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Hong Kong Food Inflation

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Report Highlights:

Hong Kong's consumer and food prices (excluding meals away from home) rose by 2.4 and 3.6 percent respectively in 2010. While a number of factors including strong internal demand have contributed to Hong Kong's food inflation, China's rising food prices and Hong Kong's currency depreciation against those of its major food suppliers had the most significant bearing on Hong Kong's food prices. China's food prices surged by 7.2 percent in 2010 and the Chinese government indicated that inflationary pressure remains for 2011. However, the stable US/HK dollar exchange rate worked to the favor of U.S. exports. As products from other competitors turned out to be less price-attractive due to depreciation, Hong Kong's imports of U.S. agricultural and food products grew by 39 percent in 2010 expanding market share from 14 to 17 percent. The Hong Kong government forecasts that inflation in Hong Kong is likely to go up further but that sustained productivity growth in the economy should provide a partial offset.

General Information:

Hong Kong's consumer and food prices (excluding meals away from home) rose by 2.4 and 3.6 percent respectively in 2010. Starting March 2010, the year-on-year food inflation rate accelerated steadily from 1.7 percent to 6.4 percent in December. While a number of factors contributed to Hong Kong's overall inflation, China's rising food prices and Hong Kong's currency depreciation against those of its major suppliers had the most significant bearing on Hong Kong's food prices in 2010. These factors are expected to continue at play, leading to additional inflationary pressure for Hong Kong in 2011.

Hong Kong relies on imports for over 95 percent of its food supplies and China is Hong Kong's largest agricultural and food supplier accounting for over 17 percent of imports. Therefore, China's rising food prices and currency appreciation have created price pressure on Hong Kong's food sector. China's food prices surged by 7.2 percent in 2010 and the 2.8 percent appreciation of Renminbi against Hong Kong dollar between January and December 2010 fueled Hong Kong's food inflation last year.

Hong Kong's major suppliers for agricultural and food products include China, USA, Brazil, Japan, and Thailand. Except for the U.S., the currency of all these major suppliers appreciated from 2.8 to 9 percent against the Hong Kong dollar in 2010. (The Hong Kong dollar is stable relative to the U.S. dollar because it is pegged to the latter at a rate of US\$1 =HK\$7.78). Given Hong Kong's reliance on imports and having no domestic production subsidy, food aid and food reserve to regulate prices, currency depreciation spells significant upward pressure on prices.

The impact of exchange rates on prices, to a certain extent, was also reflected in the 2010 market share and growth rate of major suppliers. A stable exchange rate with the Hong Kong dollar worked to the favor of U.S. exports to Hong Kong. As products from other competitors turned out to be less price-attractive, Hong Kong's imports of U.S. agricultural and food products grew by 39 percent in 2010 compared to 2009 and market share expanded from 14 to 17 percent.

Food inflation is expected to continue in 2011. Some have estimated that Hong Kong's consumer price index will rise 5 percent by mid-year because of rising prices in food, oil, salary and rents. Also, the Hong Kong government forecasts that "inflation in Hong Kong is likely to go up further, as the rise-back in domestic costs, as well as higher import prices amid a weaker US dollar and elevated global food and commodity prices, continue to feed through. The new round of quantitative easing in the US, which could trigger further funds influx into the region, will also pose upside risks to inflation. Nevertheless, the sustained productivity growth in the economy should provide a partial offset." (Source: Hong Kong Government - Press Release on Economic Situation in the Third Quarter of 2010 and Latest GDP and Price Forecasts for 2010) Estimated GDP growth for 2010 is 6.5 percent.

While the public is expecting the government to announce some one-off administrative measures to help the general populace cope with inflation, the Hong Kong government made it clear that it has no intention of un-pegging its currency to the U.S. dollar.

It should be noted, however, that while 2010 food inflation of 3.6 percent was higher than 0.9 percent of 2009, it was far less than the 16.8 percent rise in food prices in 2008 when there was a global surge of

commodity prices.

Food's Role in Overall Inflation

Hong Kong's consumer price index for December 2010 rose by 3.1 percent over the same month a year earlier, and was the highest in 23 months when the rate last hit 3.1 percent in January 2009. Of all the items, major price increases occurred in food (excluding meals away from home) and utilities including electricity, gas and water. The 13 percent rise in utility prices was a result of government's one-off relief measure in 2009, pushing up the index for 2010. However, the year-on-year price index for food accelerated steadily from 1.7 percent in March to the spike of 6.4 percent in December 2010 (except for a decline in August). As such, food (excluding meals away from home) is the general grouping that increased the most last year.

Escalating food prices have a significant impact on the public because roughly 27 percent of people's disposable income is spent on food (including meals away from home), of which about 17 percent is attributed to "eating-out" expenses and 10 percent on store-bought food. In fact, food is the second largest expense item after housing for Hong Kong people.

The lion's share, or 29 percent, of Hong Kong people's money is spent on housing. While the average 2010 price index for housing increased only 0.4 percent, rent prices rose at an accelerating rate from 1.7 percent in October to 2.5 percent in December 2010.

As food and housing expenses account over 50 percent of people's spending, the rising prices in these two categories impose an according amount of inflationary pressure on Hong Kong's general consumer price index.

Table 1. Hong Kong: Consumer Price Index (%) between 2007 and 2010

	2007	2008	2009	2010	Dec 2010 Compared with Dec 2009
All items	2.0	4.3	0.5	2.4	3.1
Food	4.3	10.1	1.3	2.4	4.3
Meals away from home	2.5	5.9	1.6	1.6	2.8
Food, excluding meals away from home	7.1	16.8	0.9	3.6	6.4
Housing	2.0	4.1	3.7	0.4	2.5
Electricity, gas and water	-0.7	-6.5	-25.3	42.9	13.0
Alcoholic drinks and tobacco	-1.2	0.1	18.7	3.5	0.7
Clothing and footwear	4.1	0.8	2.7	1.7	3.4
Durable goods	-4.7	-2.0	-3.0	-2.2	-2.9
Misc. goods	2.5	5.0	2.3	2.5	2.8
Transport	-0.1	2.5	-0.9	1.9	3.0
Misc. services	1.7	0.8	-2.1	1.8	1.9

Source : Hong Kong Census & Statistics Department

Hong Kong's Food Inflation

With respect to Hong Kong consumers' food basket in December 2010, Hong Kong people spent most on pork, fresh vegetables, salt-water fish and fresh fruit, and their year-on-year price changes were 2.8, 7.5, 14.5 and 15.6 percent respectively. Apart from fish and fruit, two other double-digit price changes were seen in fresh sea products (16.5%) and processed fruit (13.2%).

Table 2. Hong Kong: Food Price Index

	Weight %	Price Index Dec -10 Compared with Dec-09 %
All items	100	3.1
Food	26.94	4.3
Meals bought away from home	16.86	2.8
Food, excluding meals bought away from home	10.08	6.4
Rice	0.28	-3.9
Other cereals and cereal preparations	0.25	-0.7
Bread, cakes, biscuits and puddings	0.84	4.4
Salt-water fish	0.74	14.5
Fresh-water fish	0.44	5.9
Other fresh sea products	0.30	16.5
Processed sea products	0.44	8.1
Pork	1.05	2.8
Beef	0.17	4.8
Poultry	0.43	7.5
Meat, frozen	0.38	5.4
Meat, canned	0.04	-5.3
Meats, others	0.43	6.1
Fresh vegetables	0.99	7.5
Processed vegetables	0.05	7.2
Fresh fruit	0.73	15.6
Processed fruit	0.03	13.2
Dairy products	0.48	6.3
Eggs	0.09	4.6
Edible oils	0.14	2.2
Carbonated drinks	0.11	-1.0
Other non-alcoholic beverages	0.36	1.5
Sugar	0.02	9.8
Confectionery	0.20	6.0
Flavorings and additives	0.13	-2.4
Food, others	0.96	4.1

Source : Hong Kong Census & Statistics Department

Correlation between Hong Kong and China's Food Prices

The inflationary food price changes in China have been transmitted to Hong Kong and will continue to impact Hong Kong accordingly.

China’s 2010 inflation rate increased 3.3 percent exceeding the government’s target of 3 percent. The biggest price increase was experienced by foodstuffs (7.2 %) and housing (4.5%). China’s food price increases have been partly attributed to the rising “produce price on agricultural products”, which stood at 10.9 percent in 2010. “Produce prices” refers to prices received by producers when directly selling farm products.

Over 95 percent of Hong Kong’s food supplies rely on imports. China is the largest agricultural and food supplier to Hong Kong, accounting for 17 percent of total imports. With respect to Hong Kong’s food items carrying the most significant weighing in the food price index, China is the largest supplier for freshly slaughtered pork (93%) and vegetables (69%). It also supplies about 8 percent of marine fish and 4 percent of fruit supplies to Hong Kong. While China has pledged full support for Hong Kong’s food supplies, there is no guarantee of food being offered at stable prices.

Referring to Hong Kong’s major food items which are largely supplied by China, the correlation between Hong Kong prices and China’s produce prices is noticeable.

China is Hong Kong’s largest supplier for vegetables. It accounted for 69 percent and 93 percent of all Hong Kong’s imported vegetables in terms of value and volume respectively. Local production supplied only about 3 percent of total supply. The link between Hong Kong and China in terms of supply prices has often been shown by the fact that any bad weather in Southern China has an immediate effect on Hong Kong’s vegetables prices. Thus, it is not surprising that the 16.8 increase of the vegetable produce price in China resulted in 7.5 percent increase of the year-on-year December price index in Hong Kong.

Pork prices are another example where Hong Kong and China prices are interlinked. China supplies about 93 percent of live pigs to Hong Kong with the remaining 7 percent supplied by local production. Compared to Hong Kong’s overall food inflation rate of 6.4 percent, the year-on-year December price index of freshly slaughtered pork experienced a relatively mild increase of 2.8 percent. This was, in part, because hog prices in China were down by 1.7 percent last year.

The supply of marine fish is shared by local production (24%), China (8%) and other countries (68 percent). Although China is not a dominant supplier to Hong Kong, the Hong Kong price index still rose by 14.5 percent, in line with China’s rising produce price index of 10%. It is because demand for marine fish in China, especially for expensive items, is so huge that many supplies have been diverted to the lucrative market there. Industry people said that very often fish caught in the South China Sea are now shipped to China directly instead of being brought back to Hong Kong since the demand there can support higher prices. Also, there is an added incentive for direct delivery of the fish catch to China as a result of the shorter distance the fleet may have to travel. Consequently, the reduced supply for the Hong Kong market has triggered rising prices in Hong Kong.

Table 3. Hong Kong: Correlation between Hong Kong and China Food Prices

	Year-on-Year Dec 2010	Year-on-Year 2010	Year-on-Year 2010
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	Price Index in Hong Kong (%)	Price Index in China (%)	Produce Prices in China (%)
All items	3.1	3.3	-
Food	6.4	7.2	(Ag. Products) 10.9
Pork, fresh	2.8(93%)	-	(hogs) -1.7
Vegetables	7.5 (69%)	-	16.8
Marine			
Fish	14.5 (8%)	-	10.1
Fruit	15.6 (4%)	-	18.9

Source: Hong Kong Census and Statistics Department
National Bureau Statistics of China

Note: Figures in () show Hong Kong's import market share of products from China.
Market share of freshly slaughtered pork and salt water fish are 2009 figures.
Market share of vegetables and fruits are 2010 figures.

The Impact of Currency Fluctuation on Prices

The Hong Kong dollar depreciated against the currency of its major suppliers last year by varying degrees. This depreciation inevitably imposed an upward pressure on prices, and the resulting price changes have been significant enough to impact the market share of various importing countries.

The Hong Kong dollar is stable relative to the U.S. dollar because it is pegged at US\$1 to HK\$7.78. Such exchange rate stability is particularly favorable to U.S. exports when the Hong Kong currency depreciates against the currency of its other major suppliers. Table 4 shows the correlation between exchange rate and market share. Hong Kong's market share of U.S. agricultural and food products increased from 14 to 17 percent, representing a remarkable jump of 39 percent between 2009 and 2010, in part due to the stable exchange rate. The market share of products from other countries such as China, Brazil, Thailand and Australia declined.

Table 4 . Hong Kong: Agricultural and Food Imports

Hong Kong Import Statistics							
UDG: Agricultural, Fish & Forestry, Group 1 (2007)							
Year To Date: January - December							
Partner Country	United States Million Dollars			% Share			% Change
	2008	2009	2010	2008	2009	2010	2010/2009
World	15,166,409	15,827,763	19,074,288	100.00	100.00	100.00	20.51
China	2,854,114	2,932,659	3,280,006	18.82	18.53	17.20	11.84(- 2.7)
U.S	2,070,372	2,268,521	3,151,291	13.65	14.33	16.52	38.91
Brazil	1,519,796	1,660,984	1,490,727	10.02	10.49	7.82	- 10.25(- 4.95)
Japan	684,584	794,454	1,075,005	4.51	5.02	5.64	35.31(- 8.93)
Thailand	771,197	868,649	804,087	5.08	5.49	4.22	- 7.43(-9)

Australia	692,568	742,834	744,643	4.57	4.69	3.90	0.24(-8.23)
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Source: Global Trade Atlas - Hong Kong Census & Statistics Department

Note: Figures in () show the change of currency rate based on HK\$1

The impact of Hong Kong's currency exchange rate could further be illustrated by one of Hong Kong's major food items – fruits. Hong Kong's year-on-year December price index rise of 16 percent for fruit was largely caused by the depreciation of Hong Kong's currency. Hong Kong's major fruit suppliers (excluding the U.S) include Thailand, Chile, South Africa and Australia. All their currencies appreciated by varying degrees against the Hong Kong dollar.

As in the case of agricultural and food products, Hong Kong currency depreciation not only pushed up the corresponding price index for fruits by 16 percent, but also affected growth rates and market shares of fruits from major supplying countries.

The stable exchange rate with the U.S. dollar was favorable to Hong Kong buyers sourcing products from the United States. Hong Kong's imports of U.S. fruits rose by 31 percent in 2010 compared to 2009. In contrast, imports from all other major fruit suppliers decreased because their products became less price-attractive as a result of the depreciation of Hong Kong dollar. Thailand and Australia's currencies appreciated against Hong Kong dollar by 9 and 8 percent respectively and their fruit exports dropped a remarkable 20 and 36 percent. South Africa was an exception. However, the significant jump of South African fruit exports to Hong Kong was due to the increased exports of grapes at the expense of the market share of Chile. Although the U.S. also exports grapes to Hong Kong, it does not compete directly with South Africa and Chile because of the different supply seasons between the Northern and Southern hemispheres.

Table 5. Hong Kong: Fruit Imports from Major Suppliers

UDG: Fresh Fruit, Group 23 (2007)							
Year To Date: January - December							
Partner Country	United States Million Dollars			% Share			% Change
	2008	2009	2010	2008	2009	2010	2010/2009
World	986,466	1,215,452	1,258,680	100.00	100.00	100.00	3.56
U.S.	278,978	292,906	385,112	28.28	24.10	30.60	31.48
Thailand	229,975	318,329	253,699	23.31	26.19	20.16	- 20.30 (-9)
Chile	118,414	172,631	185,598	12.00	14.20	14.75	7.51 (-5.68)
S. Africa	62,343	70,161	92,388	6.32	5.77	7.34	31.68 (-8.77)
Australia	67,597	105,145	67,419	6.85	8.65	5.36	- 35.88 (-8.23)
Philippines	48,606	56,610	56,113	4.93	4.66	4.46	- 0.88 (-4.77)
China	51,367	49,036	49,456	5.21	4.03	3.93	0.86 (-2.79)

Source: Global Trade Atlas - Hong Kong Census & Statistics Department

Note: Figures in () show the change of currency rate based on HK\$1

