Alarm bells sound over inflation

Hongkong faces a "very real" threat of developing inflation.

This warning was sounded yesterday by the Financial Secretary, Mr Philip Haddon-Cave.

He told the Legislative Council the Government will be keeping a close eye on the growth of the money supply.

It will also be considering what measures it can take to restrain such growth, although any such measures are not expected to be invoked at present.

Mr Haddon-Cave said the inflation threat is, firstly, due to the extent to which the adjustment mechanism has been operating through the depreciation of the exchange rate.

Secondly it is due to an imbalance between the supply of, and demand for, real resources.

He pointed out that the depreciation of the Hongkong dollar experienced in the past 20 months of between 18 and 19 per cent has helped the export sector to improve its competitiveness, but the domestic price increases so far experienced have been "really very modest."

Taking "inflation" as his central theme in his speech winding up the annual Legco policy debate, Mr Haddon-Cave noted that there has been a significant discrepancy between the rate of increase in import prices and the rate of increase in the retail prices of consumer goods.

This suggests that increases in import prices may not always be matched in full by increases at the retail level.

"Nevertheless, we must be careful not to assume that an adjustment process which has been relying heavily on a depreciation of the exchange rate can go on working relatively painlessly.

"This is particularly so in present circumstances, when domestic sector activity is so strong that offsetting cost increases are allied with a diversion of resources away from the export sector to meet domestic demand at a time when exports are becoming more competitive in foreign currency terms," he said.

What is really worrying him, and obviously some Unofficials too, he said, is the present imbalance in the supply of, and demand for, real domestic resources of land, labour and capital.

The Financial Secretary said there is no doubt that demand is out-running available supply with the result that prices are being competitively bid up and retained imports are growing twice as fast as domestic exports.

The imbalance is particularly noticeable, he said, in the case of the property market, as there is no evidence that private sector demand for new property is yet being satisfied.

He said consents to developers to start work are 16 per cent higher in terms of floor area in the first nine months of this year compared with the same period last year.

The labour and material cost index is accelerating and the Public Works Department's tender price index has been pushed up 23 per cent in the first nine months this year by demands on the building and construction industry, particularly in the public sector.

The public sector, noted Mr Haddon-Cave, is now taking about half the total output of the building and construction industry, compared with 42 per cent in the first six months of last year and an average of 39 per cent over the four year period 1973 to 1976.

He said an excess of demand over supply of real resources is contributing to the high growth rate of those components of GDP catering for domestic demand, namely, private consumption expenditure, Government consumption expenditure and gross domestic fixed capital formation.

"However," he said, "with the economy as a whole enjoying double-digit growth for the third year running, it is inescapable that the relatively higher growth rates in those sectors must slow down so that resources can be made available to the export sector

(Cont'd on Page 13 Col 1)