

Guernsey Quarterly Economic Overview

Issue date: 7 October 2016

The Guernsey Quarterly Economic Overview brings together the most recent official Guernsey statistics and provides an overview of economic conditions in Guernsey and the outlook for the near future.



States of Guernsey
Strategy and Policy

1.1 Introduction

The Quarterly Economic Overview is compiled by the Strategy and Policy Unit and brings together statistics published by the Data and Analysis Unit (www.gov.gg/data). The intention is to combine the available data to provide a more detailed overview of current economic conditions in Guernsey and, where appropriate, the short term outlook.

The bulletin covers both macroeconomic measures such as GDP, inflation and employment as well as sector specific indicators and, where available, economic forecasts.

1.2 Headlines

- First estimates of GDP show a modest amount of real growth in 2015. Performance was strongest in Business services and Legal sectors, offset by negative contributions from Construction, Finance and Information services sectors.
- Inflation remained low in the second quarter of 2016 but is expected to increase in the third quarter as the effects of the fall in oil prices in 2015 will no longer influence the headline annual percentage change.
- The total number of people employed in Guernsey increased by 0.2% in the year ending March 2016. The improvement in the labour market is reflected by a return to net immigration in the year ending September 2015 and a third successive quarter of year on year growth in real median earnings in March 2016.
- The combination of real earnings growth and a reduction in residential property prices has reduced the house price to earnings ratio (a measure of housing affordability) to its lowest (most affordable) point for more than five years in the quarter ending June 2016. The number of transactions in the second quarter has reached its highest point for almost three years.
- The Finance sector as a whole is stable and employment in the sector had increased year on year for three successive quarters by the end of March 2016. Median earnings in the sector were also growing in real terms at the end of the first quarter.
- The Professional, business, scientific and technical activities sector continues to show strong growth with employment in this sector increasing consistently year on year for 7 quarters by the end of March 2016.
- The Construction sector lags behind the economy as a whole, with a lack of large scale development keeping employment levels low. However, the approval of planning applications for two large scale developments during 2016 may improve conditions in the sector going forward.

2. Macroeconomic indicators

Figure 2.1.1 Gross domestic product

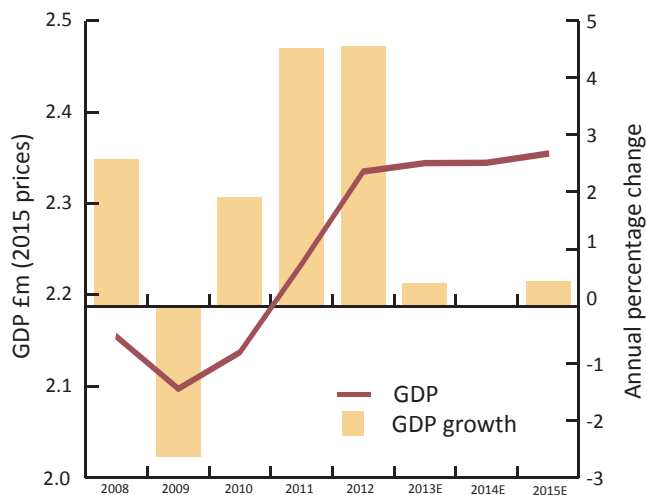
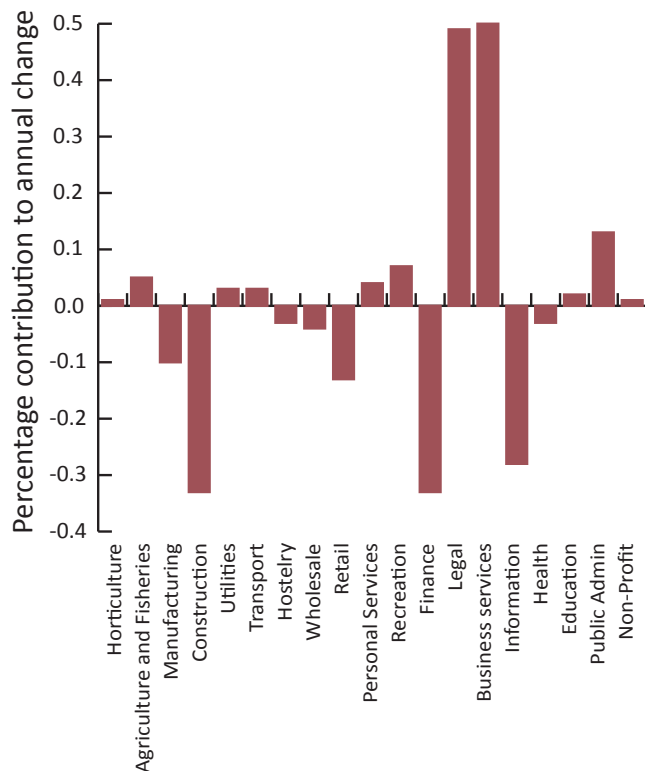


Figure 2.1.2 Contribution of economic sectors to annual growth in GDP (2015)



2.1 Gross domestic product

The first estimates of Guernsey GDP report a moderate level of real annual growth of 0.4% to £2.4bn, while growth in 2014 was revised down from 0.9% to 0.0% (**figure 2.1.1**). This reflects a subdued labour market through 2013, 2014 and 2015 (see **section 2.3**) and aggregate wages declined in real terms by 0.3% in 2015. First estimates show a small real increase in aggregate profits (0.1%) and an increase in other income (8.1%) which includes rental income from ownership of property and other sources.

Business services made the largest positive contribution to the annual change in GDP (**figure 2.1.2**) closely followed by Legal services despite this sector comprising only 2.4% of total GDP. This growth was offset by negative contributions from the Finance, Construction and Information services sectors. More analysis of Guernsey's larger sectors is covered in **Section 3**.

Guernsey does not publish quarterly GDP figures and there currently are no published forecasts for growth in 2016, however, given the improvement in the employment and earnings statistics in the first quarter there is reason to expect that growth will continue in the latter half of 2016.

Guernsey is considered a third country for the provision of services to the EU and as such the Brexit vote should have less impact on Guernsey's relationship with the EU than the UK's. That said, Guernsey's Finance sector has close relationships with the UK and Guernsey is not isolated from the impact of the referendum decision. Recent analysis in the UK showing that, despite earlier fears that the vote would push the UK economy into an immediate recession, the UK economy is recovering quickly from the initial shock and is still growing. The UK Services index showed continued growth in June 2016 and this should be a positive signal for Guernsey.

2. Macroeconomic indicators

2.2 Inflation

Headline price inflation measures in Guernsey continued to be low compared to historic trends. The annual change in RPIX stood at only 0.6% (**figure 2.2.1**) and RPI stood at 0.4% in June 2016.

Over the twelve month period covered by the latest headline inflation rates, price movement in most areas have been marginal (**figure 2.2.2**). Both RPI and RPIX have been pushed downwards over the past year by the drop in oil prices during the third quarter of 2015 and this has resulted in a downward movement of the price indices for Fuel, light and power and for Motoring expenditure.

However, from September 2016 this downward impact will no longer be captured by the annual change, and as a result annual inflation measures are expected to rise fairly sharply next quarter. Added to this there may be an upward pressure on import prices as a result of the fall in the sterling exchange rate in the wake of the Brexit vote. It is likely that inflation will continue to rise through 2016 and into early 2017, although this may be tempered by weak economic growth in the UK.

The decision by the Bank of England to reduce the base rate to 0.25% in the wake of the vote in favour of a Brexit may push the RPI measure downward in the short term by reducing lending cost and the interest paid on mortgages. However, in the longer term the reduction in interest rates is likely to exert an upward pressure on prices, by increasing borrowing and consumer spending assuming that employment and pay levels remain stable.

Figure 2.2.1 Forecast annual change in RPIX

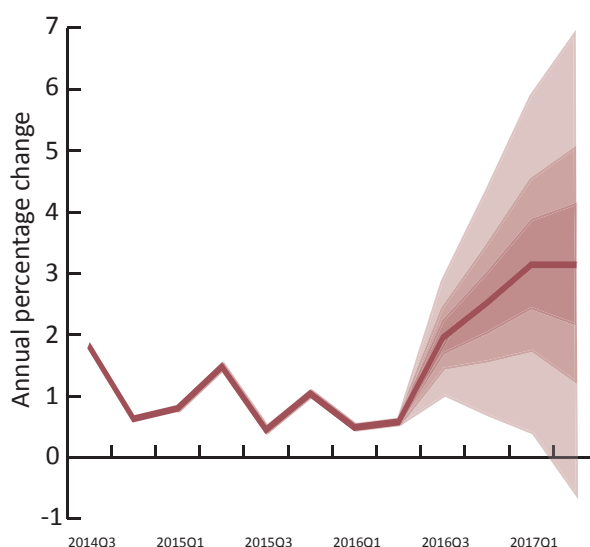
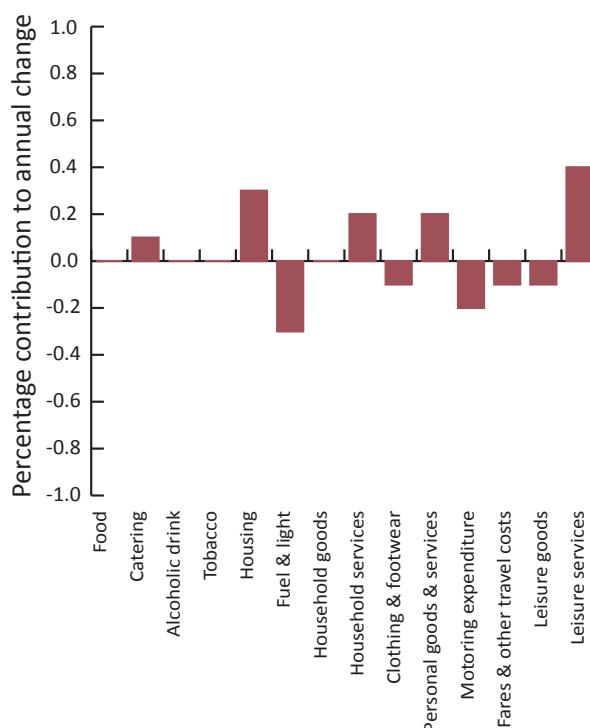


Figure 2.2.2 Contributions to RPIX (2016 Q2)



2. Macroeconomic indicators

Figure 2.3.1 Annual migration

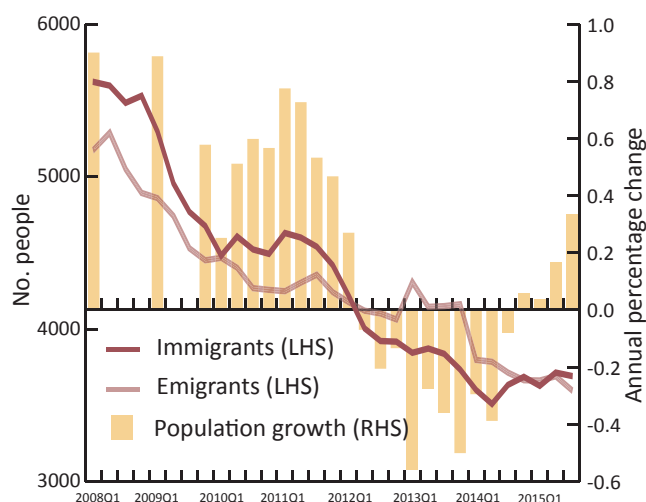
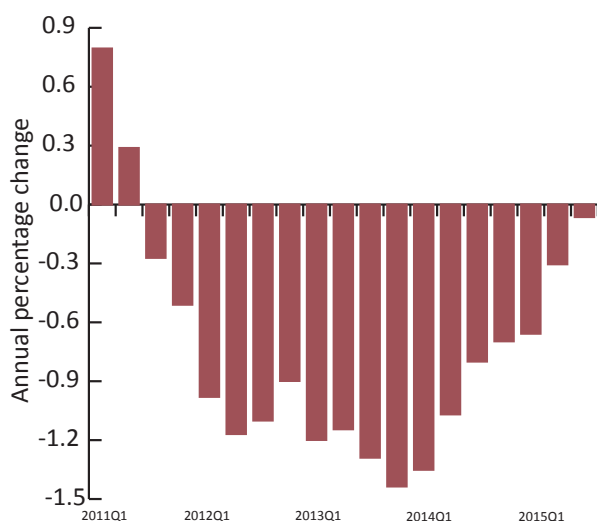


Figure 2.3.2 Working age population



2.3 Population

Guernsey's most recent population data, for the third quarter of 2015, shows that the population grew by 0.3% in the year ending September 2015 (**figure 2.3.1**). This is the fourth quarter of year on year growth following a two year period of population decline.

Birth and death rates in Guernsey are reasonably stable, which means that the changes in population growth trends in Guernsey in recent years are driven largely by migration trends. Until very recently, both immigration and emigration into and out of Guernsey had been trending downwards. The beginning of period of population decline coincided with the drop of immigration levels below the level of emigration in 2012. Conversely, the more recent growth in the population reflects a turning point in the trend in immigration numbers, which have been rising since mid 2014, surpassing the level of emigration during 2015.

Migration tends to be highest among the working age population, and those earlier in their working lives in particular. Net emigration can therefore have a significant impact on the size of the working age population. Combined with the progression of the large baby boom generation out of the working age population into retirement, this has resulted in a sustained period of decline in the working age population (**figure 2.3.2**). While the recent population growth has slowed this decline significantly, at the end of September 2015, the net immigration of workers to Guernsey was not sufficient to fully offset the natural movement of people turning 65 out of the working age population.

2.4 Workforce and earnings

As might be expected, changes in the working age population impact the size of the workforce. Workforce numbers (available up to the first quarter of 2016) show that the decline in the total number of people employed and self-employed has slowed (**figure 2.4.1**). At the end of March 2016 the total number of people employed or self-employed had increased, year on year, by 0.2%.

Participation in employment, the percentage of people of working age who are either employed or self-employed, is traditionally very high in Guernsey, reflecting low unemployment and high levels of employment among women. Participation in Guernsey has been trending upwards and over the year ending September 2016 averaged 78% (**figure 2.4.2**) compared to an EU average of 73% and a UK average of 77% (www.data.oecd.org).

Examining the underlying data, it can be seen that the upward trend in participation rates is being driven by an increase in participation among women, in particular those aged 35-39 and those aged over 60. In part this is a natural reflection of the change in the workforce across successive generations. Younger generations of women have a greater propensity toward employment and to return to employment after having children than the generation of women now retiring. As a result the progression of successive cohorts through the older age groups has a tendency to increase participation rates in women.

At the end of the first quarter the registered unemployment rate was 1.4% (**figure 2.4.3**). This is very low by international standards, typically an economy with unemployment below 2% would be considered to be at “full” employment. However, unemployment is high relative to unemployment trends in Guernsey over the past decade and in June 2016 was 0.1 percentage points higher than higher that it was a year earlier.

Figure 2.4.1 Total employment growth

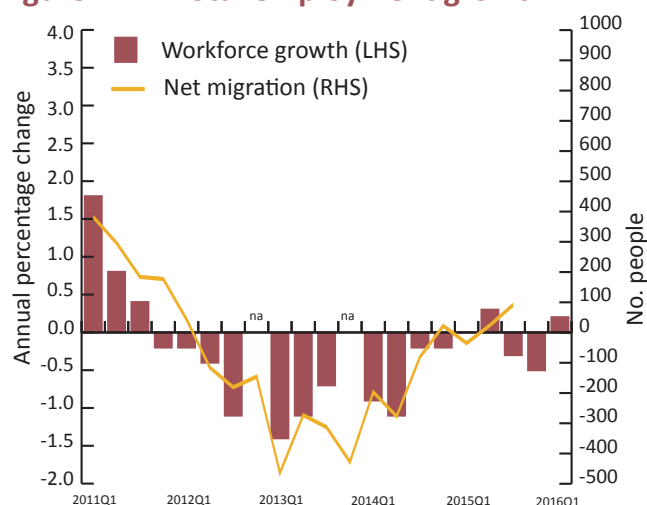


Figure 2.4.2 Participation in employment

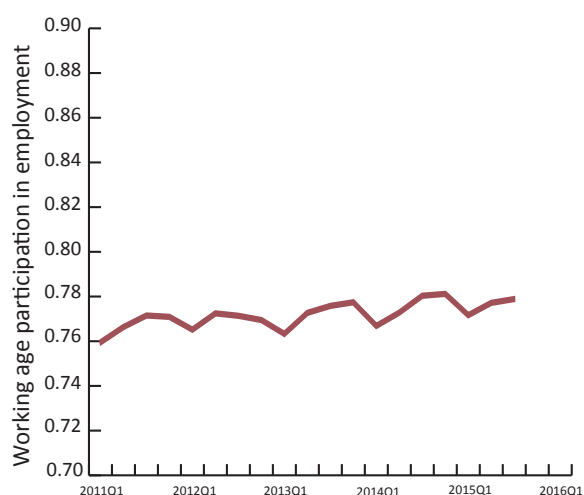
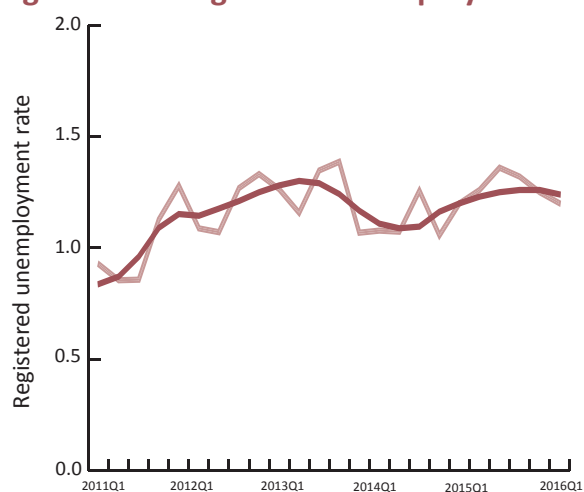
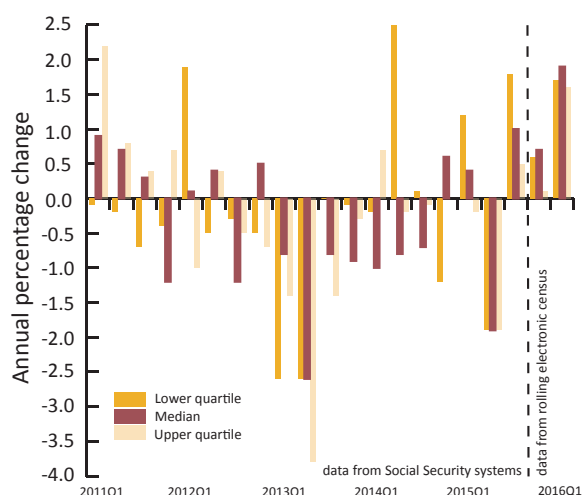


Figure 2.4.3 Registered unemployment



2. Macroeconomic indicators

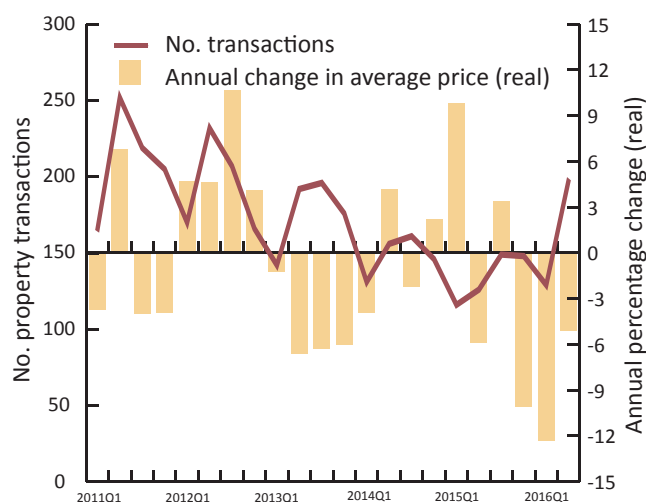
Figure 2.4.4 Earning growth (real)



In March 2016 median earnings for employed individuals had increased year on year by 1.9% in real terms (**figure 2.4.4**). This is the third successive quarter of real terms growth following a 3 year period of a generally downward trend in real earnings. This would indicate that incomes in Guernsey are, on average, rising faster than inflation.

Earnings at the lower and upper quartile (that is when ranked in ascending order earnings at the top of the bottom quarter and the bottom of the top quarter) are also increasing in real terms. The data presented in the next section also shows that there was real annual growth in median earnings in almost all the larger employment sectors in the first quarter of 2016.

Figure 2.5.1 Local property market

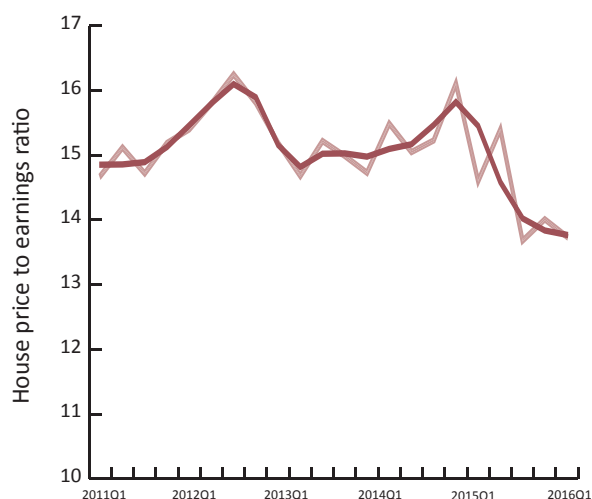


However, it should be noted that median earnings data in Guernsey are not adjusted for working hours (as they are in larger jurisdictions). As a result movements in median earnings can result from changes in both salaries and wage rates and changes in working hours. Changes in working hours are more likely to be significant in sectors which typically pay by the hour, such as Construction and Retail, than in sectors which typically pay a fixed salary, such as the Finance sector.

2.5 Property Market

Residential property statistics, available up to the second quarter of 2016, show a marked change in market conditions. While the average purchase price is still falling in real terms, the second quarter of 2016 saw a notable year on year increase in the number of transactions made, reaching their highest point for almost three years (**figure 2.5.1**).

Figure 2.5.2 House prices to earnings



The combination of the real terms fall in house prices and the real increase in earnings has brought about a reduction in the house price to earnings ratio (**figure 2.5.2**). The ratio, which is a standard measure of the affordability of housing, peaked at over 16 in 2012, but stood at 13.8 in March 2016. This is the lowest ratio since 2009, and suggests that, while housing in Guernsey is still expensive relative to earnings, the affordability of local market property has improved.

3. Business sector indicators

3.1 Financial services

The Financial services sector is Guernsey's largest sector in terms of both its contribution to GDP (32% of the total) and total employment (19.5% of the total) and recorded the highest level of median earnings (55% greater than the overall median).

At the end of the first quarter of 2016 both total employment and median earnings in the Finance sector showed modest annual growth of 1.7% and 1.9% respectively (**figure 3.1.1**). This is the fifth successive quarter to show real growth in earnings and the third to show year on year growth in employment, suggesting that conditions in the sector as a whole are improving.

At a sub sector level, the picture is more complex. The value of fund assets managed or administered in or held in Guernsey has increased through much of 2015 and early 2016 (**figure 3.1.2**) and employment has generally trended upwards, albeit with a fall in employment at the end of 2015 (**figure 3.1.3**).

Insurance employment has also trended upwards, however data on the value of insurance assets at the close of 2015 is not yet available. Employment in fiduciaries has been broadly stable through 2015 and has increased slightly in the first quarter of 2016.

The total sterling value of banking deposits has stabilised over the last 18 months with a marginal increase at the end of the second quarter of 2016. However, employment in the banking sub-sector continues its slow decline with a number of mergers and cost reduction measures keeping employment low.

Employment in Fiduciaries has increased over the last twelve month, although the sector remains smaller in terms of total employment than it was in 2011.

Figure 3.1.1 Finance: employment and earnings growth

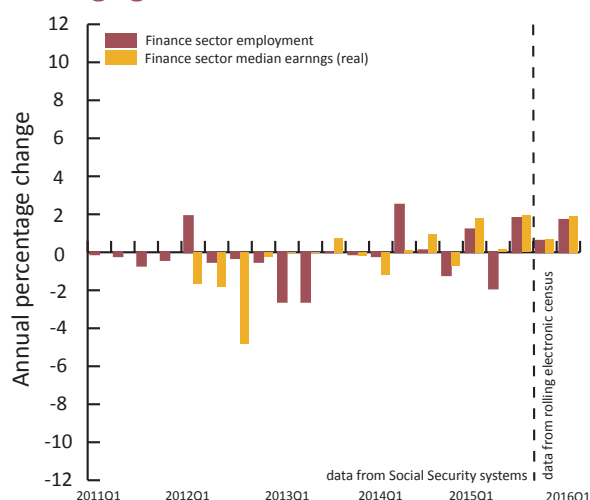


Figure 3.1.2 Finance: sub-sector values*

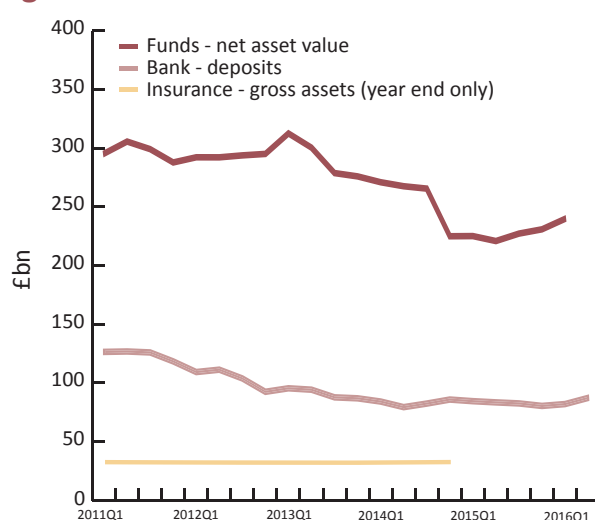
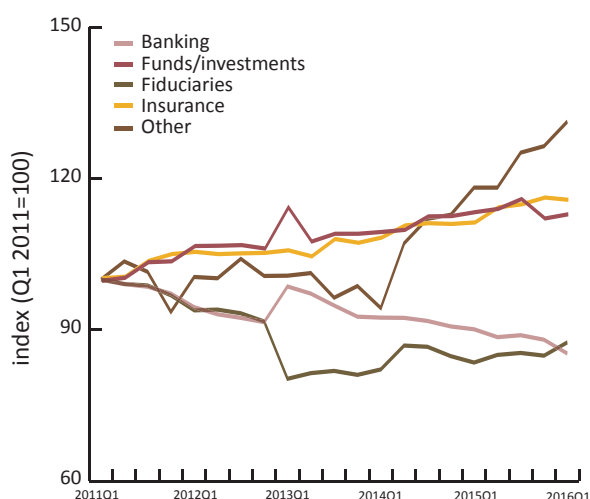


Figure 3.1.3 Finance: sub-sector employment



* data published by the Guernsey Financial Services Commission

3. Business sector indicators

Figure 3.2.1 Professional and business services: employment and earnings growth

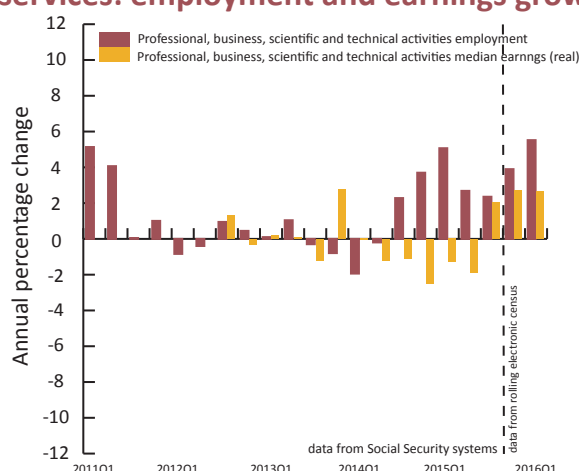


Figure 3.2.2 Information and communications services: employment and earnings growth

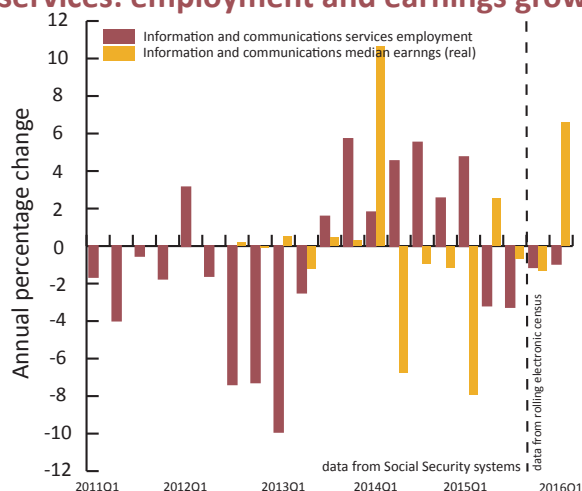
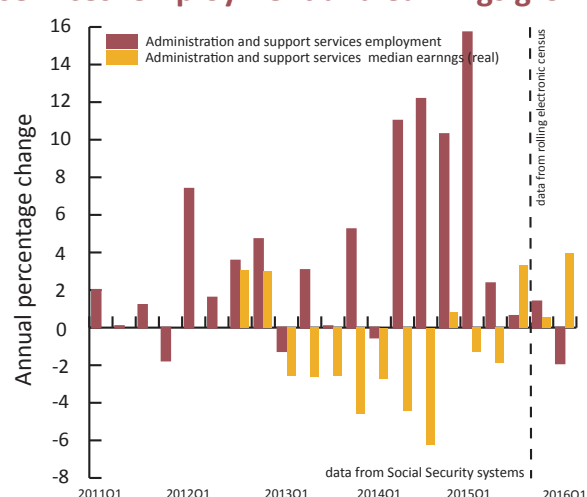


Figure 3.2.3 Administration and support services: employment and earnings growth



3.2 Business, IT and support services

The three sectors captured in this section (Professional, business, scientific and technical activities, Information and communication and Administrative and support service activities) have been traditionally viewed as support services for the Finance sector but are increasingly exporting services in their own right.

Professional, business, scientific and technical activities, which includes specialist services such as accountancy, legal and marketing services, has been growing steadily in terms of the number of people employed over 2015 and into the first quarter of 2016 (**figure 3.2.1**). This sector was largest employer of graduates in Guernsey in 2014 and 2015.

Like most sectors, earnings were falling in real terms through 2014 and early 2015, but the trend turned in the second half of 2015. Earnings grew at a respectable 2.7% year on year to the end of the first quarter of 2016.

Employment in Information and communication services grew strongly through 2014 but subsequently contracted through 2015 and early 2016 although the year on year decline in employment has slowed to less than 1% by the first quarter of 2016 (**figure 3.2.2**). Median earnings in this sector which have been volatile over the last two to three years are showed a substantial increase in the year ending March 2016.

Employment in Administrative and support service activities (including human resources support, cleaning and security activities) grew rapidly during 2014 and early 2015 with year on year growth in excess of 15% (**figure 3.2.3**). This growth rate slowed during the later part of 2015 and the sector showed a modest contraction in employment in the first quarter of 2016. Similar to Professional, business, scientific and technical activities median earnings have grown in real terms year on year over the last three quarters following a period of real terms contraction.

3. Business sector indicators

3.3 Construction and Wholesale, retail and repairs

These two sectors are the largest employers of domestic unskilled and semi-skilled labour in Guernsey and combined represent approximately 20% of the workforce. These sectors are also the largest employers of those who leave school at years 11 or 12. Shifts in employment in these sectors tend to have a greater impact on unemployment rates than others.

Employment in Construction is closely linked to the amount of development taking place in Guernsey at any one time, with large scale projects typically boosting employment in this sector. A smaller number of large scale projects over the last two years has resulted in a sustained contraction in employment in this sector (**figure 3.3.1**). However, the planning approval granted on two large scale development projects in 2016 could reverse this trend once the construction phase of these projects gets underway.

Employment in Wholesale, retail and repairs has declined year on year over the last four reported quarters, although the rate of decline in the first quarter of 2016 was minimal (**figure 3.3.2**). By contrast median earnings show a real year on year increase in the last three reported quarters with the rate of increase reaching 3.4% at the end of March 2016.

3.4 Hostelry and visitor movements

The Hostelry sector captures all hotels and visitor accommodation in Guernsey as well as bars and restaurants. Employment in the sector underwent a step change in 2013 which coincided with the increasing numbers of cruise ship passengers visiting the island (**figure 3.4.1 and 3.4.2**). More recently Hostelry employment has trended downwards although employment at the end of the first quarter of 2016 had increased year on year. This sector is heavily reliant on seasonal workers and in March 2016, approximately 26% of employees in this sector were short term licence holders.

Earnings in the sector have been trending upwards in the Hostelry sector in real terms for almost 3 years.

Figure 3.3.1 Construction: employment and earnings growth

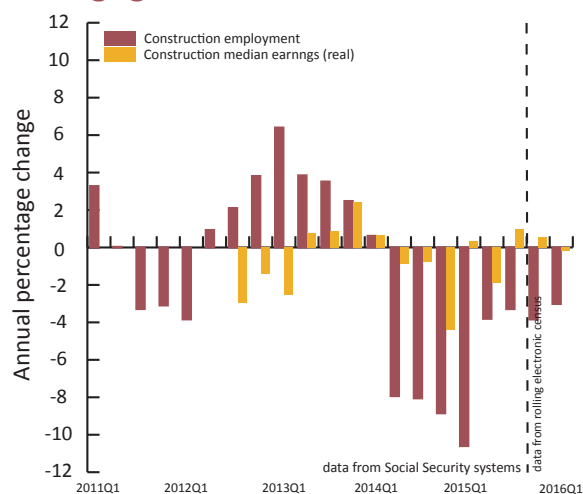


Figure 3.3.2 Wholesale retail and repairs: employment and earnings growth

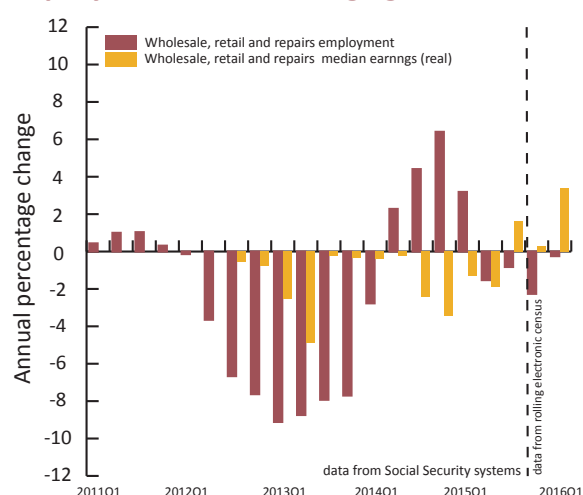
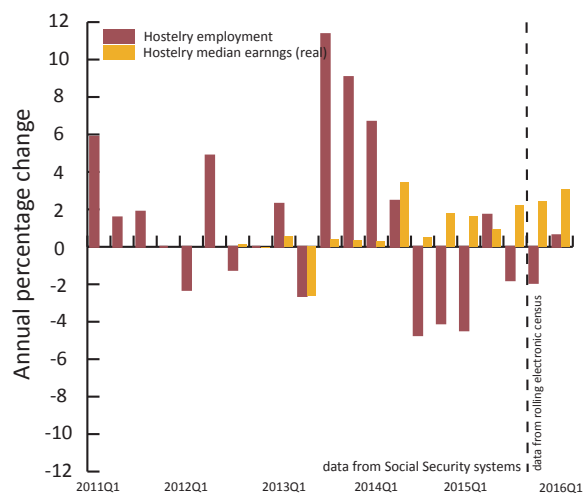


Figure 3.4.1 Hostelry: employment and earnings growth



3. Business sector indicators

Figure 3.4.2 Visitor departures and cruise passengers

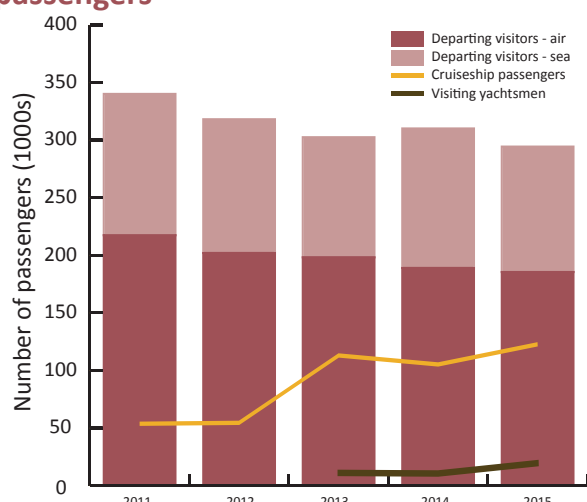
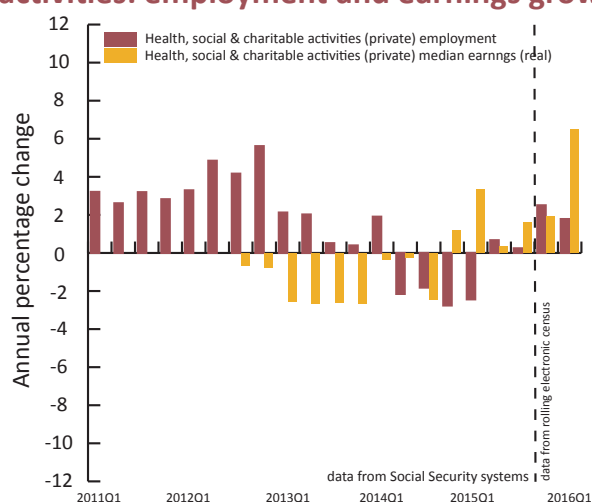


Figure 3.5.1 Health, social and charitable activities: employment and earnings growth



However, median earnings in the sector are still among the lowest in the economy.

After a strong 2014, total visitor numbers in 2015 were down by 5%, with a decrease in the number of passengers arriving by both air and sea. By contrast, the number of cruise ship passengers landing in St Peter Port and the number of visiting yachtsmen increased in 2015.

Looking ahead, the Sterling depreciation could provide a boost to tourism, since foreign holidays will now be comparatively more expensive for British tourists and visits to Guernsey will be relatively less expensive for tourists from the euro area. Capitalising on this opportunity is dependent on appropriate and reliable transport links.

3.5 Private health and social care and charitable activities

This sector covers the private provision of health and social care services, including the private residential and nursing homes and all charities. The sector is the 7th largest in terms of employment and one that is likely to grow in the medium to long term as the population ages and the aggregate care needs of the population increases.

Both real median earnings and employment in this sector have increased for four successive quarters, with particularly strong growth in median earnings at the end of the first quarter of 2016.

4. Contact details and other information

This bulletin is presented by the States of Guernsey Strategy and Policy Unit. For more details please contact:

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The majority of the data presented in this report is provided by the States of Guernsey Data and Analysis Unit. More detailed statistics are available online at www.gov.gg/data.

The data presented in **figure 3.1.2** is published by the Guernsey Financial Services Commission and available at www.gfsc.gg.

