

Press release

LCQ20: Computation of CPI

Wednesday, July 9, 2008

Following is a question by the Hon David Li and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (July 9):

Question:

According to the Monthly Report on the Consumer Price Index (CPI) published by the Census and Statistics Department, "the expenditure weights for compiling the 2004-2005-based CPI series are based on the household expenditure patterns obtained from the Household Expenditure Survey conducted during October 2004 to September 2005". Current weight for food items (excluding meals away from home) is 10.08%. Using the 2004-2005 weights, between May 2004 and May 2008, the prices of food items have increased by 30.5% while the Composite CPI has increased by only 10%. There are concerns that there is a potential underestimation of the current Composite CPI using the 2004-2005 weights. In this connection, will the Government inform this Council whether it has taken into account the above potential underestimation in its current calculation of CPIs; if it has, of the details of the methodology and whether adjustment has been made to its calculation; if adjustment has not been made, whether the Government has conducted any study to estimate the degree of underestimation; if it has conducted such a study, of the results?

Reply:

Madam President,

The accuracy of the Consumer Price Index (CPI) and its rate of change are not affected by changes in expenditure weights caused by price changes in individual items (e.g. food) because the CPI compilation formula has already taken this into account. In fact, the expenditure weights of food items have correspondingly been increased to account for the recent increase in food prices. Therefore, there is no underestimation of the Composite CPI.

According to the existing computation formula, the CPI in a specific month is computed by comparing the total cost of a basket of consumption items in that month with that of the same basket in the base period. The expenditure weights used in compiling the month-to-month rate of change of the CPI are updated to the price level in the preceding month. Moreover, the Census and Statistics Department will, in conformity with international statistical standards, update the basket of consumption items and the expenditure weights every five years to take into account changes in consumption patterns of households over time.