

## CHAPTER 6 : PRICES

### *Summary*

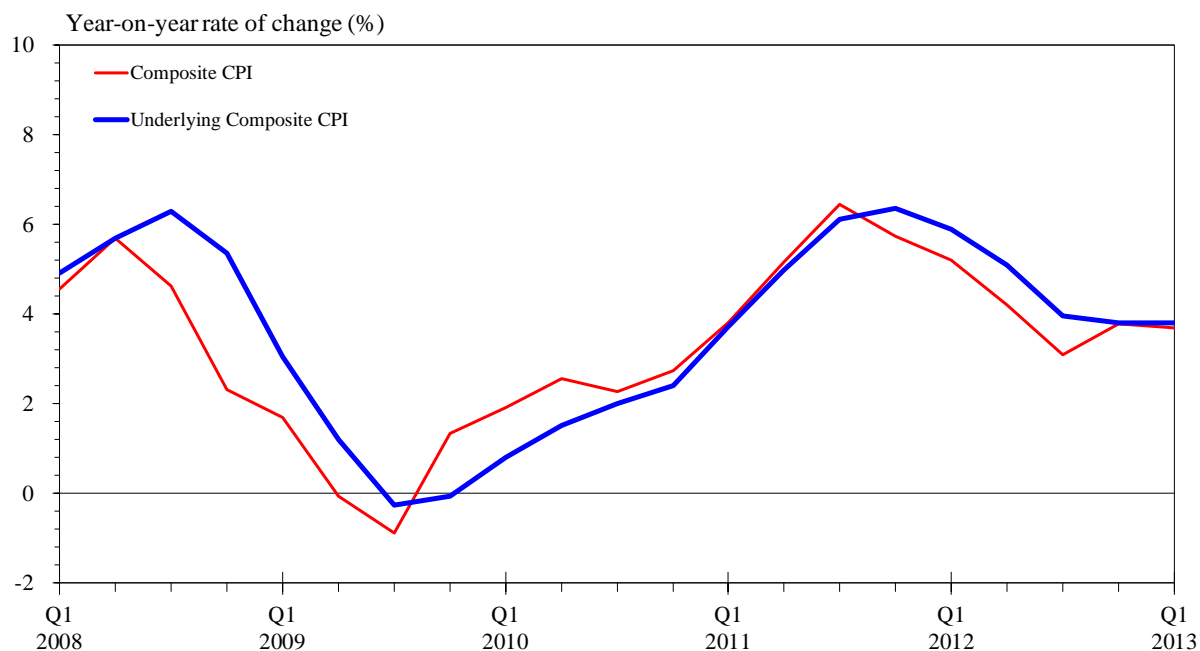
- *Inflation held steady in the first quarter of 2013. The Composite Consumer Price Index (Composite CPI)<sup>(1)</sup> rose by 3.7% in the first quarter over a year earlier, compared to 3.8% in the preceding quarter. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, the year-on-year increase in the underlying Composite CPI was 3.8%, same as that in the preceding quarter.*
- *Externally, imported inflation remained tame, thanks to the relative stabilisation of international food and commodity prices, as well as the generally moderate inflation in Hong Kong's major trading partners.*
- *Domestically, labour costs increased at a slower pace in recent quarters alongside the modest local economic growth. Rentals for retail premises remained elevated on the back of the vibrant consumption market, but the rising trend tapered in recent months. Meanwhile, the rise of the fresh-letting residential rentals over the past year had yet to fully feed through to the Composite CPI.*
- *Looking ahead, the Hong Kong economy may face some upside risks to inflation, stemming from the lagged effects of higher housing rentals and the possible volatility of international food and commodity prices amid the aggressive quantitative easing in the advanced economies.*

### **Consumer prices**

6.1 Overall inflationary pressures held largely stable in the first quarter of 2013. Externally, import prices saw moderated year-on-year increases, thanks to the relatively stable international food and commodity prices, as well as the generally tame inflation in the Mainland and other import suppliers. Locally, the increase in labour costs decelerated somewhat in recent quarters, mainly reflecting the below-trend growth of the local economy. Rentals for retail premises, though still elevated on the back of strong retail sales performance, tended to ease more recently. Yet, reflecting the lagged effect of higher fresh-letting residential rentals last year, the private housing rental component of the underlying Composite CPI showed a slightly faster increase in the first quarter of 2013. The local inflation developments were largely in

line with those in a number of Asian and emerging market economies, which also saw broadly stable or even slightly higher headline inflation in the first quarter of 2013<sup>(2)</sup>.

**Diagram 6.1 : Consumer price inflation held largely stable in the first quarter of 2013**



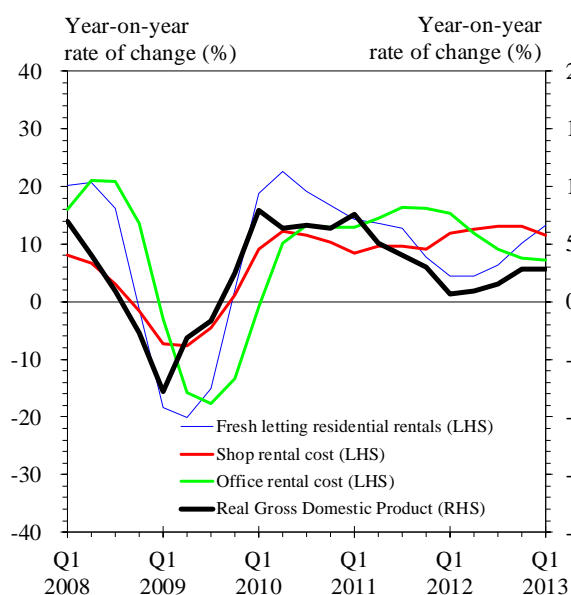
Note : The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the indices to maintain continuity.

6.2 Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, rose by 3.7% in the first quarter of 2013, compared with 3.8% in the preceding quarter. Netting out the effects of the Government’s one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation was 3.8%, same as that in the preceding quarter.

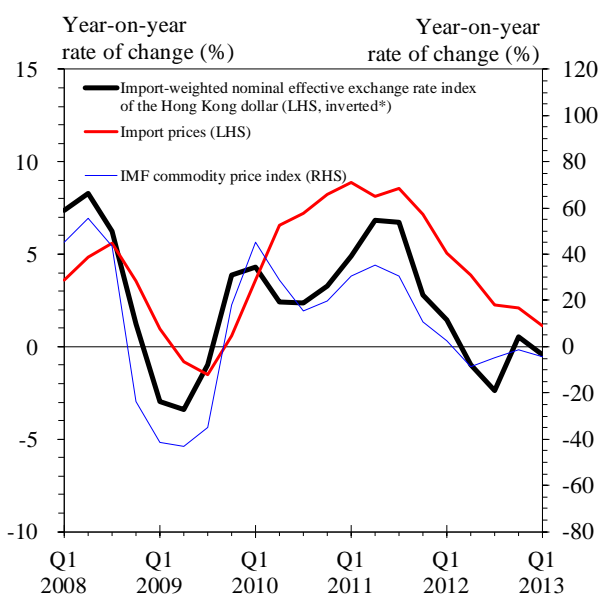
6.3 On a year-on-year comparison, price increases varied among the major components of the underlying Composite CPI. Local food inflation (including costs of dining out) eased slightly from 4.2% year-on-year in the fourth quarter of 2012 to 4.1% in the first quarter of 2013. On the other hand, the year-on-year increase in the private housing rental component went slightly higher, from 5.3% to 5.4% over the same period, reflecting the gradual feed-through of the higher fresh-letting residential rentals over the past year. Nonetheless, for many other CPI components, the rate of price increase continued to moderate in the first quarter of 2013, amid the subpar economic performance and receding imported inflation. Separately, the prices of durable goods stayed on their secular downtrend.

**Diagram 6.2 : Inflationary pressures were more visible on the domestic front**

**(a) The year-on-year rises in residential and shop rentals remained visible**



**(b) Imported inflation moderated**



Note : (\*) An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The nominal EERI series in this graph is inverted for easier comprehension.

**Table 6.1 : Consumer Price Indices**  
(year-on-year rate of change (%))

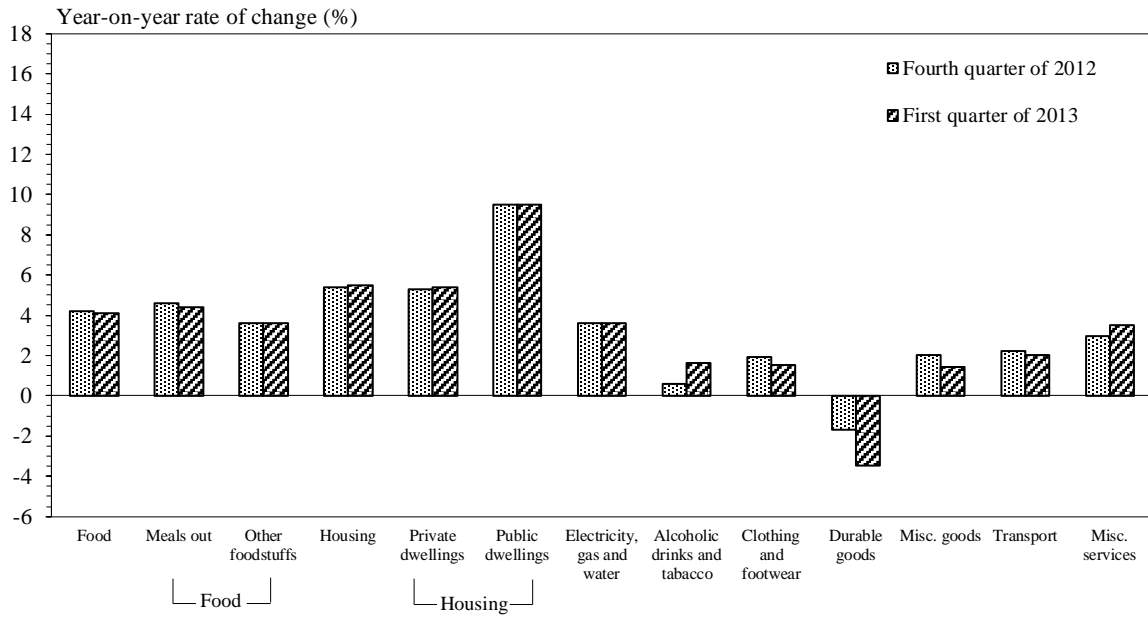
		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2012	Annual	4.7	4.1	3.6	4.3	4.1
	H1	5.5	4.7	4.2	5.0	4.9
	H2	3.9	3.5	3.1	3.7	3.4
	Q1	5.9	5.2	4.6	5.5	5.4
	Q2	5.1	4.2	3.7	4.5	4.4
	Q3	4.0	3.1	1.9	3.7	3.4
	Q4	3.8	3.8	4.2	3.6	3.3
2013	Q1	3.8	3.7	4.2	3.5	3.3

**(seasonally adjusted quarter-to-quarter rate of change (%))**

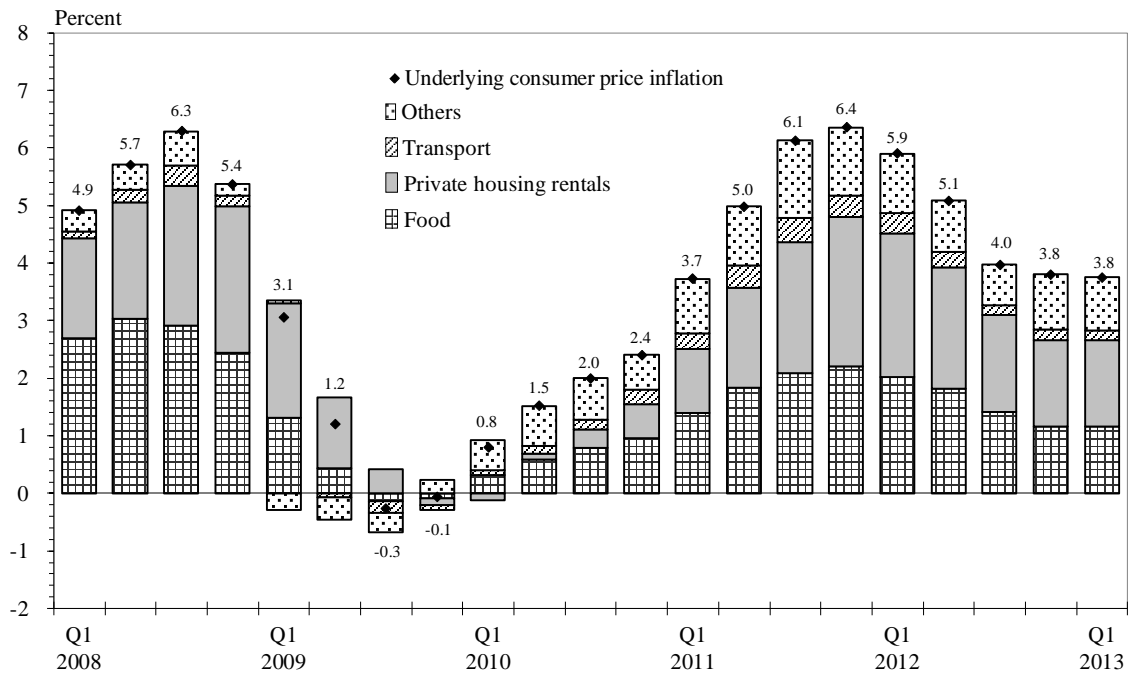
2012	Q1	1.2	1.2	1.3	1.3	1.1
	Q2	0.9	0.8	0.8	0.8	0.7
	Q3	0.6	-1.9	-5.9	-0.3	0.4
	Q4	1.1	3.7	8.5	1.8	1.1
2013	Q1	1.2	1.2	1.3	1.2	1.1

Note : (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.

**Diagram 6.3 (a) : The price increases in many major components in the underlying Composite CPI remained moderate**



**Diagram 6.3 (b) : Contribution to underlying consumer price inflation by major component**



Note : The year-on-year rates of change of the Composite CPI from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series.

**Table 6.2 : Composite Consumer Price Index by component**  
(year-on-year rate of change (%))

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2011</u>	<u>2012</u>	<u>Q1</u>	<u>2012</u>			<u>2013</u>
					<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	27.45	7.0	5.8	7.4	6.6	5.1	4.2	4.1
<i>Meals bought away from home</i>	17.07	5.2	5.4	6.1	5.7	5.3	4.6	4.4
<i>Other foodstuffs</i>	10.38	9.9	6.5	9.4	8.1	5.0	3.6	3.6
Housing <sup>(a)</sup>	31.66	7.2 (6.4)	5.6 (6.4)	8.1 (8.1)	6.4 (6.7)	2.8 (5.5)	5.2 (5.4)	5.2 (5.5)
<i>Private dwellings</i>	27.14	7.2 (7.1)	6.8 (7.0)	9.2 (9.1)	7.3 (7.7)	5.8 (6.0)	5.1 (5.3)	5.0 (5.4)
<i>Public dwellings</i>	2.05	11.9 (2.5)	-7.1 (3.2)	-1.5 (-0.1)	-1.1 (0.1)	-87.8 (3.2)	9.7 (9.5)	9.7 (9.5)
Electricity, gas and water	3.10	-4.2 (3.8)	-8.2 (3.6)	-17.2 (4.0)	-18.3 (3.9)	3.6 (2.8)	4.6 (3.6)	4.9 (3.6)
Alcoholic drinks and tobacco	0.59	17.1	3.0	11.6	0.1	0.5	0.6	1.6
Clothing and footwear	3.45	6.8	3.1	4.9	3.2	2.3	1.9	1.5
Durable goods	5.27	-3.8	-1.4	-1.8	-0.9	-1.2	-1.7	-3.5
Miscellaneous goods	4.17	3.8	2.2	3.4	2.2	1.4	2.0	1.4
Transport	8.44	4.4	3.0	4.4	3.3	2.2	2.2	2.0
Miscellaneous services	15.87	3.5 (3.5)	2.8 (2.8)	2.8 (2.8)	3.1 (3.1)	2.3 (2.3)	2.9 (3.0)	3.5 (3.5)
All items	100.00	5.3 (5.3)	4.1 (4.7)	5.2 (5.9)	4.2 (5.1)	3.1 (4.0)	3.8 (3.8)	3.7 (3.8)

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.

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

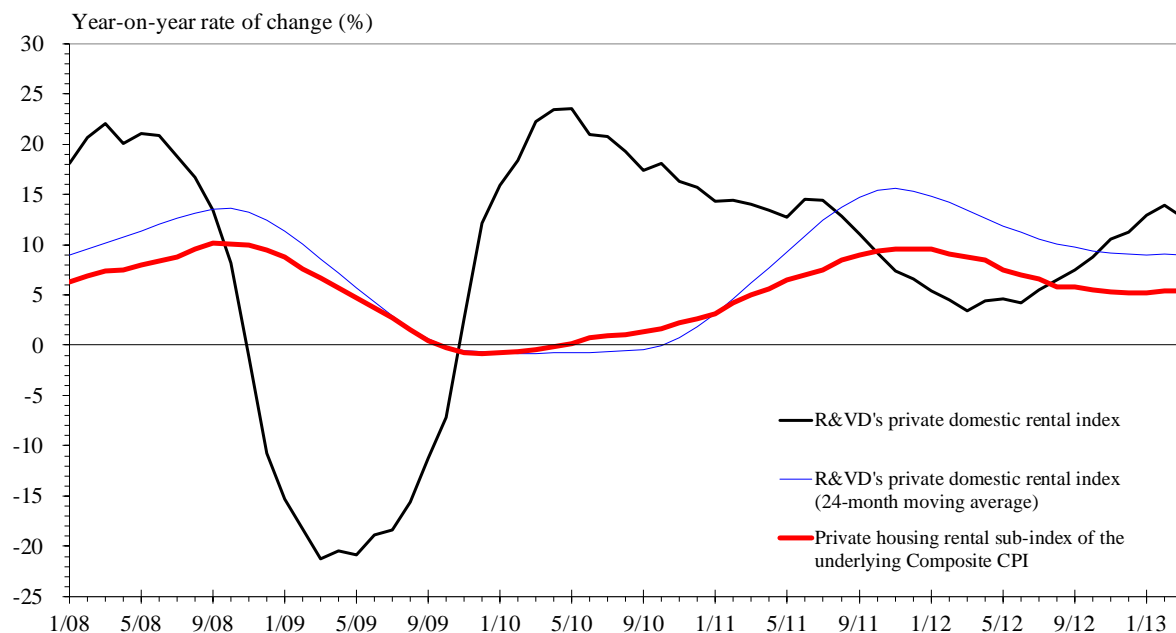
## Box 6.1

### Recent movements of the Composite CPI's private housing rental sub-index

The private housing rental sub-index of the Composite CPI tracks the fluctuations in average rent, including rates and government rent, paid by all private residential households. Among all kinds of residential leases it covers, existing leases constitute a larger share of the total tenancies of private dwellings, relative to new and renewed lettings. As the terms and conditions of existing leases are expected to hold throughout the contractual period, the private housing rental sub-index of the Composite CPI tends to be less directly susceptible to the latest changes in lease market conditions. Yet, past increases in market rentals will eventually be reflected in new tenancies when the existing ones expire, thereby translating into increases in the private housing rental sub-index of the Composite CPI. The rental index for private domestic premises, as compiled by the Rating and Valuation Department (R&VD), which covers the movements in rents for fresh lettings, may therefore serve as a leading indicator of the Composite CPI's private housing rental sub-index.

The chart below illustrates the relationship between year-on-year rates of change in fresh-letting residential rentals (as indicated by the R&VD's index) and the CPI's private housing rental sub-index. The latter generally followed a downtrend in 2012, upon the feed-through of the easing in fresh-letting rentals in the second half of 2011 and early 2012. However, the private housing rental component of the underlying Composite CPI saw a renewed pick-up to 5.4% year-on-year in the first quarter of 2013, from 5.3% in the preceding quarter. This reflected the progressive feed-through of the visible increase in market rentals last year, which rose by 6.4% on average. Even though the pace of increase in fresh-letting rentals eased somewhat during the first quarter of 2013, their past increases are expected to continue to feed through to the private housing component of the Composite CPI in the coming months, possibly resulting in slightly higher inflation further down the road.

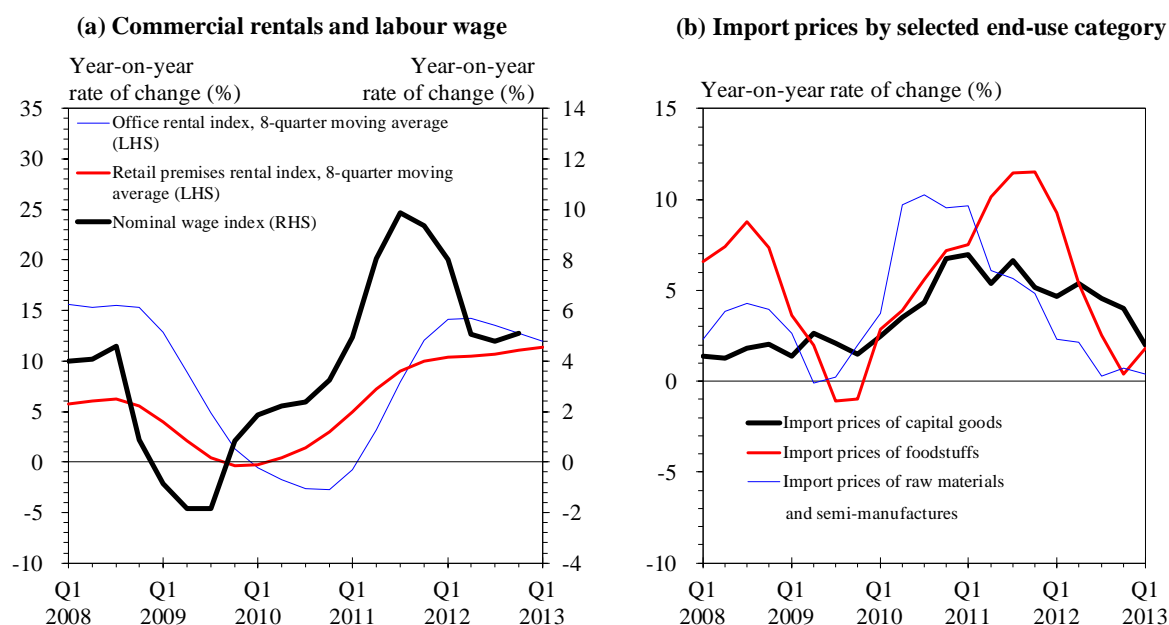
**Movements in the private housing rental sub-index of the underlying Composite CPI and in R&VD's private domestic rental index**



## Costs of factor inputs and import prices

6.4 Domestic cost pressures were still rather visible in some economic segments, despite several quarters of sub-trend GDP growth. On labour costs, wages and earnings continued to increase amid broadly stable labour market conditions, although the rate of increase moderated somewhat in the past few quarters as economic performance remained subpar and the boost from the SMW implementation in 2011 waned. The year-on-year rise in office rentals also eased in the first quarter of 2013, in tandem with the less sanguine economic environment. The uptrend in shop rentals, whilst still elevated on the back of robust growth in retail businesses, has tended to ease more recently.

**Diagram 6.4 : Domestic cost pressures in some economic segments were still visible, while import prices rose at a moderated pace**



## Box 6.2

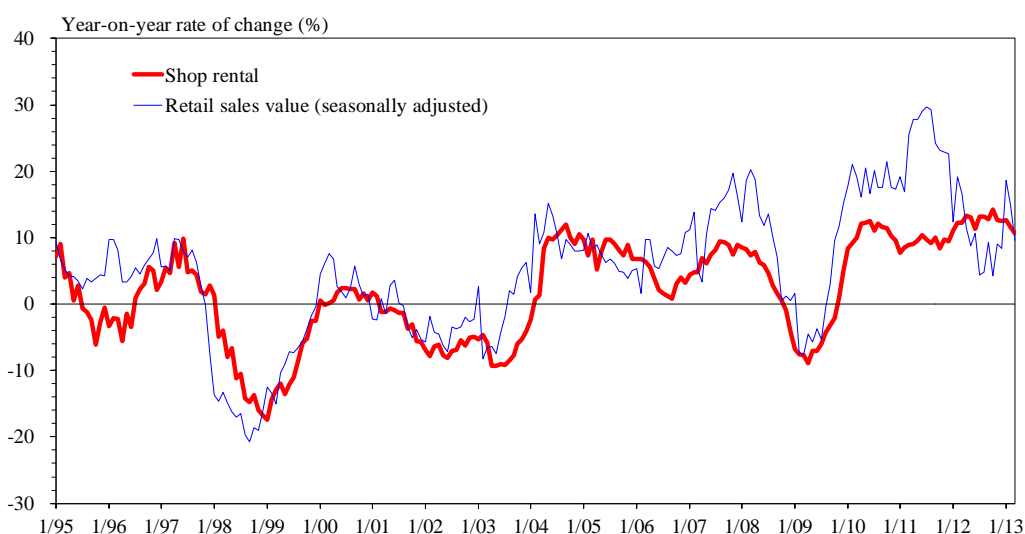
### The relationship between commercial rental costs and macroeconomic variables

Rentals for commercial premises have a bearing on local consumer price inflation, since higher business costs may eventually drive up prices at the retail level and be reflected in some of the major components in the Composite CPI, such as meals bought away from home and clothing and footwear. This article looks at the relationship between commercial rentals (i.e. those of retail premises and office space) and some macroeconomic variables, and discusses the possible implications on local inflation.

#### Market rentals for retail shop space

As illustrated in *Chart 1*, there has been a close relationship between market rentals for retail shop space and retail sales performance over the years. While average rentals for retail shop space rose visibly by 10.8% in 2010 and 9.3% in 2011, the corresponding growth rates of retail sales value were even more impressive, at 18.3% and 24.9% respectively, suggesting that rising shop rentals were well underpinned by improvement in business receipts. Yet, the pace of increase in shop rentals eased somewhat during the first quarter of 2013, in tandem with some slight moderation in retail sales growth of late.

**Chart 1 : Shop rentals moved in sync with retail business performance**



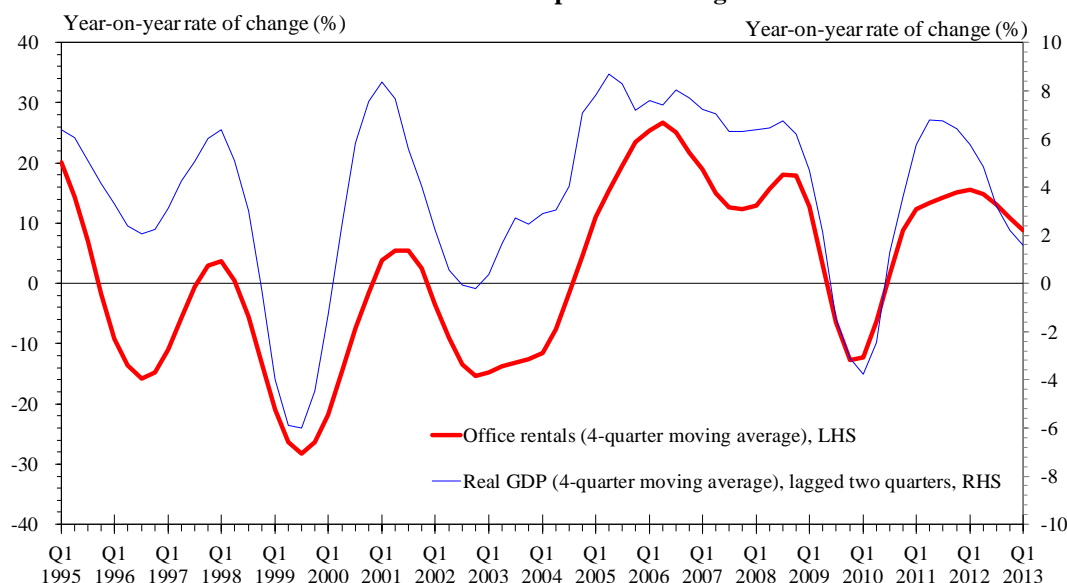
Note : The retail sales statistics from January 2009 onwards are based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0, and those before that are based on HSIC Version 1.1.

#### Market rentals for offices

Similar to retail shop rentals, office rentals are also sensitive to the economic conditions. *Chart 2* illustrates that the movements of office rentals tend to track, with a certain time lag, the local economic performance as measured by real GDP growth. Indeed, the year-on-year increase in office rentals has decelerated progressively in 2012, from 15.3% in the first quarter to 7.5% in the fourth quarter, and further to 7.3% in the first quarter of 2013, alongside the subpar local economic growth.

## Box 6.2 (Cont'd)

**Chart 2 : The pressures on office rentals have eased  
in tandem with the subpar economic growth**



To conclude, the movements of commercial rentals are strongly influenced by prevailing economic conditions. While shop rentals depend much on the state of the consumption market, office rentals tend to move in sync with the business cycle over time. As such, retail and office rentals have exhibited some divergent movements of late, with the latter showing a greater pace of moderation amid the below-trend GDP growth and the former still being supported by the robust retail market.

The Government fully recognises the importance of a steady and sufficient supply of commercial land to Hong Kong's long-term economic development and its status as an international business and financial centre. To this end, the Chief Executive proposed in his 2013 Policy Address a number of initiatives to increase the supply of commercial land over the short, medium and longer run. The Government would continue to consolidate and enhance the existing Central Business Districts in Hong Kong, while also expedite the development of new business districts (e.g. Kowloon East) with a view to increasing the supply of quality office space. Meanwhile, the 2013-14 Land Sale Programme will include nine sites for commercial and business use to provide room for further development of different economic activities in Hong Kong.

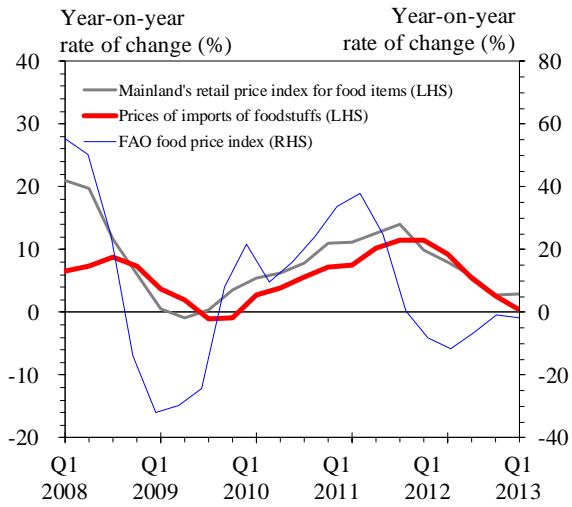
6.5 On the external front, imported inflation remained tame in the first quarter of 2013. Overall import prices rose only modestly by 1.1% in the first quarter over a year earlier, down further from 2.1% in the preceding quarter. Import prices of foodstuffs showed a mild year-on-year increase of 1.8%, while those of raw materials and semi-manufactures increased slightly by 0.4%, thanks to the relatively stable international food and commodity prices and moderate inflation in the supply sources. Import prices of fuels fell by 5.5% over a year earlier, mirroring the softer crude oil prices in the international markets. Meanwhile, the increases in import prices of consumer goods and capital goods both slowed further to 2.0%.

**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

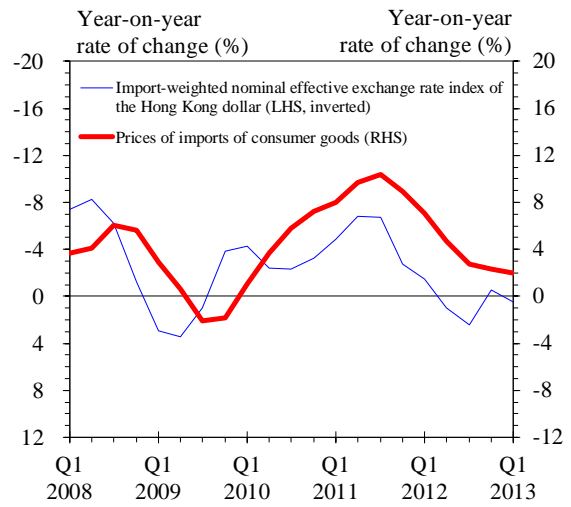
		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2012	Annual	4.1	4.1	1.4	2.6	4.7	3.3
	H1	7.3	5.8	2.2	8.0	5.0	4.4
	H2	1.3	2.6	0.5	-2.3	4.3	2.2
	Q1	9.3	7.1	2.3	16.5	4.6	5.0
	Q2	5.4	4.7	2.1	0.8	5.4	3.9
	Q3	2.5	2.8	0.3	-2.6	4.6	2.3
	Q4	0.4	2.3	0.7	-2.0	4.0	2.1
2013	Q1	1.8	2.0	0.4	-5.5	2.0	1.1

## Diagram 6.5 : Import prices by end-use category

**(a) Imported food prices increased slightly amid relatively soft global food prices**

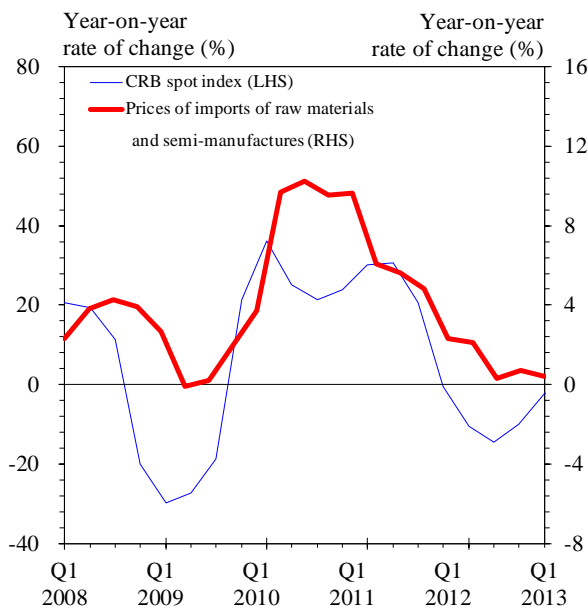


**(b) Import prices of consumer goods rose at a moderated pace**

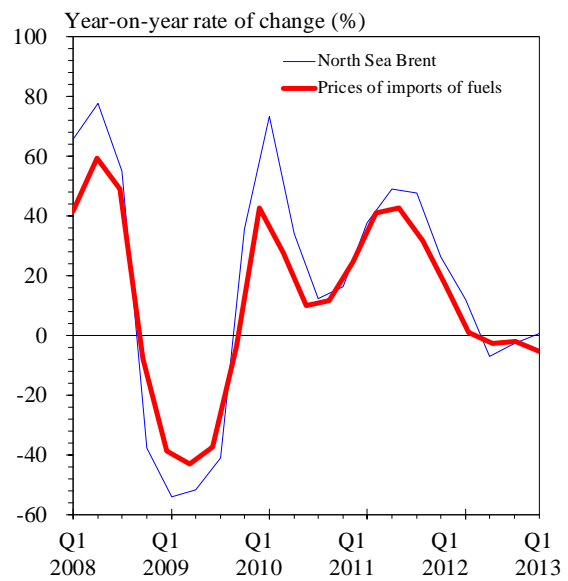


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**(c) Import prices of raw materials saw little changes amid weaker global commodity prices**



**(d) Import prices of fuels eased in the first quarter of 2013 in tandem with softer crude oil prices**



## Output prices

6.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, exhibited diverse trends across different sectors in 2012. Output prices for the manufacturing sector saw little change in 2012 as a whole. Among the services sectors, output prices for accommodation services continued to rise visibly on the back of buoyant inbound tourism, though at a slower pace in the fourth quarter. Output prices for water transport rose rather notably in 2012 from the low base in 2011. The increases in output prices for courier services, land transport and air transport were however relatively modest. Separately, output prices for telecommunications services stayed on a downtrend amid technological breakthroughs and intense competition.

**Table 6.4 : Producer Price Indices for the local manufacturing sector and selected services sectors (year-on-year rate of change (%))**

<u>Industry group</u>	<u>Annual</u>	<u>2011</u>				<u>2012</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>
Manufacturing	8.3	8.2	9.0	9.5	6.6	0.1	3.6	-0.6	-1.4	-1.0
Selected services sectors <sup>(a)</sup>										
Accommodation services	13.2	12.7	13.3	12.8	13.7	7.9	12.1	8.2	8.3	3.5
Land transport	2.1	1.6	2.0	2.2	2.5	1.5	2.1	1.8	1.3	0.7
Water transport	-11.6	-2.3	-12.6	-21.1	-8.9	6.4	-4.3	18.5	6.3	5.3
Air transport	0.7	8.8	5.5	-2.1	-8.2	0.6	-3.3	1.2	1.0	3.5
Telecommunications	-2.5	-0.6	-2.9	-2.6	-3.9	-2.4	-4.4	-1.6	-1.6	-1.9
Courier services	3.0	2.2	2.6	3.4	3.8	2.1	3.1	2.0	1.2	2.3

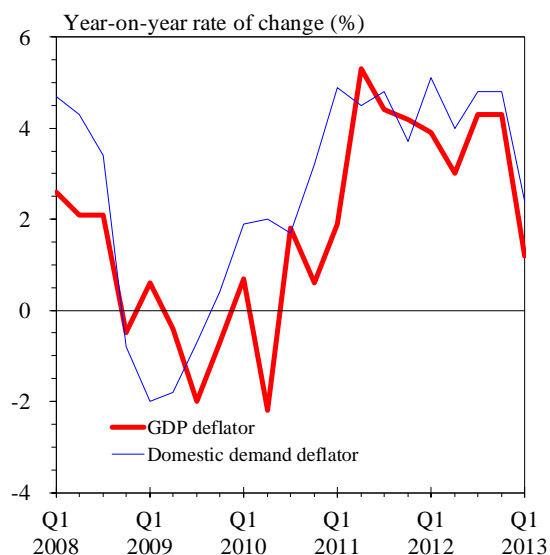
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

## GDP deflator

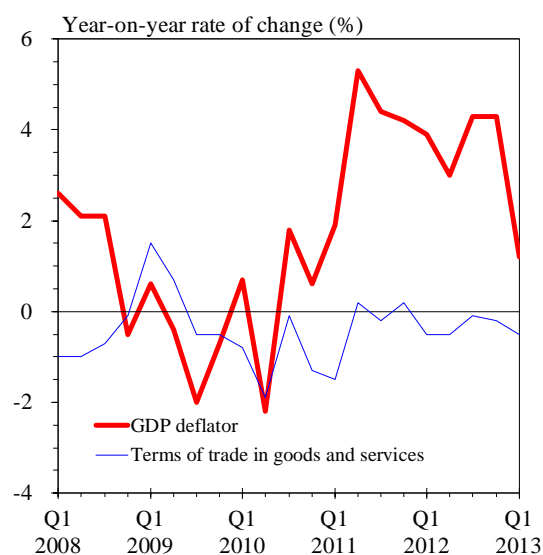
6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 1.2% in the first quarter of 2013 over a year earlier, moderating visibly from the 4.3% increase in the fourth quarter of 2012. Within the GDP deflator, the *terms of trade*<sup>(5)</sup> saw a slight deterioration in the first quarter of 2013 over a year earlier. Taking out the external components, the domestic demand deflator went up by 2.4% year-on-year in the first quarter of 2013, also slower than the 4.8% increase in the preceding quarter.

**Diagram 6.6 : GDP deflator**

**(a) GDP deflator moderated on a year-on-year comparison in the first quarter of 2013**



**(b) Terms of trade deteriorated slightly in the first quarter of 2013**



**Table 6.5 : GDP deflator and the main expenditure component deflators  
(year-on-year rate of change (%))**

	2011		2012			2013	
	Annual <sup>#</sup>	Annual <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>+</sup>
Private consumption expenditure	3.6	3.1	4.3	3.0	2.5	2.6	1.9
Government consumption expenditure	4.5	6.1	6.3	5.9	6.1	6.2	6.2
Gross domestic fixed capital formation	6.8	8.2	6.3	6.7	9.3	10.2	2.9
Total exports of goods	7.8	3.1	5.8	4.8	1.3	1.0	-0.6
Imports of goods	8.2	3.8	6.8	5.9	1.8	1.2	0.1
Exports of services	7.6	3.8	6.2	5.2	2.4	1.8	0.9
Imports of services	6.4	1.8	3.4	1.0	0.6	2.5	1.5
<b>Gross Domestic Product</b>	<b>3.9</b>	<b>3.9</b>	<b>3.9</b>	<b>3.0</b>	<b>4.3</b>	<b>4.3</b>	<b>1.2</b>
			<1.1>	<0.5>	<2.0>	<0.7>	<-2.0>
Total final demand	6.7	3.7	5.7	4.6	2.5	2.3	0.6
Domestic demand	4.5	4.7	5.1	4.0	4.8	4.8	2.4
Terms of trade in goods and services	-0.3	-0.3	-0.5	-0.5	-0.1	-0.2	-0.5

Notes : Figures are derived based on the series of chain volume measures of GDP. They are subject to revision later on as more data become available.

(#) Revised figures.

(+) Preliminary figures.

< > Seasonally adjusted quarter-to-quarter rate of change.

## 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 2009/10-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2009 to Sep 2010</u> (\$)
CPI(A)	50	4,500 to 18,499
CPI(B)	30	18,500 to 32,499
CPI(C)	10	32,500 to 65,999

The weightings of the various components in the 2009/10-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	27.45	33.68	27.16	20.87
<i>Meals bought away from     home</i>	<i>17.07</i>	<i>19.23</i>	<i>17.90</i>	<i>13.55</i>
<i>Other foodstuffs</i>	<i>10.38</i>	<i>14.45</i>	<i>9.26</i>	<i>7.32</i>
Housing	31.66	32.19	31.43	31.36
<i>Private dwellings</i>	<i>27.14</i>	<i>24.78</i>	<i>28.13</i>	<i>28.45</i>
<i>Public dwellings</i>	<i>2.05</i>	<i>5.49</i>	<i>0.72</i>	<i>--</i>
<i>Maintenance costs and     other housing charges</i>	<i>2.47</i>	<i>1.92</i>	<i>2.58</i>	<i>2.91</i>
Electricity, gas and water	3.10	4.36	2.84	2.03
Alcoholic drinks and tobacco	0.59	0.91	0.56	0.29
Clothing and footwear	3.45	2.60	3.45	4.39
Durable goods	5.27	3.73	5.73	6.39
Miscellaneous goods	4.17	3.87	4.17	4.49
Transport	8.44	7.22	8.35	9.93
Miscellaneous services	15.87	11.44	16.31	20.25
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>2011</u>					<u>2012</u>					<u>2013</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>	<u>Q1</u>
Selected developed economies											
US	3.2	2.1	3.4	3.8	3.3	2.1	2.8	1.9	1.7	1.9	1.7
Canada	2.9	2.6	3.4	3.0	2.7	1.5	2.3	1.6	1.2	0.9	0.9
EU	3.1	2.9	3.2	3.1	3.2	2.6	2.9	2.6	2.6	2.4	2.0
Japan	-0.3	-0.5	-0.4	0.1	-0.3	0.0	0.3	0.2	-0.4	-0.2	-0.6
Major emerging economies											
Mainland China	5.4	5.0	5.7	6.3	4.6	2.6	3.8	2.9	1.9	2.1	2.4
Russia	8.4	9.5	9.5	8.1	6.7	5.1	3.9	3.8	6.0	6.5	7.1
India	8.9	9.0	8.9	9.2	8.4	9.3	7.2	10.1	9.8	10.1	11.7
Brazil	6.6	6.1	6.6	7.1	6.7	5.4	5.8	5.0	5.2	5.6	6.4
Selected Asian economies											
Hong Kong	5.3	3.8	5.2	6.4	5.7	4.1	5.2	4.2	3.1	3.8	3.7
Singapore	5.2	5.2	4.7	5.5	5.5	4.6	4.9	5.3	4.2	4.0	4.0
Taiwan	1.4	1.3	1.6	1.3	1.4	1.9	1.3	1.6	2.9	1.8	1.8
South Korea	4.0	3.8	4.0	4.3	4.0	2.2	3.0	2.4	1.6	1.7	1.4
Malaysia	3.2	2.8	3.3	3.4	3.2	1.7	2.3	1.7	1.4	1.3	1.5
Thailand	3.8	3.0	4.1	4.1	4.0	3.0	3.4	2.5	2.9	3.2	3.1
Indonesia	5.4	6.8	5.9	4.7	4.1	4.3	3.7	4.5	4.5	4.4	5.3
Philippines	4.7	4.5	4.9	4.7	4.7	3.1	3.1	2.9	3.5	3.0	3.2
Vietnam	18.7	12.8	19.4	22.5	19.8	9.0	15.9	8.6	5.6	6.5	6.9
Macao	5.8	5.0	5.2	6.2	6.7	6.1	6.3	6.6	6.0	5.6	5.4

- (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.