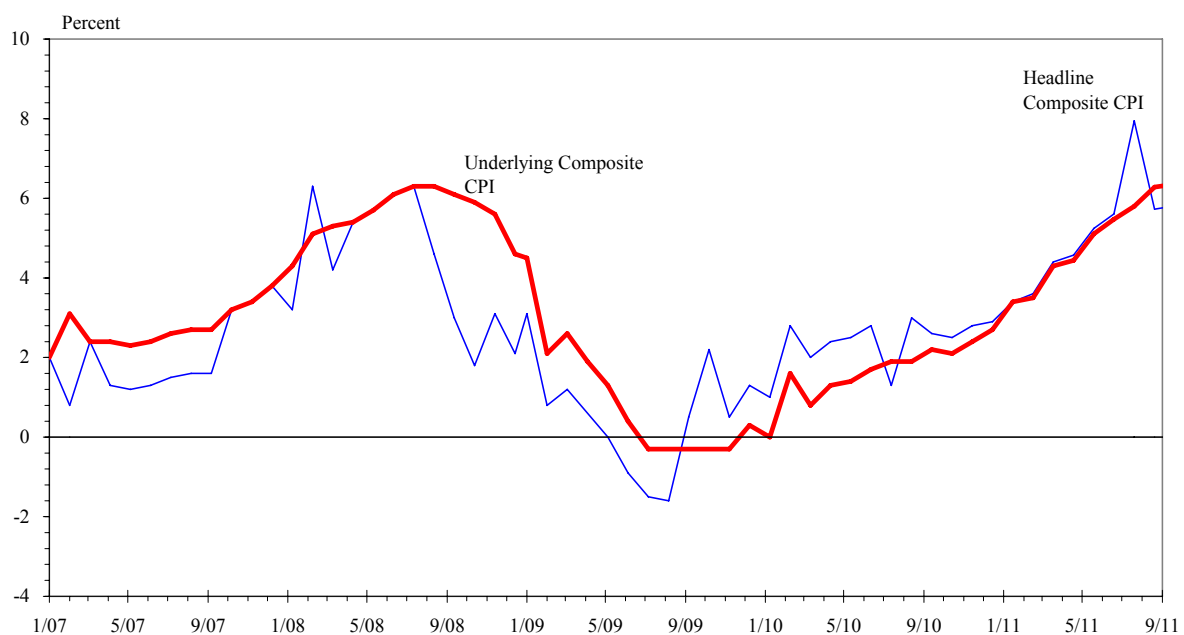


**Box 6.1****Difference between the headline and underlying Composite CPIs**

Over the years, the Government has implemented a number of one-off relief measures, primarily with a view to easing the burden of inflation on people's livelihood, particularly so for the lower-income group. As the relief measures reduced the final costs people paid for various goods and services, these measures would lower the level of various CPI series in the months of implementation, thereby enlarging fluctuations in the rates of change of these series. Owing to the nature and the purpose of these one-off measures, such distortions are particularly notable for CPI(A) which reflects the price movements faced by households with relatively lower monthly expenditure. To provide an alternative measure of inflation which is not affected by one-off relief measures and hence more indicative of the inflation underlying the macro-economy, the Census and Statistics Department (C&SD) has compiled the underlying CPI series since the reference year 2007, by excluding the effects of all relevant Government's one-off relief measures, as listed in *Table 1*.

**Chart 1: Year-on-year rates of change in the headline and underlying Composite CPIs**

*Chart 1* illustrates the year-on-year rate of change of the headline Composite CPI (headline inflation rate) and that of the underlying Composite CPI (underlying inflation rate). The gap between the two inflation rates could sometimes be significant. For instance, the headline inflation rate was 4.1 percentage points lower than the underlying rate (at 1.8% and 5.9% respectively) in October 2008 due to the combined impact of various one-off relief measures (mainly the Government's payment of public housing rentals, electricity charge subsidy and rates concession). Another case in point was July 2011 when the headline inflation rate was 2.1 percentage points higher than the underlying rate (at 7.9% and 5.8% respectively), this time due to the difference in timing of the waiving of public housing rentals, which took place in July to September in 2010 but in August to September this year.

**Box 6.1 (Cont'd)****Table 1 : A summary of one-off relief measures since 2007**

Feb 2007	Public housing rental waiver by the Hong Kong Housing Authority and the Hong Kong Housing Society
Apr 2007 – Sep 2007	Rates concession of up to \$5,000 per quarter for each rateable tenement
Jan 2008 – Mar 2009	Rates concession of up to \$5,000 per quarter for each rateable tenement
Feb 2008	Public housing rental waiver by the Hong Kong Housing Society
Aug 2008 – Oct 2008	Government's payment of public housing rentals
Aug 2008 – Jul 2013	Five years' suspension of Employees Retraining Levy
Sep 2008 – Aug 2009	Provision of electricity charge subsidy at \$3,600 cumulatively
Apr 2009 – Mar 2012	Rates concession of up to \$1,500 per quarter for each rateable tenement
Aug 2009 – Sep 2009	Government's payment of public housing rentals
Jul 2010 – Aug 2010	Government's payment of public housing rentals
Sep 2010	Public housing rental waiver by the Hong Kong Housing Authority
Jul 2011 – Jun 2012	Provision of electricity charge subsidy at \$1,800 cumulatively
Aug 2011 – Sep 2011	Government's payment of public housing rentals

**Table 2** summarises the contributions of various one-off relief measures to the difference between the annual rates of change in the headline and underlying Composite CPIs, from 2007 to 2011. In the first three years, all one-off relief measures taken together slashed the annual headline inflation rate by 0.8, 1.3 and 0.5 percentage points respectively. On the contrary, the headline inflation rate was 0.7 percentage point higher than the underlying inflation rate in 2010, mainly due to the dissipation of the electricity charge subsidy from September 2009 onwards. In 2011, the headline inflation rate is expected to be slightly lower than the underlying inflation rate, due to the further measures in the 2011-12 Budget which were targeted to ease the impact of rising prices on people's livelihood. The Government will continue to closely monitor the local inflation situation, particularly its impact on the lower-income people.

**Table 2 : Deviations of headline CCPI inflation from underlying CCPI inflation  
(In percentage points)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u> (Forecast)
Public housing rental waivers	-0.2	-0.2	+0.1	-0.1	+0.2
Electricity charge subsidy	--	-0.4	-0.6	+0.8	-0.3
Rates concession	-0.5	-0.6	+0.1	*	*
Other measures	--	*	-0.1	*	*
Total <sup>(a)</sup>	-0.8	-1.3	-0.5	+0.7	-0.1

Notes: (\*) Changes of less than 0.05 percentage point.  
 (--) Not applicable.  
 (a) Individual figures may not add up exactly to the total due to rounding.