

**Box 6.1**

**Inflation expectations in Hong Kong’s major import sources for 2021**

Consumer price inflation in many major economies eased visibly in 2020, mainly reflecting the plunge in global demand caused by the COVID-19 pandemic and ensuing social distancing measures. Thanks to the gradual roll-out of mass vaccination campaigns across the globe as well as the large-scale fiscal and monetary support from the governments and central banks in major economies, global economic activities are expected to rebound over the course of 2021. There are thus concerns that inflation may pick up during the year. In fact, international commodity and food prices have rebounded since mid-2020 and already notably surpassed their pre-pandemic levels. This box article takes a look on the recent inflation situation and inflation expectations in Hong Kong’s major import sources for 2021.

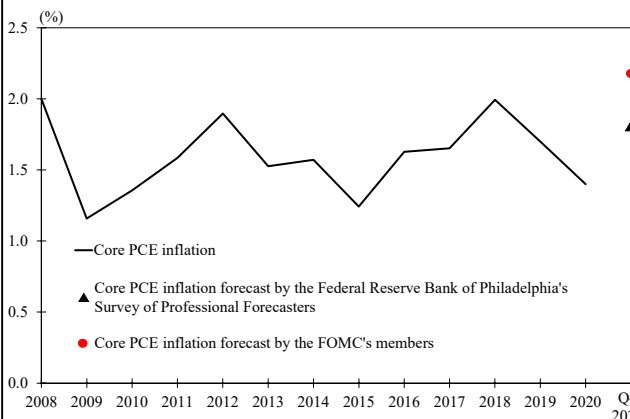
**Inflation expectation in the US**

In the US, core personal consumption expenditure (PCE) inflation, the Federal Reserve (Fed)’s preferred measure of inflation after excluding the food and energy components, edged up to 1.5% in the first quarter of 2021, after receding to 1.4% in 2020. Going forward, according to the median projection by the Federal Open Market Committee’s (FOMC) members in March, core PCE inflation would rise moderately to 2.2% in the fourth quarter of 2021, slightly above the Fed’s 2% target. Separately, based on the First Quarter 2021 Survey of Professional Forecasters conducted by the Federal Reserve Bank of Philadelphia, private sector forecasters generally expected that core PCE inflation in 2021 would hover around 2% (*Chart 1*).

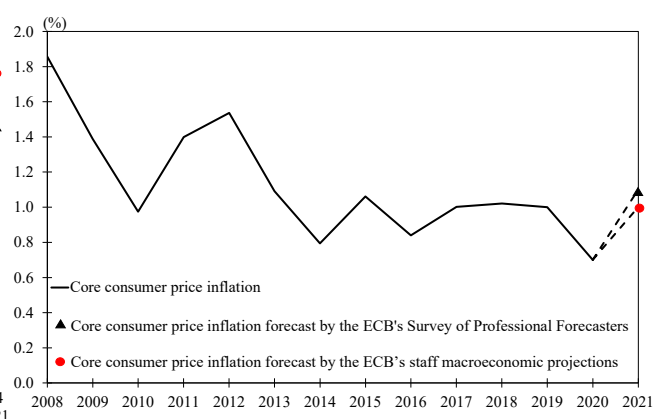
**Inflation expectation in the euro area**

In the euro area, core consumer price inflation picked up somewhat to 1.1% in the first quarter of 2021 from 0.7% in 2020. According to the European Central Bank (ECB)’s staff macroeconomic projections in March, while core inflation was expected to experience strong quarterly volatility in 2021 owing to ad hoc factors such as the end of the temporary value-added tax rate reduction in Germany which lasted from July to December 2020, underlying inflationary pressure should gradually pick up throughout the year amid the envisaged economic rebound. That said, for 2021 as a whole, the ECB only expected a modest core inflation of 1.0%. Meanwhile, respondents to the ECB’s Survey of Professional Forecasters for the second quarter of 2021 on average expected that core inflation would be 1.1% in 2021 (*Chart 2*). On balance, inflation pressure in the euro area should stay tame this year.

**Chart 1: Inflation forecast in the US**



**Chart 2: Inflation forecast in the euro area**



Sources: The Federal Reserves, the Federal Reserve Bank of Philadelphia, the European Central Bank.

**Box 6.1 (Cont'd)**

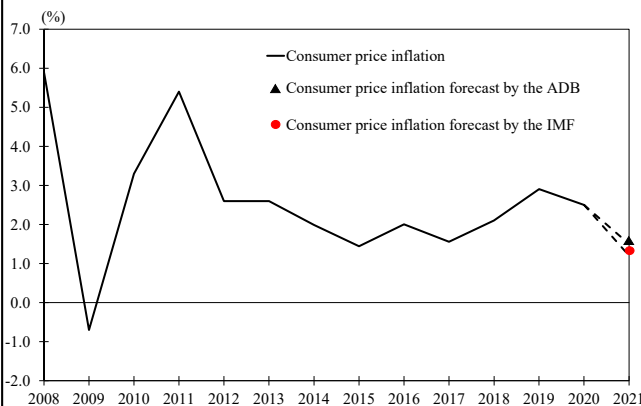
**Inflation expectation in the Mainland**

In the Mainland, consumer price inflation went down successively from 4.9% in the first quarter of 2020 to 0.1% in the fourth quarter and further to -0.3% in the first two months of 2021 combined, partly reflecting the high base of comparison<sup>(1)</sup> caused by the surge in pork prices since mid-2019 amid the impact of swine fever on the supply of live pigs. In March, consumer price index resumed a year-on-year increase of 0.4%. Looking forward, while price pressures are likely to increase over the course of 2021 alongside strong economic growth<sup>(2)</sup>, the International Monetary Fund (IMF) and Asian Development Bank (ADB) in April forecast that consumer price inflation in the Mainland would be only 1.2% and 1.5% respectively in 2021 (*Chart 3*). The latest forecasts by private sector analysts also pointed to modest consumer price inflation in the Mainland for 2021 as a whole, at around 1.5%.

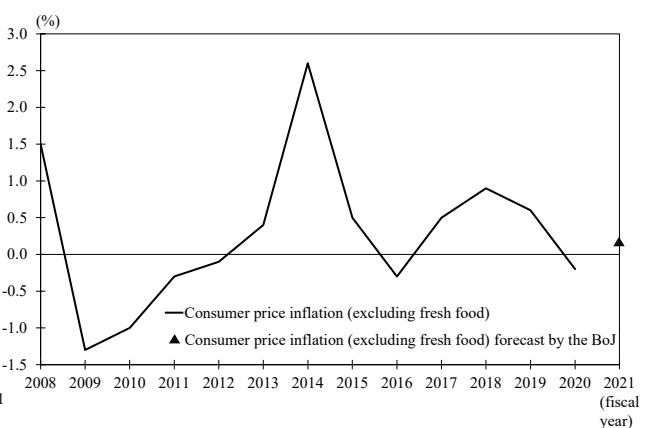
**Inflation expectation in Japan**

In Japan, consumer prices (excluding fresh food) relapsed to a mild decline of 0.2% in 2020, reflecting the impact of COVID-19 pandemic and one-off factors such as the launch of the “Go To Travel” campaign<sup>(3)</sup> by the Japanese government. In the first quarter of 2021, consumer prices (excluding fresh food) continued to fall by 0.4% from a year earlier. Looking ahead, the Bank of Japan (BoJ) in April projected consumer prices (excluding fresh food) to rise back marginally by 0.1% for the fiscal year 2021 (*Chart 4*). Meanwhile, enterprises generally projected a modest annual increase of 0.4% in general prices for the coming 12 months according to the Tankan survey conducted by the BoJ in April. In sum, inflation pressures in Japan should remain muted in the near term.

**Chart 3: Inflation forecast in the Mainland**



**Chart 4: Inflation forecast in Japan**



Sources: The International Monetary Fund, the Asian Development Bank, the Bank of Japan.

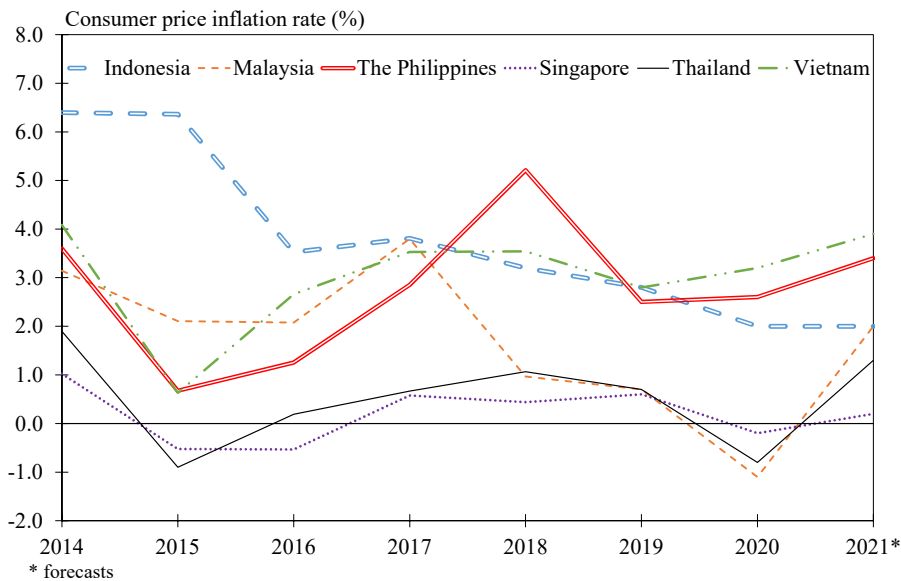
- (1) Using simple average of inflation in each month to estimate the quarterly inflation, pork inflation surged to around 123% in the first quarter of 2020, before easing to about 87% and 55% respectively in the second and third quarters. In the fourth quarter of 2020, pork prices relapsed to a year-on-year decline of about 6%.
- (2) The IMF in early April forecast the Mainland economy to expand strongly by 8.4% in 2021.
- (3) The “Go To Travel” campaign has significantly reduced the domestic travel costs in 2020. According to the BoJ, the direct effect of the campaign on the year-on-year rate of change in CPI (excluding fresh food) was estimated to be -0.2 percentage point for the fiscal year 2020.

**Box 6.1 (Cont'd)**

**Inflation expectation in ASEAN economies**

Consumer price inflation in many ASEAN economies likewise receded in 2020<sup>(4)</sup>. Looking forward into 2021, the IMF in early April forecast that inflation in these economies would generally rise alongside the economic recovery<sup>(5)</sup>. The rates of consumer price inflation in Singapore, Thailand, Indonesia and Malaysia were projected at modest-to-moderate levels of 0.2%, 1.3%, 2.0% and 2.0% respectively in 2021, while those in the Philippines and Vietnam were forecast at 3.4% and 3.9% respectively in 2021 (*Chart 5*).

**Chart 5: Inflation forecast in selected ASEAN economies which are Hong Kong’s major import sources**



Source: The International Monetary Fund.

**Conclusion**

While the revival in global economic activity may lead to firmer price pressures, inflation in major economies should remain moderate in 2021. Latest inflation forecasts by international organisations and private sector analysts suggest that inflation expectations in our major import sources are still anchored at modest or moderate levels. However, the ultra-loose monetary policy stance of major central banks, coupled with the possibility of stronger-than-expected global growth in the period ahead, has recently led to some concern about the risk of higher global inflation over the medium term.

Given that Hong Kong relies predominantly on imports from outside sources for its domestic consumption, the expected modest global inflation in the near term should help contain our external price pressures in 2021. Yet, movements of exchange rates and international food and commodity prices could also affect Hong Kong’s imported inflation. The Government will continue to closely monitor the various external developments and their possible impacts on inflation in Hong Kong.

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(4) These economies include Singapore, Thailand, Vietnam, Indonesia, Malaysia and the Philippines, which are Hong Kong’s major import sources of foodstuffs and consumer goods.  
 (5) The IMF forecast the ASEAN-5 group economies (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) would rebound by 4.9% in 2021. As for Singapore, the IMF forecast the economy would grow by 5.2% in 2021.