-1.3	0.7
Russia	14.1	11.7	13.7	12.4	11.4	9.2
India	8.3	10.9	9.4	8.9	11.8	13.3
Brazil	5.7	4.9	5.8	5.2	4.4	4.2
Selected Asian economies						
Hong Kong	4.3	0.5	1.7	-0.1	-0.9	1.3
Singapore	6.5	0.2	2.1	-0.5	-0.4	-0.3
Taiwan	3.5	-0.9	*	-0.8	-1.3	-1.3
South Korea	4.7	2.8	3.9	2.8	2.0	2.4
Malaysia	5.4	0.6	3.7	1.3	-2.3	-0.2
Thailand	5.5	-0.8	-0.2	-2.8	-2.2	1.9
Indonesia	9.8	4.8	8.6	5.6	2.8	2.6
Philippines	9.3	3.3	6.9	3.2	0.3	3.0
Vietnam	23.1	6.7	14.4	6.2	2.6	4.6
Macao	8.6	1.2	3.3	1.8	-0.2	-0.1

Note: (*) Change of less than 0.05%.

- (3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.