Box 6.1

Estimating the effects of Chinese New Year on CCPI

The headline inflation number in terms of the year-on-year change in the CCPI usually shows big swings in the first two months of the year, being heavily affected by the difference in the timing of the Chinese New Year (CNY) holidays. Take 2007 as an example, this year the CNY was in mid-February, whereas in 2006 it was in late-January. As such, the difference in CNY timing between 2006 and 2007 has artificially lowered the inflation number in January 2007, because the more "normal" price levels in January 2007 were compared against the higher prices for certain festive spending items in January 2006, the CNY month. Vice versa, the inflation number in February 2007 was artificially pushed up when the higher price levels in the CNY month of February 2007 were compared against the levels in February 2006 when prices had already returned to "normal" after the festive season. As an illustration, CCPI inflation in February 2007 after discounting the effect of the public housing rental waiver was 3.1%, 1.3 percentage points higher than that of 2.0% in January 2007 (the other non-CNY month). The present article examines whether there is any regular pattern of price hike in the CNY month, with a view to obtaining a rough estimate of the CNY effect on consumer prices.

The assessment starts by examining the price level of each of the 94 CCPI components in the CNY month against the other non-CNY month, for the first two months of each year from 2001 to 2007. For 2001-2004, the calculations are based on the 99/00-based series, while for 2005-2007, the 2004/05-based series are used. Items found with a persistently higher price level in the CNY month are "meals bought away from home"; "fresh-water fish"; "other fresh sea products"; "poultry"; "fresh fruit"; "inbound and outbound transport"; "package tours" and "hair-dressing". Quite understandably, for the food items, the higher prices around the CNY partly reflect higher demand in the festive season, and partly it may also be due to temporary supply disruptions or shortages during the holidays. On the other hand, the price upsurge in inbound and outbound transport and in package tours is largely demand driven, reflecting the seasonal surge in demand in outbound travel during the CNY. As can be seen from Table 1, the CNY effect of "package tours" is the most prominent, and it is prominent throughout the years. As for the food items, the pattern of price swings between the CNY month and the other non-CNY month is rather unsteady, quite naturally so, by virtue of the volatility of prices of fresh food items.

Table 1 : Swing in prices of selected CCPI items during the first two months of a year (% change in prices in the CNY month over the other non-CNY month)

CCPI component	2001	2002	2003	2004	2005	2006	2007
Meals bought away from home	0.1	0.1	0.3	0.4	0.6	-0.1	0.8
Fresh-water fish	1.4	0.8	2.1	-2.1	4.1	0.0	2.8
Other fresh sea products	2.8	13.9	6.1	0.9	26.0	-5.2	20.4
Poultry	5.2	13.8	2.1	-6.3	9.0	10.8	10.0
Fresh fruit	0.4	4.6	4.6	1.8	7.4	-4.8	3.6
Inbound & outbound transport	7.8	4.8	-2.0	5.9	0.8	4.5	2.4
Package tours	16.3	15.0	3.6	30.8	13.4	15.0	23.2
Hair-dressing	2.1	1.6	-1.5	1.3	1.5	0.5	2.1

Box 6.1 (cont'd)

Then, for each of the 8 selected items identified with a regular pattern of price surge in the CNY month, the CNY impact on overall CCPI level is calculated according to its weighting in the consumer price index. The total CNY effect is then obtained for each year by adding together the impacts of individual items disregarding odd values.

Table 2 : The total CNY impact on CCPI from 2001-2007
(% point)

2001	0.44
2002	0.48
2003	0.19
2004	0.66
2001-2004 average	**0.44**
2005	0.53
2006	0.35
2007	0.69
2005-2007 average	**0.52**

For the years 2001-2004 using the 1999/00-based series, the estimated total CNY effect averages at around 0.44 of a percentage point. For the 04/05-based 2005-2007, the average total CNY effect is around 0.52 of a percentage point. In other words, the estimated total CNY effects are broadly in line with each other in the two periods despite the different base periods and weightings.

From the above, it is also clear that the total CNY effect varies from year to year. The CNY effects in 2003 and 2006 are relatively lower because the CNY holidays in these two years lay in the middle of the first two months of the year, specifically, 1 Feb to 3 Feb in 2003 and 28 Jan to 31 Jan in 2006. Under such circumstances, the CNY effects as estimated by comparing prices of festive items in the CNY month and the non-CNY month are likely to be somewhat blurred. The estimated CNY effects presumably would also be influenced by the prevailing economic conditions in individual years. In particular, it is interesting to note the generally higher total CNY effects in the more recent years, when the economy was on a broad-based upturn.