

Guernsey Economic Overview

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The Guernsey 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 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

- The available statistics, which reach the second and third quarters of 2016, suggest current conditions are more positive than they have been for some time.
- Net immigration levels had increased to 107 people over the year ending December 2015, closer to the average level of net migration experienced over the last eight years. As a result of increased levels of net immigration the working age population was stable between December 2014 and December 2015.
- The Finance sector employment continues to grow at a modest but consistent rate led by strong growth in Fiduciaries in the first half of 2016. Particularly strong employment growth was also reported in the Professional, business, scientific and technical activities and Information and communication services sectors for the year ending June 2016.
- In the more domestically focused sectors, statistics show a continued reduction in employment in Construction although there has been a modest increase in median earnings in the sector. Employment and median earnings in Wholesale, retail and repairs showed a small annual increase in the second quarter of 2016.
- Rates of domestic price inflation, RPIX and RPI, have increased to 1.1% and 0.9% respectively for the year ending September 2016. This increase was at the lower end of the forecasts and it is anticipated that rates will continue to rise over the coming quarters.
- UK economic forecasters have, in general, moderated their economic forecasts made before the UK referendum, revising down the negative impact of Brexit on UK GDP in the short to medium term. Given the strength of the relationship between the Guernsey and UK economies, the improved short term outlook for the UK should be considered a positive for Guernsey.

2. Macroeconomic indicators

2.1 Gross domestic product (2015)

The first estimates of Guernsey GDP report a moderate level of real annual growth of 0.4% to £2.4bn (figure 2.1.1). This reflects a subdued labour market through 2013, 2014 and 2015.

Business services made the largest positive contribution to the annual change in GDP in 2015 (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

Figure 2.1.1 Gross Domestic Product

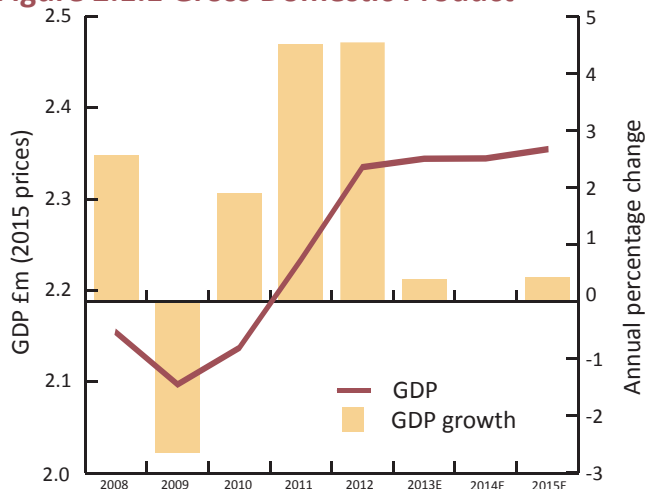
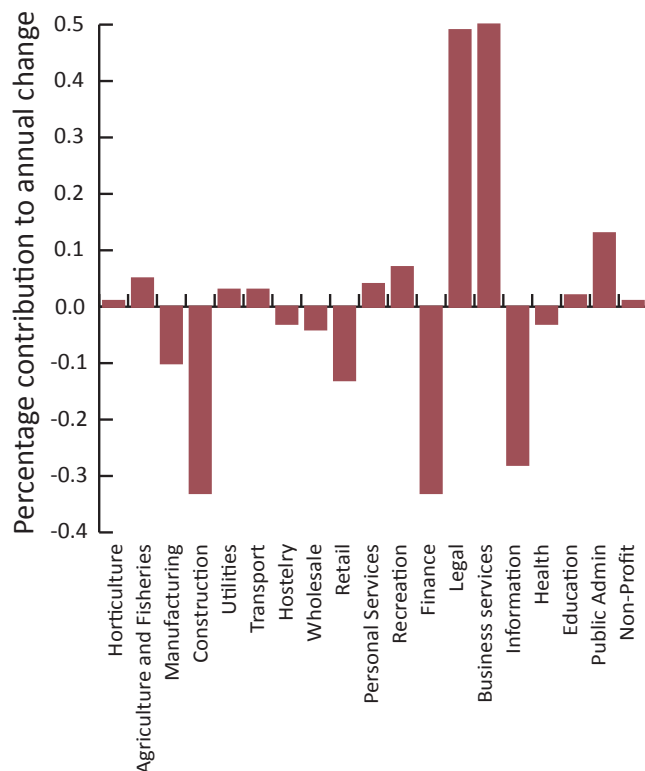


Figure 2.1.2 Contribution of economic sectors to annual growth in GDP (2015)



sectors. More analysis of Guernsey's larger sectors is covered in [Section 3](#) including more recent data on employment and earnings.

Guernsey does not currently publish quarterly GDP figures and there currently are no published forecasts for GDP 2016 or 2017. However, given the improvement in the employment, earnings and property transaction statistics in the first two to three quarters of 2016 there is reason to expect an improved rate of growth in 2016.

The UK's exit from the EU continues to be a downside risk to Guernsey's short to medium term economic prospects. However, six months on from the UK referendum most economic forecasters have moderated their projected impact of Brexit on UK GDP. While, still negative, the forecasts have reduced the short to medium term economic impact of the UK leaving the EU.

Guernsey's economy is closely tied to the UK, and the improvement in the short term forecasts for the UK since the referendum should be considered a positive sign, as are improvements in the UK labour market statistics reported for November 2016. However, the forecasts are still heavily dependent on the eventual agreement made between the UK and the EU on issues of market access and trade, and the movement of people. Until formal negotiations are underway and the positions of the EU and UK become clearer forecast ranges are likely to remain wide reflecting the uncertainty surrounding the eventual outcome.

2. Macroeconomic indicators

2.2 Inflation

Headline price inflation measures in Guernsey rose in the third quarter of 2016, reflecting the movement of the annual change beyond the influence of the fall in oil prices in 2014 and 2015 which have exerted a downward pressure on fuel and motoring costs over the last two years (**figure 2.2.1**). However, RPI continues to be low compared to historic trends and were at the lower end of the forecast range. The annual change in RPIX stood at 1.1% and RPI stood at 0.9% in September 2016.

The depreciation of sterling has taken time feed through in to price increases, in part because the large supermarkets have resisted price increases proposed by their suppliers. The full impact of depreciation on the cost of imported goods will take some time to feed into the price level. However, it is evident from the underlying data collected at the end of the third quarter that the upward pressure on prices was growing in some areas, with household maintenance cost being among the first sub-groups to show a noticeable increase the price level.

It is expected that higher import cost will lead to higher prices over the coming months (**figure 2.2.2**). Notably motor fuel prices increased significantly shortly after the price collection for the September inflation statistics as supplies imported since the depreciation of sterling reached the fuel pumps. Baring a further fall in oil prices, it is expected that both Fuel light and power and Motoring expenditure groups will make a positive contribution to inflation rates in the year ahead.

Overall, it is likely that inflation will continue to rise through the last quarter of 2016 and into early 2017, although this may be tempered by weak economic growth in the UK.

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Figure 2.2.1 Contributions to RPIX (2016 Q3)

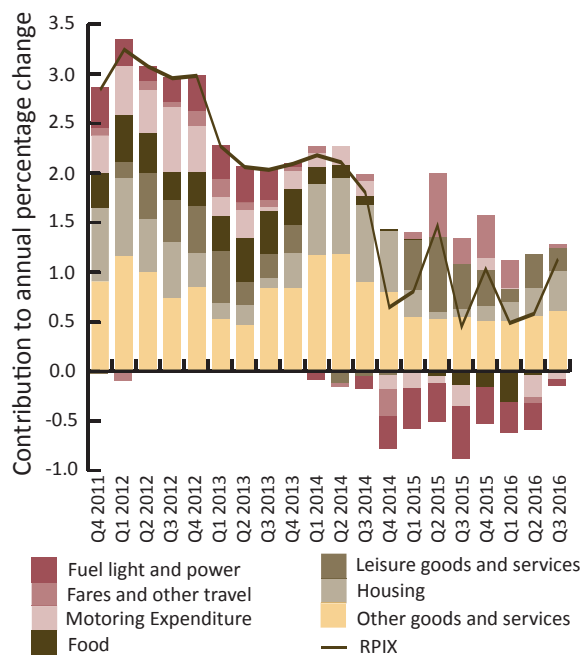
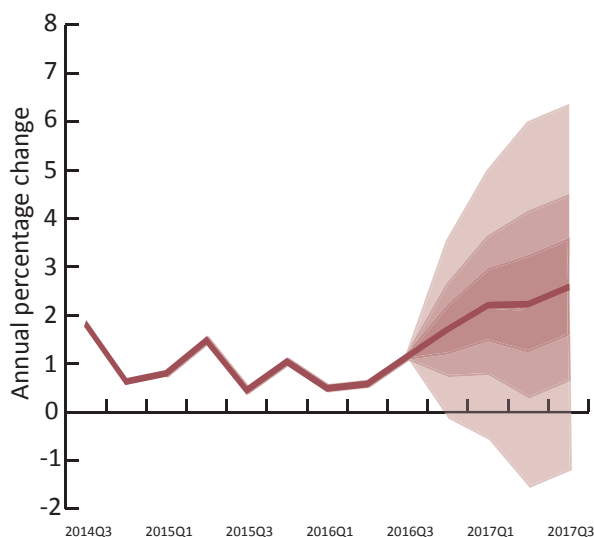
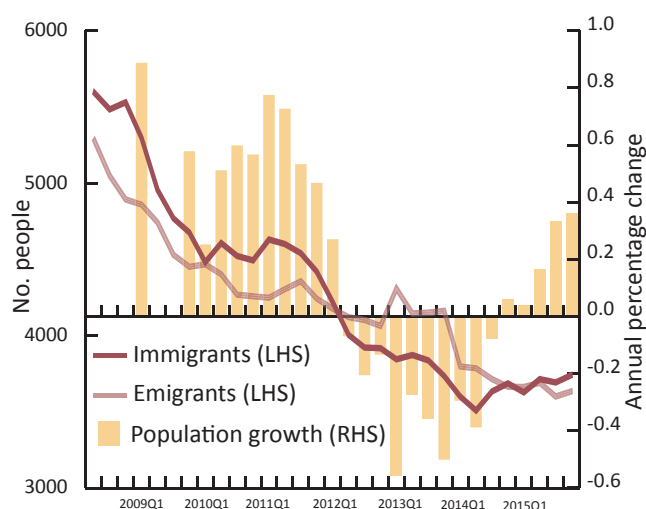


Figure 2.2.2 Forecast annual change in RPIX



2. Macroeconomic indicators

Figure 2.3.1 Annual migration



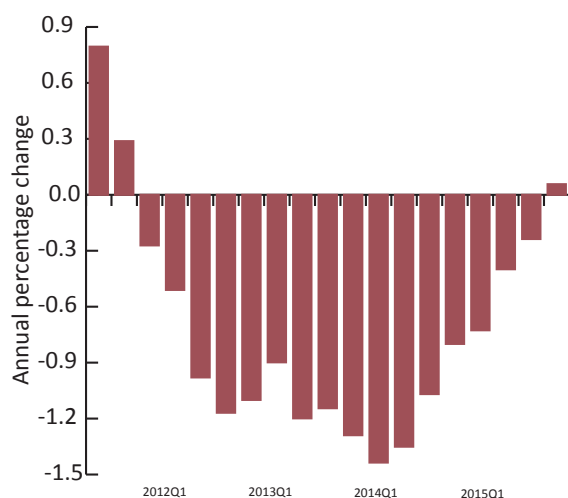
2.3 Population

Guernsey's most recent population data, for the fourth quarter of 2015, shows that the population grew by 0.4% in the year ending December 2015 (**figure 2.3.1**).

The level of net immigration has increased and rose to 107 people over the year ending December 2015 compared to an average level of net migration of 169 people per year over the last eight years. However, it should be noted that it is not unusual for net migration numbers to be revised slightly downwards at their second publication as more detailed information becomes available.

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 beyond the state pension age and out of the working age population, this has resulted in a sustained period of decline in the working age population (**figure 2.3.2**). However, the increase in net migration has resulted in a small, tentative net increase in the working age population over the year ending December 2015. While it has stabilised, the working age population in December 2015 was still 3.5% below its peak in 2011.

Figure 2.3.2 Working age population



Although population data for the first half of 2016 is not yet available, the more recent data on employment trends presented over leaf would support an expectation that net migration has continued an upward trend in the first half of 2016. If this is the case, subsequent data could show the working age population making up more ground.

With the greater availability of data in the last seven years, it has become apparent that levels of net migration are closely tied to economic performance. Weak economic growth is therefore a risk to the maintenance of the size of the working age population.

2.4 Workforce and earnings

Workforce numbers (available up to the second quarter of 2016) have been revised to reflect an improved data set since the last publication of this bulletin. The data now shows a strong and increasing growth in employment through the latter half of 2015 and the first half of 2016 (**figure 2.4.1**). It is estimated that employment levels have recovered to a level similar to that in 2008.

The headline growth in total employment reflects growth in the number of employees in the year ending June 2016. Self-employment, however, continues to decline, falling by 0.6% year on year in June 2016. The number of men in self-employment has shown a consistent downward trend for five years. This likely reflects the continuing lack of activity in the Construction sector, the sector with the largest number of self-employed, described in section 3.3. Women make up less than a quarter of all self-employed people in Guernsey, but, in contrast to the trends in self-employment among men, their numbers have grown year on year in the last two reported quarters.

At the end of the second quarter the registered unemployment rate was 1.2% (**figure 2.4.3**) and has been relatively stable at about this level for four years. 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 previous decade.

Figure 2.4.1 Total employment growth

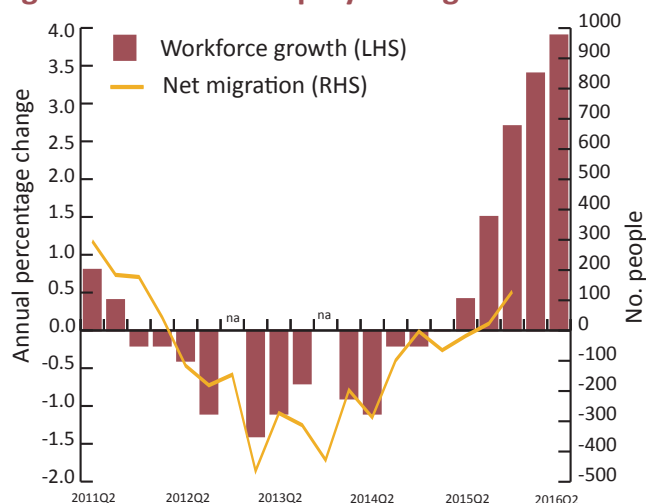


Figure 2.4.2 Participation in employment or and self-employment

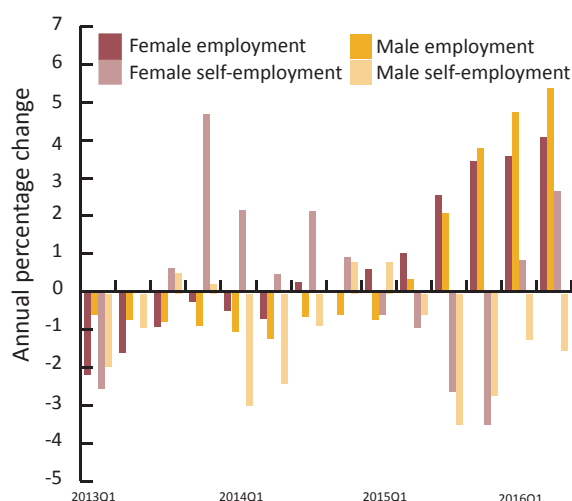
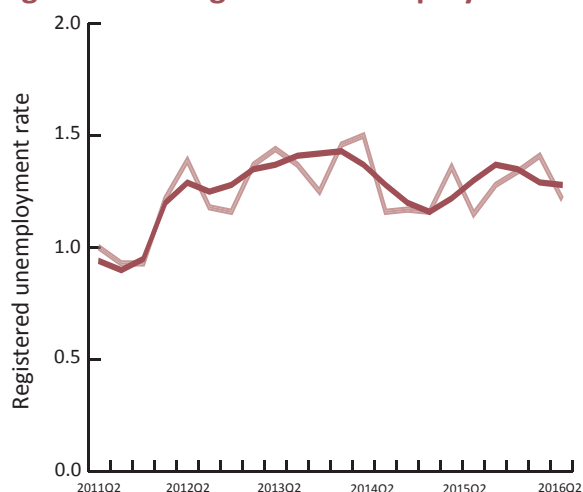
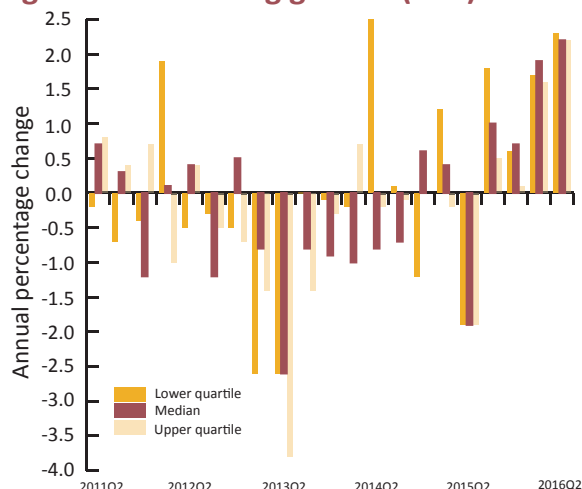


Figure 2.4.3 Registered unemployment



2. Macroeconomic indicators

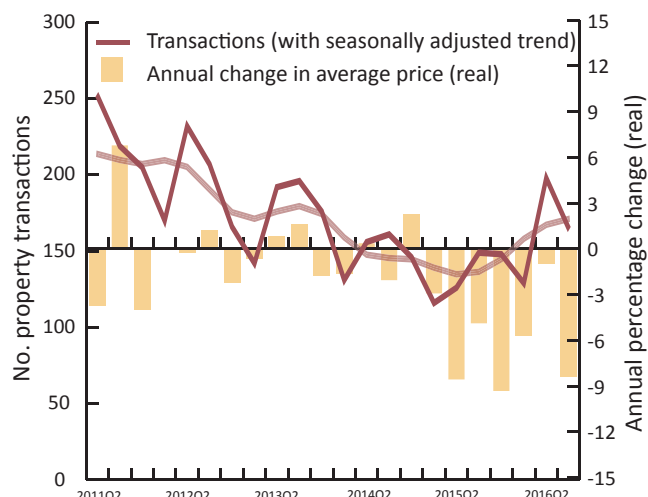
Figure 2.4.4 Earning growth (real)



Real (above inflation) growth in median earnings for employed individuals continued to strengthen in June 2016, with an increase of 2.2% on the previous year (**figure 2.4.4**). This fourth successive quarter of year on year growth points to a more established recovery. Combined with the increase in employment this should indicate an improvement in income tax revenues for 2016.

Earnings at the lower and upper quartile (that is when ranked in ascending order earnings of an individual at the top of the bottom quarter and the bottom of the top quarter) are also increasing in real terms and the rate of growth has strengthened.

Figure 2.5.1 Local property market

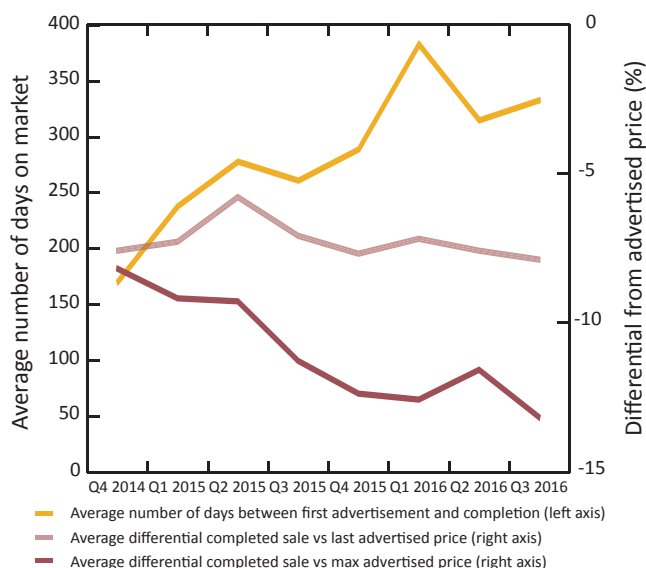


It should be noted that median earnings data in Guernsey are not adjusted for working hours (as they are in larger jurisdictions). As a result movements in median earnings can result from changes in both salaries and wage rates and changes in working hours. Changes in working hours are more likely to 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 September 2016, continue to show some signs of stabilising, however, the picture remains mixed. The average purchase price is still falling in real terms but the third quarter of 2016 saw a second year on year increase in the transactions volume (**figure 2.5.1**).

Figure 2.5.2 Local market discount rate and sale period



Additional statistics published by the Data and Analysis Unit for the first time in November 2016 imply that the sustained weakness in the housing market is resulting in more competitive or realistic behaviour. Over the last two years the average length of time taken for a property to sell has generally increased and this has been matched by a decrease in the final sale price relative to the price at which properties are first advertised (**figure 2.5.2**).

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 second quarter of 2016 both total employment and real median earnings in the Finance sector showed modest annual growth of 1.2% and 1.4% respectively (**figure 3.1.1**). This is the fifth successive quarter to show real growth in earnings and employment, suggesting that conditions in the sector as a whole continue to improve.

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**) but total employment in the sub sector was almost unchanged on the previous year (**figure 3.1.3**).

Employment in Fiduciaries has shown a marked increase over the last two reported quarters and its expansion means that it is now the second largest sub-sector in terms of employment, behind investments, having exceeded the number of people employed in Banking.

The net asset value of international insurance business in Guernsey has also trended upwards and had increased by 0.8% in 2015. After a strong second half to 2015, employment in insurance has declined in the first half of 2016.

The total sterling value of banking deposits has stabilised over the last 18 months with a marginal increase through the second and third quarters of 2016 reflecting in part the increase in the sterling value of currency deposits as a result of the depreciation of sterling. However, employment in the banking sub-sector continues its slow decline with a number of mergers and cost reduction measures keeping employment low.

* data published by the Guernsey Financial Services Commission

Figure 3.1.1 Finance: employment and earnings growth

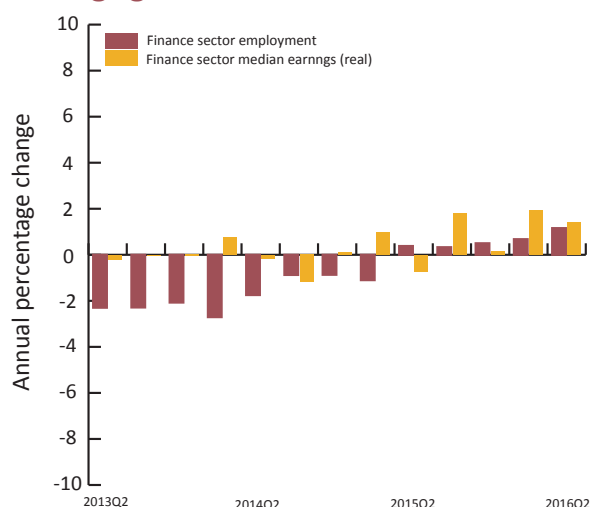


Figure 3.1.2 Finance: sub-sector values*

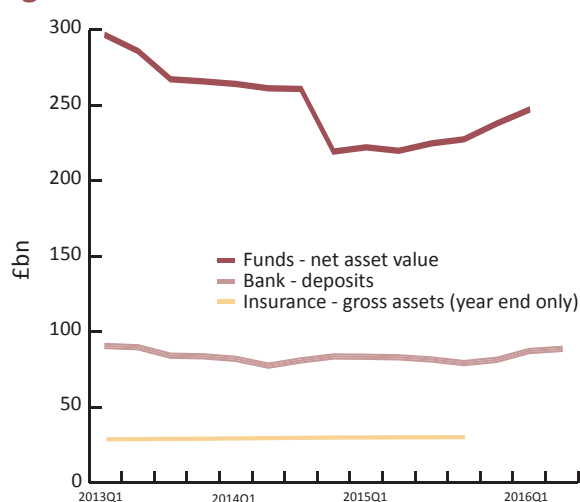
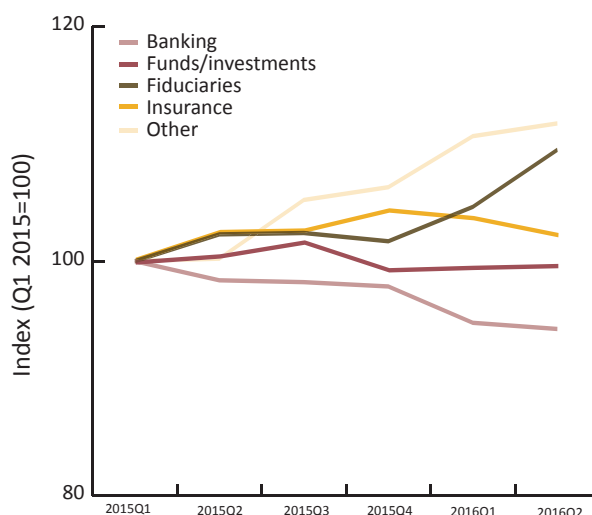


Figure 3.1.3 Finance: sub-sector employment



3. Business sector indicators

Figure 3.2.1 Professional and business services: employment and earnings growth

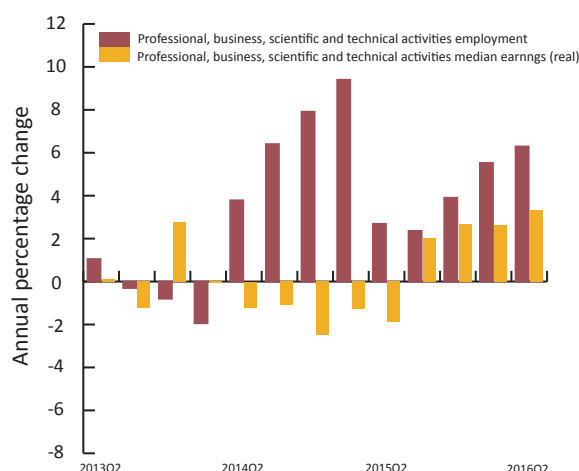


Figure 3.2.2 Information and communications services: employment and earnings growth

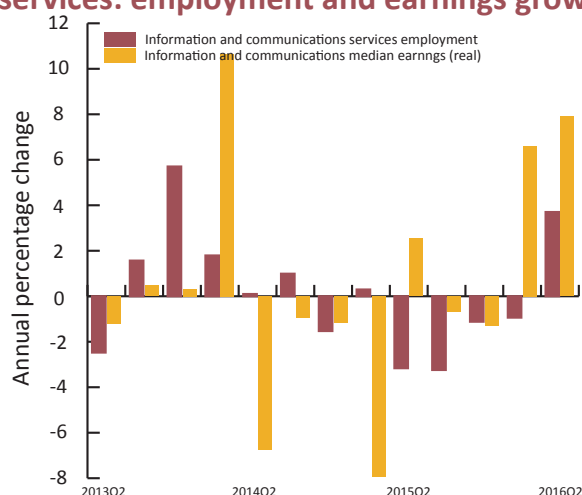
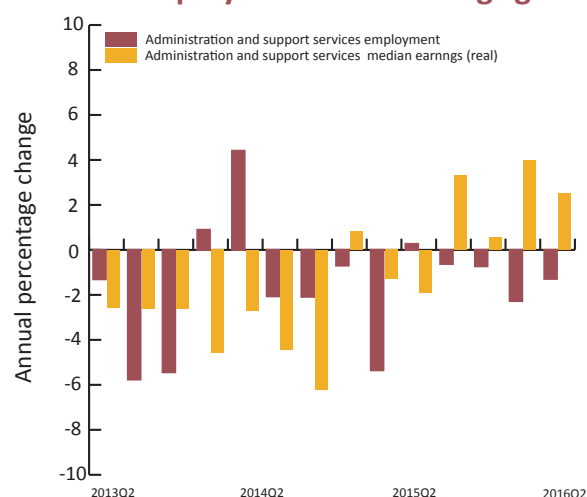


Figure 3.2.3 Administration and support services: employment and earnings growth



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, was largest employer of graduates in 2014 and 2015. The sector has been growing strongly over the last two years and this continued into the middle of 2016 (**figure 3.2.1**). Median earnings in this sector have been growing year on year since mid 2015 and grew by 3.3% in the year ending June 2016.

There has been year on year employment growth in all the sub-sectors under Professional, business, scientific and technical activities, but the growth has been strongest in Management and consultancy activities, which has grown by 79 employees (13%) over the year ending June 2016. While the growth in regulation and reporting requirements is likely to have subdued growth in the Finance sector since the financial crisis, it has provided new opportunities for consultancy and management business in the provision of compliances services.

Employment and median earnings in Information and communication have been volatile over the past three years, but year on year both had increased in June 2016 (**figure 3.2.2**). The employment growth in this sector is associated with Publishing activities, programme production, sound recording, broadcasting, while the earning growth is driven by the Telecommunications sub sector.

Employment in Administrative and support service activities (including human resources support, cleaning and security activities) declined by 1.7% over the year ending June 2016 although median earnings continued to increase (**figure 3.2.3**). Both the decline in employment and the increase in median earnings are fairly evenly distributed across the sector.

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**). The fall in employment is focused in the general construction of buildings, roads and utility with employment in sub-sectors covering more specialist activities (plumbers, electricians etc.) remaining stable. This change in distribution may have pushed median earnings upwards. The outlook for this sector is dependent upon investment in larger scale construction projects.

Employment in Wholesale, retail and repairs has shrunk by just over 10% since its peak in 2011 but appears to have stabilised during the first half of 2016. (**figure 3.3.2**).

3.4 Hostelry and visitor movements

The Hostelry sector captures all hotels and visitor accommodation in Guernsey as well as bars and restaurants. This sector is heavily reliant on seasonal workers and short term licence holders in particular. 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 slightly downwards.

Earnings in the sector have been trending upwards in real terms for almost 3 years. However, median earnings in the sector are still among the lowest in the economy.

Figure 3.3.1 Construction: employment and earnings growth

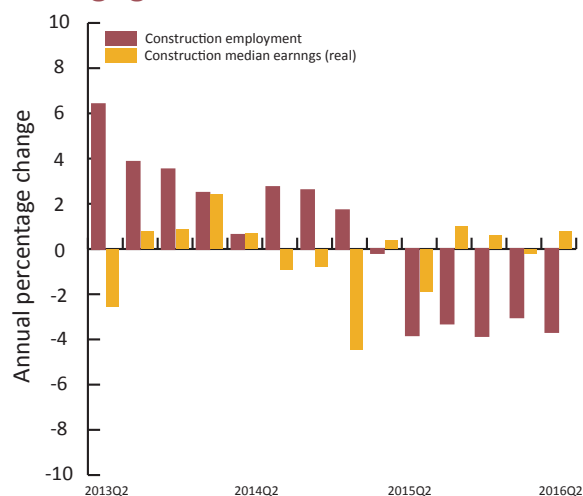


Figure 3.3.2 Wholesale retail and repairs: employment and earnings growth

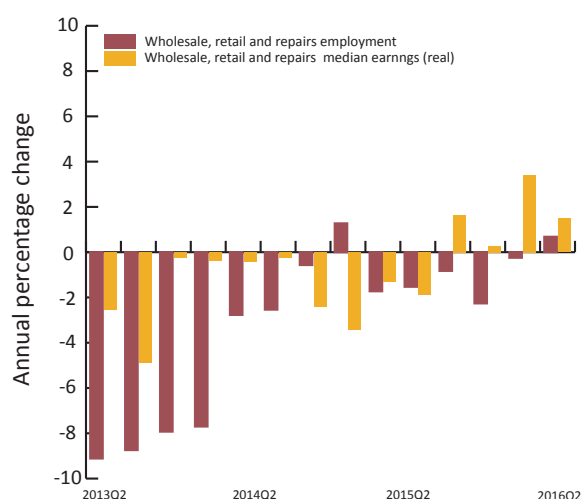
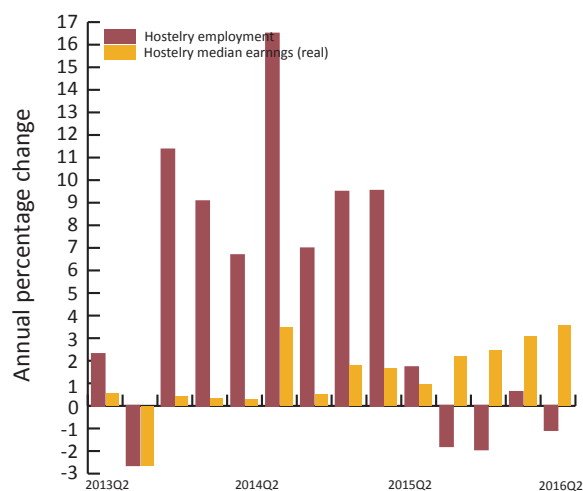


Figure 3.4.1 Hostelry: employment and earnings growth



3. Business sector indicators

Figure 3.4.2 Visitor departures and cruise passengers

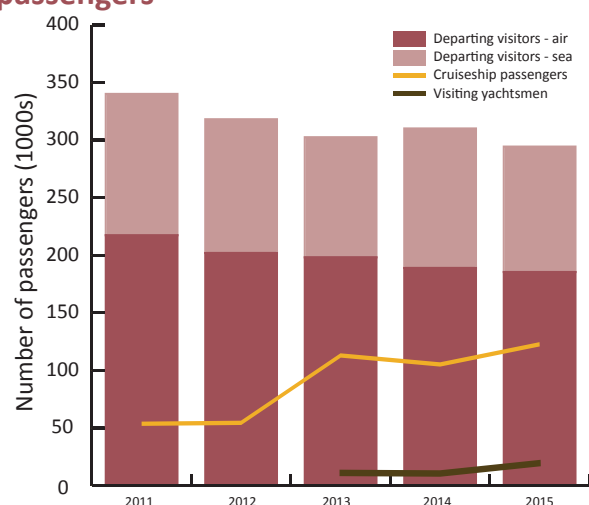
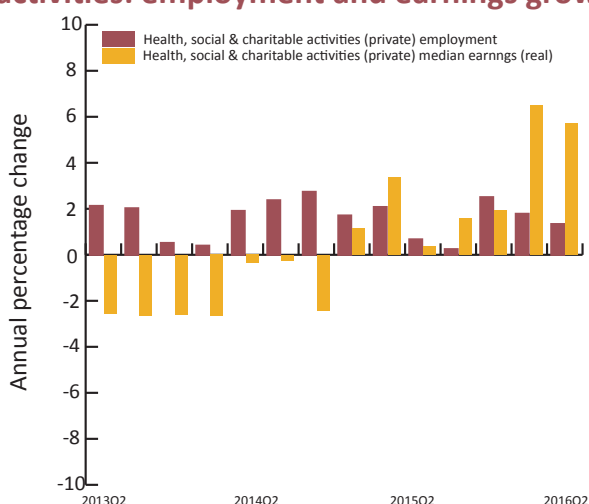


Figure 3.5.1 Health, social and charitable activities: employment and earnings growth



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.

Statistics for the year to date (to September 2016) show that visitor number for 2016 are just over 5% below 2015, despite the depreciation of sterling during the summer. However, given that people typically plan holidays several months in advance, the impact of depreciation of sterling may have a more positive effect on visitor numbers in 2017, assuming there are appropriate transport links to facilitate this.

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 employment and earnings in this sector have been growing for some time and the growth in this sector is largely independent of other movements in the economy.

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.

