

Box 6.1**Impact of surging pork prices on consumer price inflation**

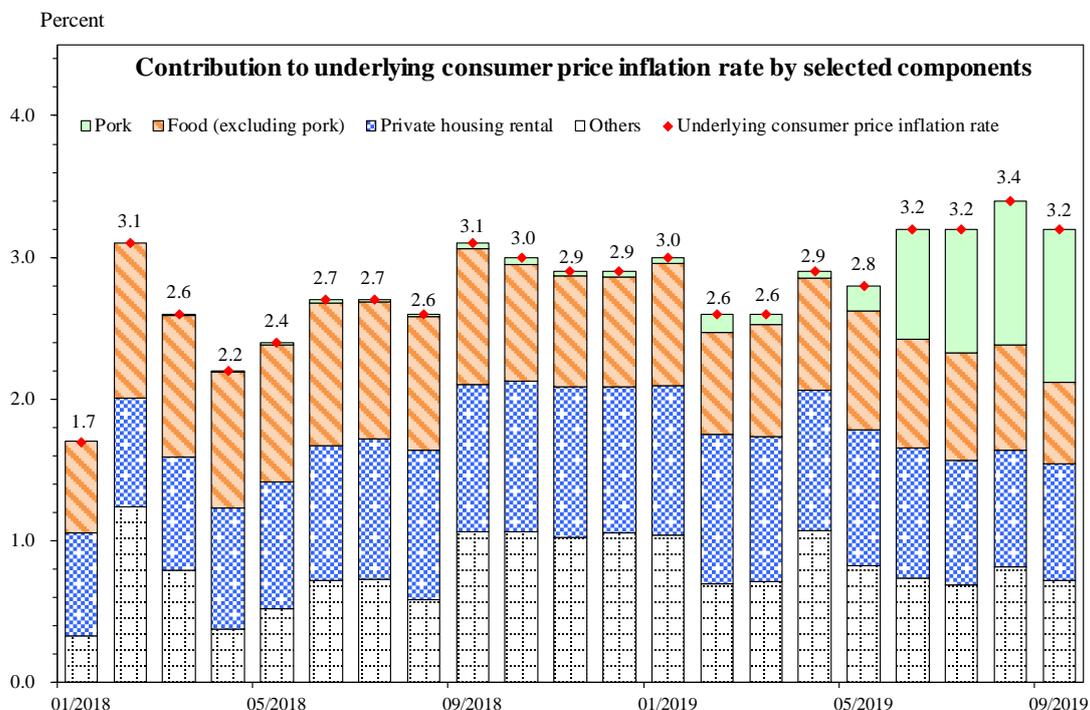
Further to the occurrence of two African Swine Fever (ASF) cases in Hong Kong in May 2019, the supply of live pigs from the Mainland has remained at a low level and prices of fresh pork has surged in the past few months. This box article examines the direct impact of surging pork prices on inflation and its possible spillover effects on prices of other related food items.

Direct impact on consumer price inflation

The Mainland is the major source of live pigs for Hong Kong, contributing over 90% of the total supply in 2018. The supply of live pigs from the Mainland has tumbled since mid-May 2019. Despite the largely steady supply from local pig farms, the overall average daily supply⁽¹⁾ of live pigs plunged from almost 4 000 in the first four months of 2019 to around 3 000 in May and further to about 1 800 during June – September.

Amid disruptions to the supply of live pigs, the year-on-year price increase for the pork component⁽²⁾ of the Composite CPI picked up from an average of 6.1% in January – April 2019 to 15.2% in May, then jumped to 66.1% in June and further to 84.7% in the third quarter. With a weighting of 1.08% in the Composite CPI, the surge in pork prices directly contributed 1.0 percentage point to the underlying inflation rate in the third quarter. This was markedly larger than the virtually zero contribution in 2018 and 0.2 percentage point contribution in the first half of 2019. As price pressures on other major consumer price index components stayed largely moderate alongside subdued local economic conditions, the accelerated increase in pork prices was the main culprit behind the rise in underlying consumer price inflation in the third quarter of 2019 (*Chart 1*).

Chart 1: The rise in underlying inflation in the third quarter of 2019 mainly reflected higher pork prices



Source: Census and Statistics Department.

- (1) The average daily supply in a particular month is computed by dividing the total monthly supply by the number of calendar days in the month.
- (2) The pork component in the Composite CPI is mainly constituted of fresh pork, with minor contribution from chilled pork.

Box 6.1 (Cont'd)**Spillover effects on other food items**

Direct impact aside, the surge in pork prices could also add price pressures on other basic foodstuffs, as some consumers may substitute other types of meat (e.g. beef and frozen meat) for fresh pork. Indeed, prices of beef and frozen meat rose by 5.5% and 4.3% respectively in the third quarter, faster than the corresponding increases of 4.2% and 3.2% in the first half of the year. Nonetheless, the resultant impact on overall CPI inflation was limited partly due to their small weightings⁽³⁾.

Furthermore, prices of meals bought away from home could show a larger increase if restaurants were to pass on the higher pork prices to customers. Yet, the year-on-year increase in this particular Composite CPI component remained moderate at 2.1% in the third quarter, broadly on par with that in the first half of this year. Conceivably, subdued local economic conditions have made it difficult for restaurants to raise prices in recent months.

Conclusion

The increase in underlying consumer price inflation from 2.9% in the second quarter to 3.3% in the third quarter was mainly attributable to the direct impact of the upsurge in pork prices. Looking ahead, as it takes time for the supply of live pigs to return to normal levels, pork prices and thus overall consumer price inflation will likely stay somewhat elevated in the coming months. The Government will continue to monitor the inflation situation closely, particularly the impact on the lower-income people.

(3) The combined contribution to the underlying inflation rate from beef (weighting: 0.21%) and frozen meat (weighting: 0.41%) was less than 0.1 percentage point in the third quarter.