

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

