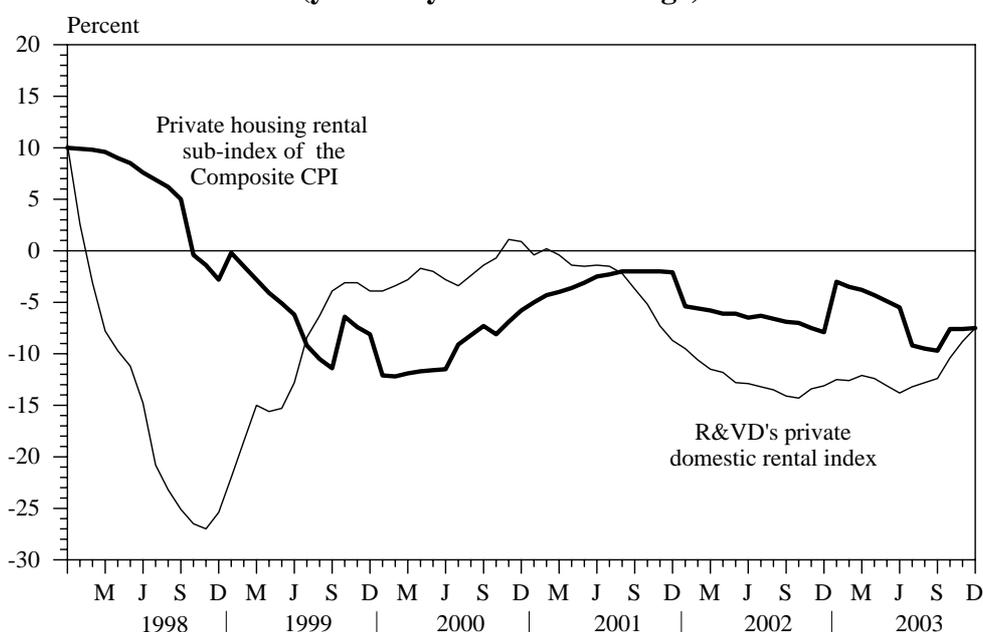


Box 6.1

Changes in the CPI's private housing rental sub-index and in R&VD's private domestic rental index

The private housing rental sub-index of the Consumer Price Index, as compiled by the Census and Statistics Department, tracks the movement in average rent, including rates and government rent, paid by all private residential households. It covers all kinds of residential leases, including new, renewed and existing ones. Separately, a rental index for private domestic premises is compiled by the Rating and Valuation Department (R&VD), which covers only rent for fresh lettings, exclusive of rates and government rent. Relative to R&VD's rental index, the private housing rental sub-index of the Composite CPI has fluctuated within a narrower range over the past years.

Movements in the private housing rental sub-index of the Composite CPI and in R&VD's private domestic rental index (year-on-year rate of change)



In the case of new and renewed lettings, the rent is directly influenced by the prevailing lease market situation at the time. Yet new and renewed lettings normally constitute only a small proportion of the total tenancy of private dwellings. Given the broad coverage of the Composite CPI's private housing rental sub-index, the leases therein comprise mostly tenancy agreements made some time ago, the terms and conditions of which are expected to hold throughout the contractual period, including the rent which is not to be adjusted freely. This explains why the movement in the private housing rental sub-index of the Composite CPI tends to be less directly susceptible to changing lease market conditions, or to be susceptible only with a distinct time lag, as compared to R&VD's private domestic rental index.