

Box 6.1

Rebasing of the Consumer Price Indices

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. On 27 April 2006, a new series of 2004/05-based CPIs was released to replace the old series of 1999/2000-based CPIs. The expenditure ranges of the households covered in these two series are shown below:

	Approximate proportion of households covered (%)	Average monthly expenditure range during Oct 1999 to Sep 2000 (\$)	Average monthly expenditure range during Oct 2004 to Sep 2005 (\$)
CPI(A)	50	4,500 to 18,499	4,000 to 15,499
CPI(B)	30	18,500 to 32,499	15,500 to 27,499
CPI(C)	10	32,500 to 65,999	27,500 to 59,999

The decreases in the expenditure brackets of household covered in all the CPIs were partly due to the price deflation during most of the five years between the two base periods and partly due to the decrease in the average size of household. On the basis of per capita spending in real terms, a small increase of around 1% is observed.

Also, the weightings of the various components are updated as follows:

<i>Expenditure component</i>	Composite CPI		CPI(A)		CPI(B)		CPI(C)	
	<u>Old series</u>	<u>New series</u>	<u>Old series</u>	<u>New series</u>	<u>Old series</u>	<u>New series</u>	<u>Old series</u>	<u>New series</u>
Food	26.67	26.94	31.88	32.10	25.94	27.32	21.38	20.41
Meals bought away from home	(16.39)	(16.86)	(17.94)	(18.63)	(17.20)	(17.65)	(13.28)	(13.74)
Food (excluding meals bought away from home)	(10.28)	(10.08)	(13.94)	(13.47)	(8.74)	(9.67)	(8.10)	(6.67)
Housing	29.91	29.17	29.13	30.54	29.68	27.70	31.22	29.66
Electricity, gas and water	2.98	3.59	3.99	4.84	2.81	3.37	2.02	2.45
Alcoholic drinks and tobacco	0.94	0.87	1.50	1.35	0.86	0.79	0.39	0.42
Clothing and footwear	4.13	3.91	3.36	2.81	4.47	4.28	4.55	4.67
Durable goods	6.24	5.50	4.96	4.01	6.93	5.67	6.73	6.99
Miscellaneous goods	5.70	4.78	5.25	4.68	5.58	4.76	6.43	4.91
Transport	9.01	9.09	8.23	8.07	9.05	9.05	9.94	10.35
Miscellaneous services	14.42	16.15	11.70	11.60	14.68	17.06	17.34	20.14
Overall	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Box 6.1 (cont'd)

The weightings are updated every five years so that the substitution effects of changes in prices over that five-year period can be taken into account in the new CPI series. Due to such substitution effect, CPIs based on consumption patterns fixed with reference to a base year tend to over-estimate price increases or under-estimate price decreases over time, a well-known characteristic of the Laspeyres' type of consumer price index (i.e. fixed weight index).

This explains the fact that the year-on-year rates of increase in monthly CPIs from the 2004/05-based CPI series are in general smaller than those from the 1999/2000-based series (*Table 6.1*), as households tend to buy more of the goods or services with relatively smaller price increases and less of those with larger price increases. Compared with five years ago, households spent a greater share of their expenditure on gadgets such as mobile phone, digital MP3 player/recorder, digital camera and electrical massage equipment, the prices of which have been falling. The effect of this change in spending pattern was to lower the rate of change in the overall CPI.

While the magnitudes of the year-on-year changes in the 2004/05-based and 1999/2000-based CPIs are somewhat different, the general trend of a gradual pick-up in the inflation rate from the fourth quarter of 2005 to the first quarter of 2006 is observed in all the four new CPI series, as in the old ones.