

**Box 2.1****Inflation outlook of Hong Kong's major import sources for 2022**

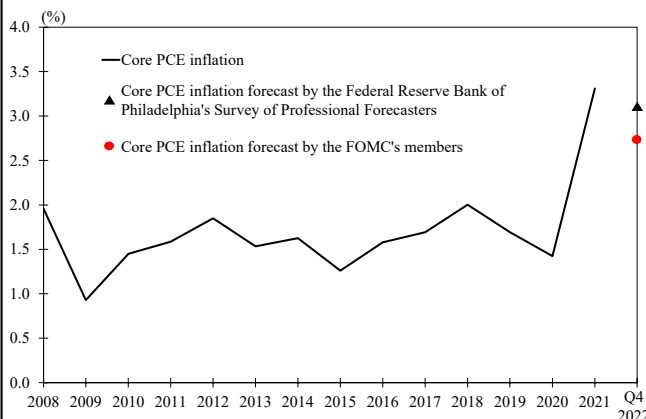
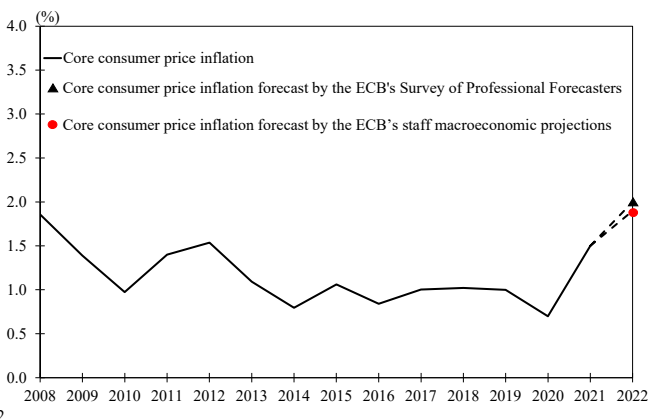
Inflation picked up successively in some major economies in 2021 alongside the economic recovery, supply bottlenecks, and surging international commodity and energy prices. The prospect of global inflation in 2022 will continue to hinge on how these factors unfold amid the evolving COVID-19 pandemic. This box article reviews the recent inflation situation in Hong Kong's major import sources and examines their near-term inflation outlook.

**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, surged over the course of 2021, from 1.5% at the beginning of the year to 4.9% in December, the highest since September 1983 and notably above the Fed's 2% target. This was attributable to the strong revival of demand and pandemic-induced supply bottlenecks. Looking ahead into 2022, the inflation outlook will depend on the extent of easing in supply bottlenecks, and various projections generally pointed to slower inflation toward the end of the year. For example, the median projection made by the Federal Open Market Committee's (FOMC) members in December 2021 suggested that core PCE inflation would moderate to 2.7% in the fourth quarter of 2022. Based on the First Quarter 2022 Survey of Professional Forecasters conducted by the Federal Reserve Bank of Philadelphia, private sector forecasters generally expected that core PCE inflation would ease gradually throughout 2022, reaching 3.1% in the fourth quarter (*Chart 1*).

**Inflation expectation in the euro area**

In the euro area, core consumer price inflation picked up visibly in the second half of 2021 and reached record high of 2.6% in December. It averaged 1.5% for 2021 as a whole, up from 0.7% in the preceding year. Going forward, it is generally envisaged that core inflation in the euro area should remain largely contained in 2022. According to the European Central Bank (ECB)'s staff macroeconomic projections in December 2021, core inflation would recede from its peak in late 2021 and average 1.9% for 2022 as a whole, as price pressures should ease on account of the assumed gradual resolution of supply bottlenecks starting from the second quarter. Meanwhile, respondents to the ECB's Survey of Professional Forecasters for the first quarter of 2022 on average expected that core inflation would be 2.0% in 2022 (*Chart 2*).

**Chart 1: Inflation forecast in the US****Chart 2: Inflation forecast in the euro area**

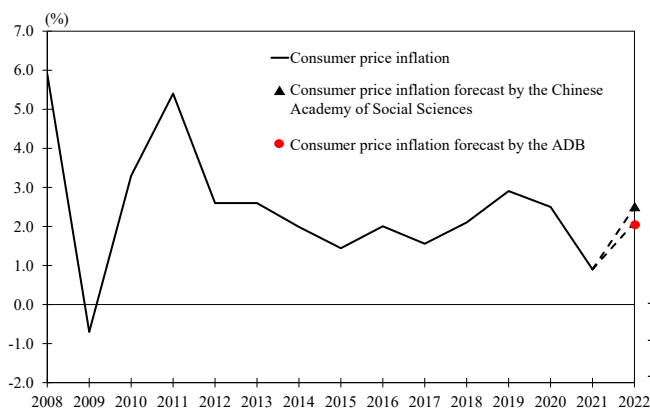
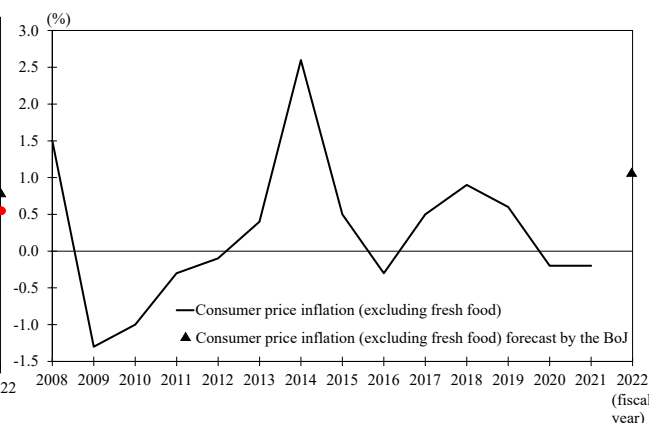
Sources: The Federal Reserve, the Federal Reserve Bank of Philadelphia, the European Central Bank.

**Box 2.1 (Cont'd)****Inflation expectation in the Mainland**

In the Mainland, consumer price inflation remained modest at 0.9% in 2021 despite the faster increase in prices of non-food items in the second half of the year. Looking ahead into 2022, the authority's pledge to ensure stable food supply should help keep food inflation contained, though weather conditions are always a source of uncertainty. The deceleration in producer prices since October 2021, if sustained, might also help lessen the price pressure at the consumer level. The Chinese Academy of Social Sciences in December 2021 projected that consumer price inflation in the Mainland would increase to a moderate level of around 2.5% in 2022. The Asian Development Bank (ADB) in December 2021 forecast that consumer price inflation in the Mainland would pick up to 2.1% in 2022 (*Chart 3*). Meanwhile, the latest forecasts by private sector analysts also suggested that consumer price inflation in the Mainland for 2022 as a whole should be around 2.2%.

**Inflation expectation in Japan**

In Japan, consumer prices (excluding fresh food) declined modestly further by 0.2% in 2021, mainly due to the reduction in mobile phone charges since the second quarter of the year. Going forward, the Bank of Japan (BoJ) in January 2022 projected consumer prices (excluding fresh food) to rise back by 1.1% for the fiscal year 2022 along with the economic recovery and the abatement of the drag from the mobile phone charges reduction (*Chart 4*). Meanwhile, according to the Tankan survey conducted by the BoJ in December 2021, enterprises generally forecast a modest annual increase of 1.1% in general prices for the coming 12 months. On balance, inflation pressures in Japan should remain mild in 2022.

**Chart 3: Inflation forecast in the Mainland****Chart 4: Inflation forecast in Japan**

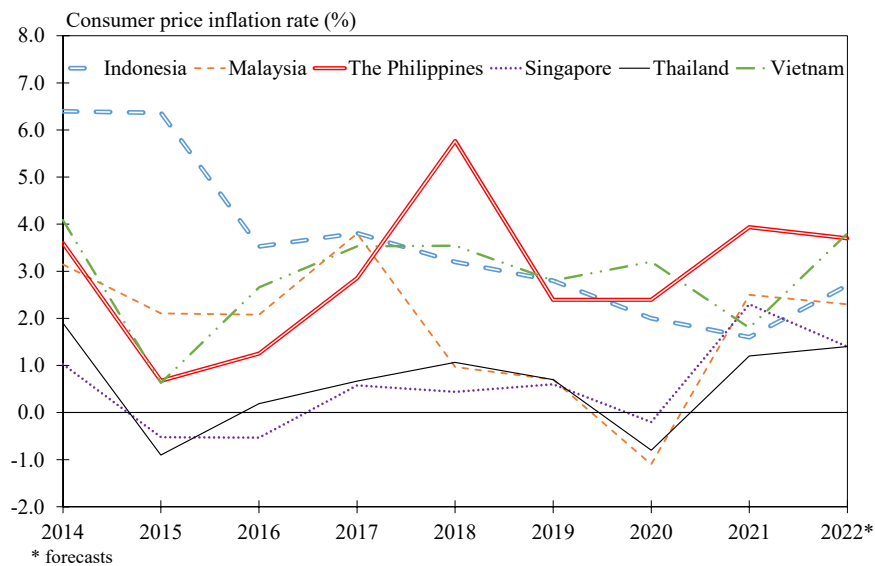
Sources: The Chinese Academy of Social Sciences, the Asian Development Bank, the Bank of Japan.

**Inflation expectation in ASEAN economies**

Consumer price inflation in ASEAN economies generally went up in 2021 alongside their economic rebound. Looking ahead into 2022, inflation pressures in these economies are expected to be broadly stable. According to the ADB's forecast made in December 2021, consumer price inflation in Indonesia, Thailand and Vietnam would increase to 2.7%, 1.4% and 3.8% respectively, while those in Malaysia, the Philippines and Singapore would ease to 2.3%, 3.7% and 1.4% respectively (*Chart 5*).

## Box 2.1 (Cont'd)

Chart 5: Inflation forecasts in selected ASEAN economies



Source: The Asian Development Bank.

### Conclusion

According to the latest forecasts for 2022 by various official authorities, international organisations or private analysts, inflation pressures in the US and the euro area were projected to ease back from their multi-year highs, and those in the Mainland, Japan and many ASEAN economies were projected to be largely contained. That said, the actual inflation outcome in Hong Kong's major import sources this year hinges critically on the pandemic development, which is still subject to high uncertainty at this juncture, and its impacts on the global recovery pace and supply chains. Meanwhile, 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.