

Global Inflation

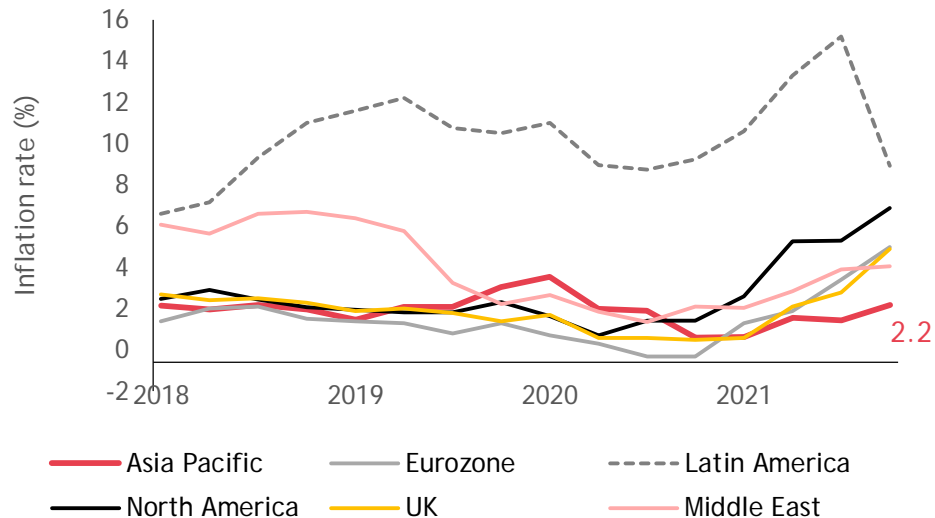


Economic Research Department
April 2022

While western economies see elevated inflation, price pressure is more moderate in Asia

Asia sees relatively stable inflation rates compared to rest of world

Inflation by Region

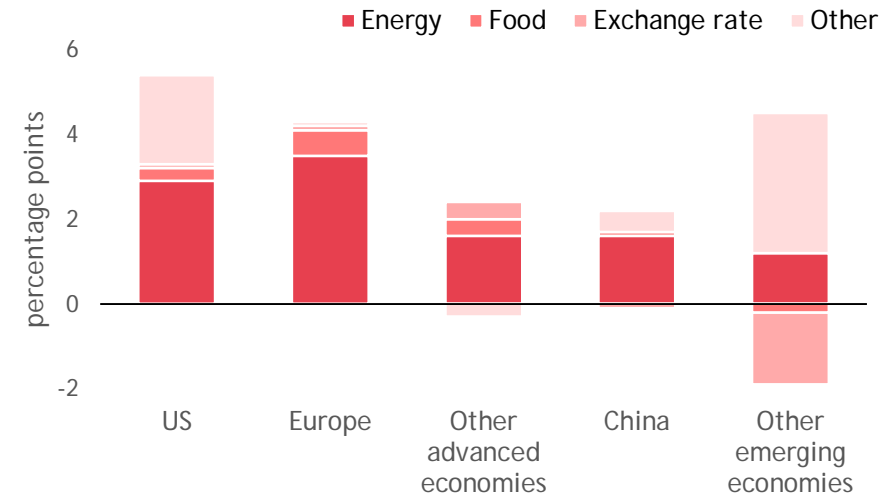


Source: Bloomberg (data as at 28/2/2022)

- While the US and Europe have suffered from surging inflation, Asia's consumer price pressure is much weaker.
- Asian countries have weathered the pandemic and avoided supply disruptions and associated pressure on prices.

Driving forces of inflation vary between regions

Change in inflation from Dec 2020 until the latest data



Source: IMF (data as at 28/1/2022)

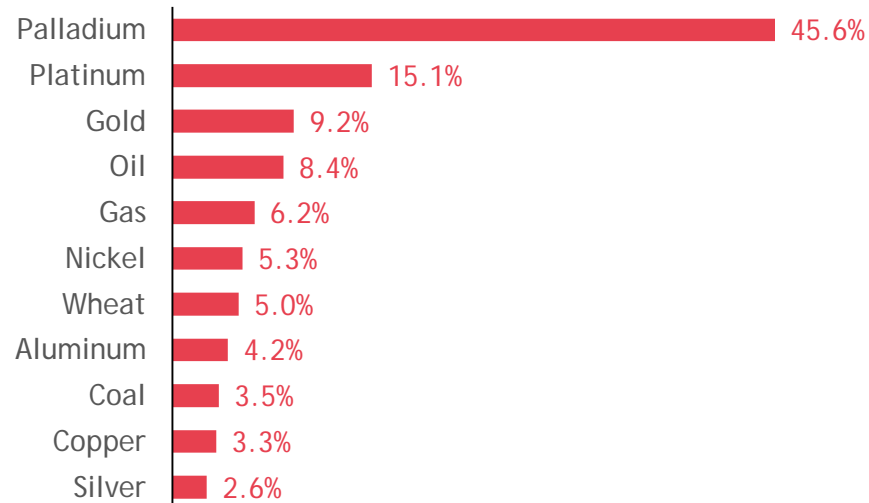
- Energy costs were the main contributor to higher inflation in Europe, while the US has also suffered from supply chain disruptions, clogged ports, and high demand for goods.
- Food prices were more impactful in Africa, while in Latin America more expensive imports had the biggest effect.

Ukraine crisis and sanctions on Russia fuel inflationary pressure and weaken global economic growth

Ukraine crisis is hurting the global economy with higher inflationary pressure...

...and lower economic growth

Russia's exports as a share of global production



Source: JP Morgan (data as at 28/2/2022)

- Russia is a major world supplier of crude oil and precious metals such as palladium, platinum, nickel, & aluminium.
- Additionally, Russia and Ukraine account for 30% of global wheat exports, more than 25% world fertilizer exports, and almost 15% of maize exports.

2022 global GDP forecasts downgraded due to Ukraine crisis

OECD 4.5% → 3.4%

United Nations Conference on Trade & Development 3.6% → 2.6%

Fitch Ratings 4.2% → 3.5%

Although the Ukraine crisis will have impacts, food & energy and transport costs are a lesser concern for Asia

Food and energy prices rose less significantly in Asia than other emerging economy regions

Consumer inflation (% year-on-year change)

Food prices



Energy prices



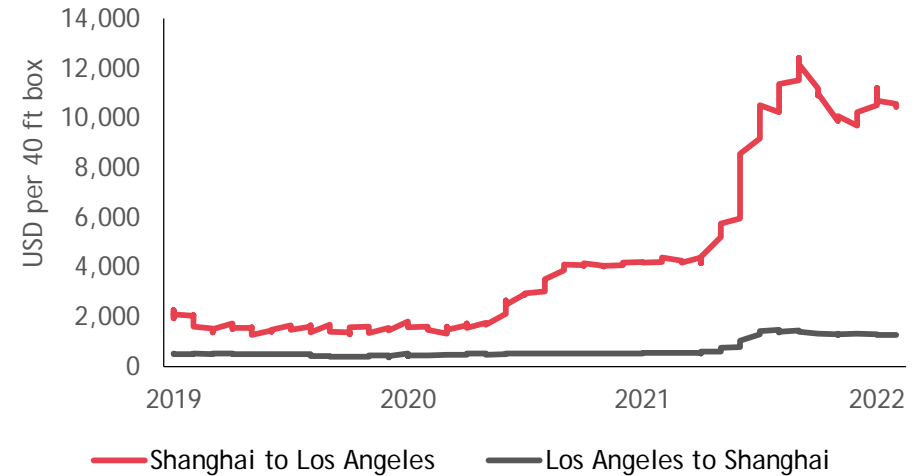
Source: IMF, data as of October 2021

- Food costs (making up about one third of the consumer price index baskets in Asia) were relatively muted, with solid harvest in India, a recovery from swine flu in China, and contained cost increases for rice.

Freight costs from Los Angeles to Shanghai rise much less than vice versa

Freight cost between Shanghai and Los Angeles

World Container Index by Drewry



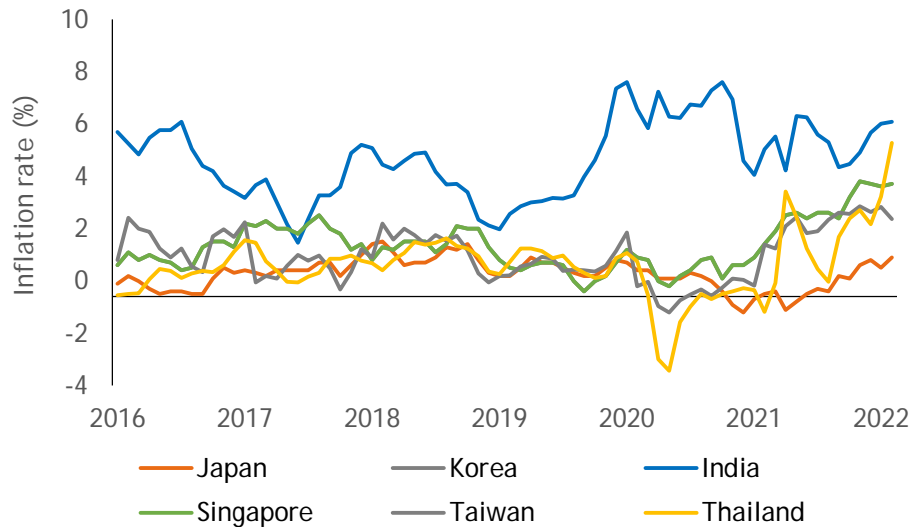
Source: Bloomberg (data as at 30/3/2022)

- Covid-19 has led to congested ports, forcing shipping firms to prioritise service along the most lucrative routes.
- During the pandemic, much more cargo was transported from Asia to the West than vice versa, making freight costs much higher from East to West.

Inflation is notably muted in Mainland China and Hong Kong compared to their Asian counterparts

Inflation trending up in several Asian countries

Inflation in selected Asian countries

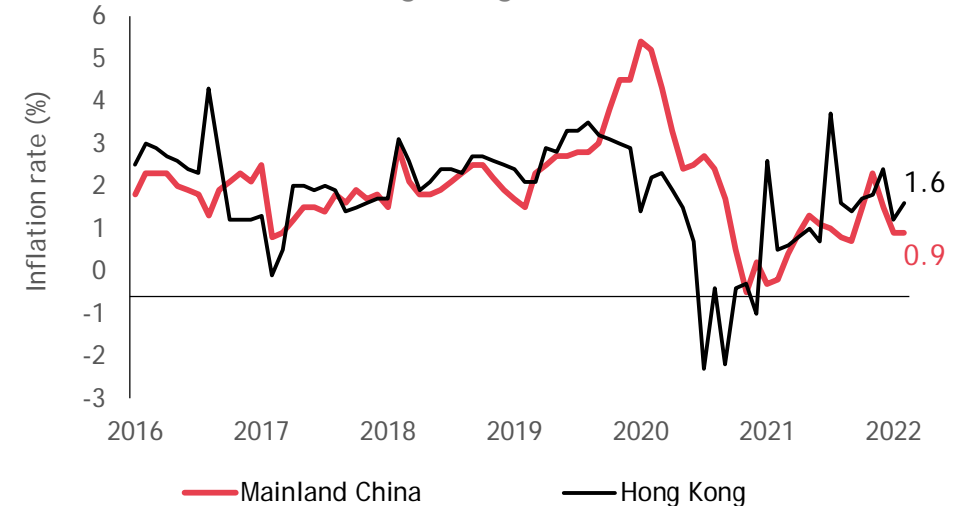


Source: Bloomberg (data as at 30/3/2022)

- While they are still keeping inflation levels under control, pressure is rising in a number of Asian economies.

Inflation in Mainland China and Hong Kong still below pre-pandemic level

Mainland China and Hong Kong inflation



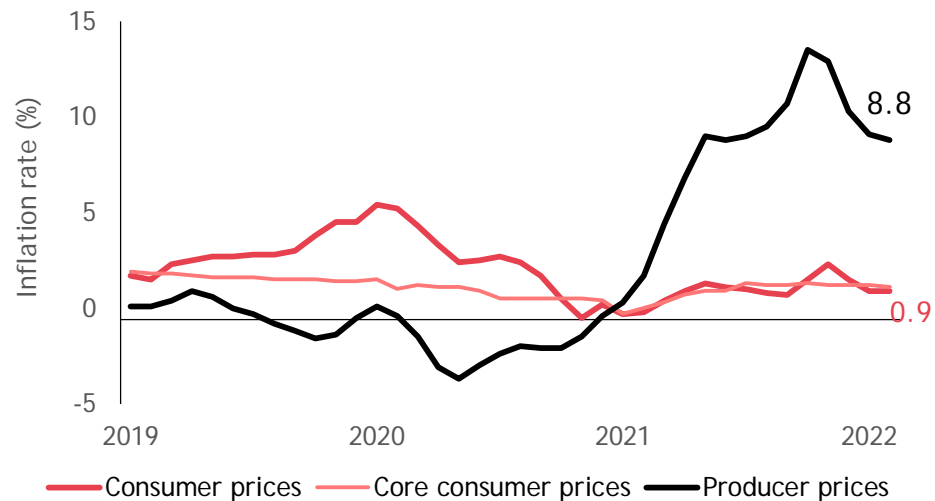
Source: Bloomberg (data as at 30/3/2022)

- Pork prices plunged 42.5% year on year in Mainland China in February, offsetting the rise in energy prices. Meanwhile, core inflation stayed at 1.1%.
- Hong Kong saw an annual decline in pork and electricity prices as well as house rents.

Chinese manufacturers can't pass price increases on to consumers

Gap between consumer and producer prices is still large

China's consumer and producer prices

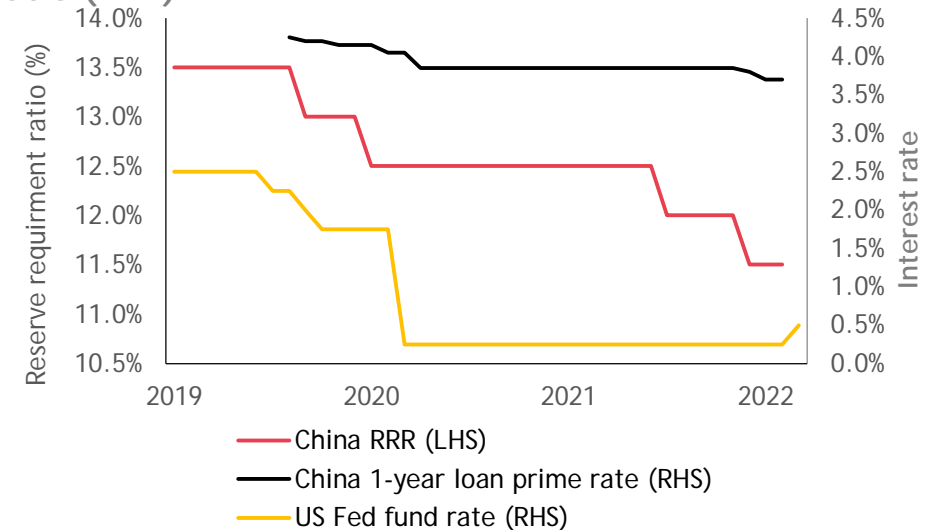


Source: Bloomberg (data as at 30/3/2022)

- High pork prices in 2019 have acted as a high base and remain a drag on headline CPI.
- Meanwhile, weak consumer sentiment is dissuading manufacturers from passing higher costs on to consumers.

Low inflation leaves room for policy easing

China's loan prime rate (LPR) and reserve requirement ratio (RRR)



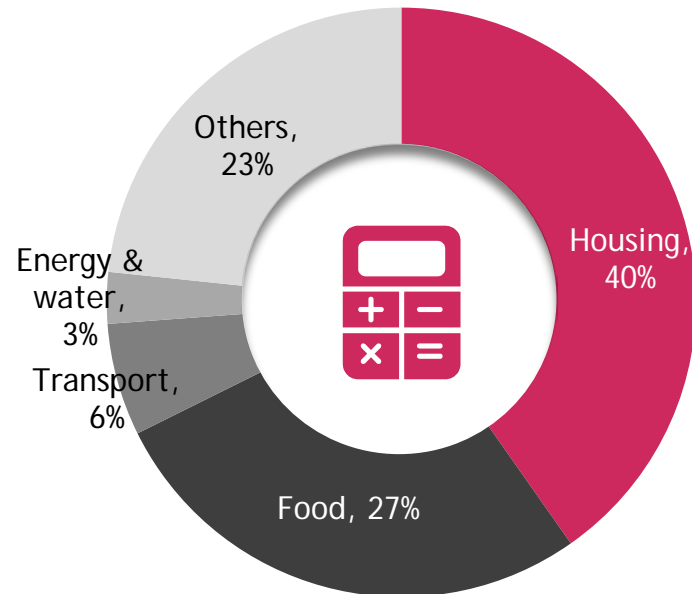
Source: Bloomberg (data as at 30/3/2022)

- As inflation is not a concern, China's authorities have room for more fiscal policies and further rate cuts.
- The Government Work Report envisages CNY2.5 trillion in tax refunds and cuts this year, focusing on manufacturers and SMEs.

Hong Kong has relatively modest inflation

Hong Kong consumer prices are highly dependent on housing rents

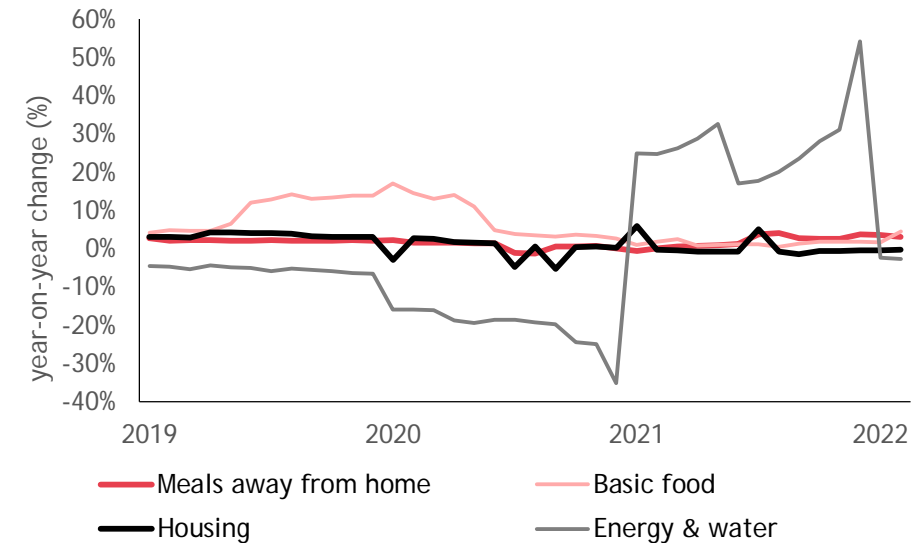
Weightings in Hong Kong's composite CPI



- Around 40% of consumers' expenditure goes on house rent.
- Food expenditure accounts for 27%, with about 10% being spent on edible groceries and 17% on eating out.

Domestic economic activity and housing market will have increasing impact on prices

Movement of Hong Kong's key consumer prices



Source: Hong Kong Census and Statistics Department (data as at 30/3/2022)

- Soaring energy prices sparked by the Russia-Ukraine conflict are adding to price pressure.
- However, subdued economic activity in Hong Kong due to Covid-19 and the housing market will keep inflationary pressure down in the near term.

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