

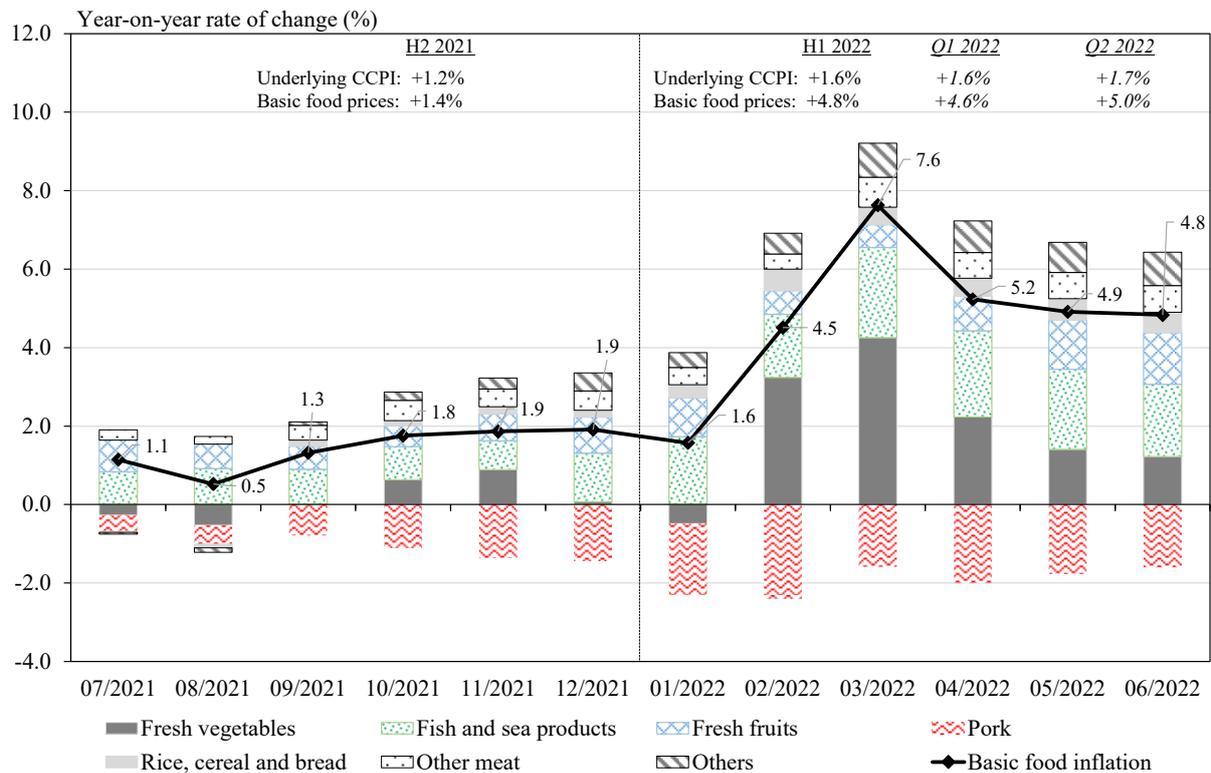
Box 6.1

Recent situation of basic food inflation in Hong Kong

Underlying Composite Consumer Price Index (CCPI) inflation picked up to 1.6% in the first half of 2022 from 1.2% in the second half of 2021. While inflation remained moderate in overall terms, the increase in basic food prices accelerated visibly to 4.6% in the first quarter of 2022 and 5.0% in the second quarter, from 1.4% in the second half of 2021. This box article examines the food items contributing to the recent pick-up in basic food inflation, as well as their supply situation.

Analysed by broad food items, **the key contributors to the visibly faster basic food inflation in the first half of 2022 were fresh vegetables, fish and sea products⁽¹⁾, and fresh fruits (Chart 1)**. During the period, these items combined accounted for over 90% of the increase in basic food inflation, while the decline in pork price⁽²⁾ provided some offset. It is also noted that the price increase of fresh vegetables was particularly sharp in February and March, while that of fresh fruits was more notable in May and June.

Chart 1: Contribution to basic food inflation rate by major food item



(1) Including salt-water fish, fresh-water fish, other fresh sea products and processed sea products.

(2) Pork price trended downward as the supply of live pigs from the Mainland continued to recover after the outbreak of African Swine Fever in the first half of 2019. Specifically, the number of live pigs imported from the Mainland increased by 46.3% in the first half of 2022 from a year ago.

Box 6.1 (Cont'd)

Price of *fresh vegetables* soared by 24.9% and 34.1% year-on-year in February and March respectively and continued to register notable increases of 10.7% - 18.6% in April to June. On top of the impact stemming from the Lunar New Year for a brief period in February, the surge in price was mainly attributable to the reduced supply of fresh vegetables amid the cross-boundary land transportation disruptions since the outbreak of the fifth wave of the local epidemic. According to Census and Statistics Department's merchandise trade statistics, over 90% of imported vegetables⁽³⁾ in terms of weight were sourced from the Mainland in 2021, and nearly all of them were transported by land. The volume of vegetables imported in February - March 2022 was 26% lower than a year earlier, with almost all of the decline attributable to those imported by land. Thanks to the concerted effort of the Mainland and Hong Kong authorities and the generally improved local epidemic situation, the supply has been picking up broadly since then. The price of fresh vegetables fell successively by a total of 25.9% from the peak of March to June, but remained 10.7% above that a year earlier.

The notable price increase in *fish and sea products* was also related to the cross-boundary land transportation disruptions, to a large extent. Similar to fresh vegetables, the Mainland has been an important source of supply for fish and sea products. In 2021, nearly 60% of the imported fish and sea products in terms of weight was imported from the Mainland and over 80% of which was transported by land. The volume of fish and sea products imported in February - March 2022 declined by 28% from a year earlier, and nearly 70% of the reduction was accounted for by those imported by land. The volume of imported fish and sea products has rebounded in the second quarter, but was still 6% lower than a year ago. During the period, price of fish and sea products registered year-on-year increases of 8.2% - 11.8% in February to June. Their price did not rise as much as that of fresh vegetables, conceivably due to the wider source of imports apart from the Mainland, availability of more substitutes like other types of meat, and possible cushion provided by the inventory of frozen fish.

Fresh fruits, nonetheless, were imported from more diversified sources around the world. Only around one-tenth of imported fresh fruits in terms of weight were sourced from the Mainland. In this connection, the impact on the overall supply of fresh fruits in Hong Kong posed by land transportation disruptions should be much smaller. That said, the year-on-year increase in price of fresh fruits was still visible at 8.9% in the first quarter, followed by 14.1% in the second quarter. This could be related to the higher production costs driven up in part by the higher prices of fertilizers and fuel, and the elevated international freight cost arising from supply chain bottlenecks in many places around the world.

Prices of most other food items also registered faster year-on-year increases in the first half of 2022 as compared to the second half of 2021, contributing to the higher basic food inflation. Basic food inflation may remain high for some time amid continued land transportation disruptions, supply chain bottlenecks, and elevated global commodity prices. The grassroots would be harder hit as a larger part of their income is spent on food. It is also difficult for them to accommodate the higher basic food prices within their tight budget. The Government is aware of the pressure of high food inflation on citizens, and will work to ensure a stable food supply.

(3) Referring to fresh or chilled vegetables in trade statistics.