

Guernsey Quarterly Inflation Forecast

Quarter 2 2017

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Policy & Resources
Committee

1.1 Introduction

The Inflation Forecast Bulletin provides 12 month forecasts for the primary inflation measures used in Guernsey: RPIX and RPI. Forecasts are based on historical trends, expectations of inflation in the UK, and forecast movements in the price of key commodities. Forecasts are revised and published on a quarterly basis in the month following the Policy Council's publication of the Guernsey Inflation Bulletin.

NB - Forecasts are presented with statistical confidence (or error) bands (the shaded area). These represent the range of possible outcomes with (in this case) a 30%, 60% and 90% statistical certainty.

1.2 Forecasts

- Both RPIX and RPI were at the upper end of the forecast range in March 2017, the annual change in each having increased by more than 1 percentage point on the previous quarter.
- Depreciation of sterling continues to feed into higher prices and the effect is likely to continue for some months more. Increases in median earning may also be contributing to higher prices.
- In line with UK CPI forecasts, domestic inflation rates are expected to continue rising for the next two quarter to three quarters, peaking in the region of 4% in late 2017 or early 2018.
- **Key factors include:**
 - Improved short term growth expectations but continuing uncertainty in the medium term, which is likely to increase inflation in the short term.
 - An ongoing policy statement by the Bank of England in February that, given the exceptional circumstances, they may likely choose a slower return to target inflation levels than would ordinarily be the case. Neither further tightening or loosening of monetary policy has been ruled out, and will likely depend on progression of key indicators such as real earnings and consumption growth in the UK.

Figure 1.1: Forecast Guernsey RPIX

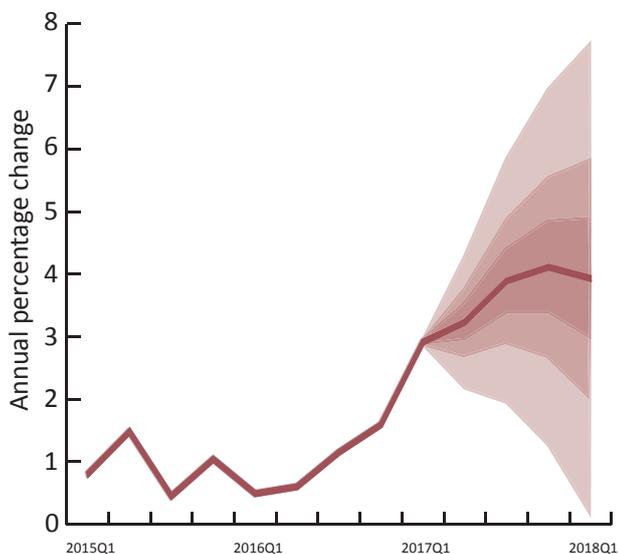
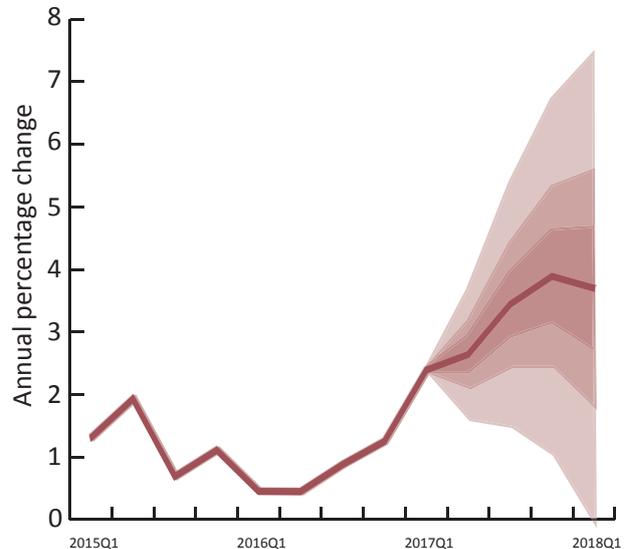


Figure 1.2: Forecast Guernsey RPI



1.3 Contact Details

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Routine statistical publications, including quarterly publication of inflation statistics, are issued by the States of Guernsey Data and Analysis Services. These publications are available online at www.gov.gg/data.