

Guernsey Economic Overview

Issue date: 22 May 2018

The Guernsey Economic Overview brings together the most recent official 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 Strategy and Policy 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 summary of current economic conditions in Guernsey and, where appropriate, offer thoughts on 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

- Current statistics show a mixed picture of the economy, which largely mirrors conditions reported in the UK.
- Low levels of net emigration continued through the year ending June 2017, but the impact of this on the workforce has been counter balanced by an increased level of workforce participation. As a result, despite the continued fall in the size of the population between compulsory school age and state pension age, the total size of the workforce has continued to grow.
- Low unemployment and growing employment in Guernsey has not led to an increase in wage inflation, as would normally be expected. The most recent published statistics for 2017 Q4 report growth in median earnings in Guernsey at a slower rate than inflation resulting in a fall in median earnings in real terms by 0.5%. Similar patterns have been observed in the UK and US.
- Measures of price inflation (RPIX and RPI) continue to broadly follow trends in the UK, but recent inflation rates are noticeably lower than the UK's comparable measures. Guernsey RPIX in March 2018 was 1.9% compared to a UK equivalent of 3.4%. This suggests that, over time, the price differential between Guernsey and the UK has closed in some areas.
- Local market house prices showed signs of stabilising through 2017. The number of quarterly property transactions increased and prices grew in nominal (but not real) terms, indicating an improved level confidence. However, a year on year decline in the transactions and a fall in real prices in the first quarter of 2018 suggests that the recovery of the housing market is still fragile.
- Data on finance sector activity suggests conditions within the sector are mixed. Data for the sector as a whole show a reduction in employment during 2017, likely due in part to the completion of restructuring activities that have been ongoing for some time. However, the statistics also show that the insurance sub-sector had a particularly successful 2016 and indications are that growth in the sector continued in 2017.
- Elsewhere in the economy, the Professional and business services sector continues its steady expansion, although the rate of employment growth has slowed. The Construction sector appears to be showing some signs of stabilising with a small increase in total employment in the sector over the year ending December 2017.
- The number of staying visitors that arrived in Guernsey in 2017 was up 2.7% on the previous year suggesting an improvement in terms of the core business of the Hospitality sector. However, this was not reflected in employment data which showed a small annual reduction in the number of people employed during 2017.

2. Macroeconomic indicators

Figure 2.1.1 Gross Domestic Product

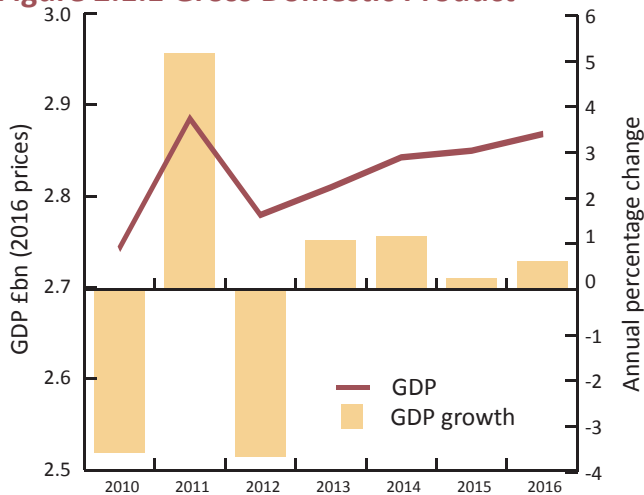


Figure 2.1.2 Factor income per worker

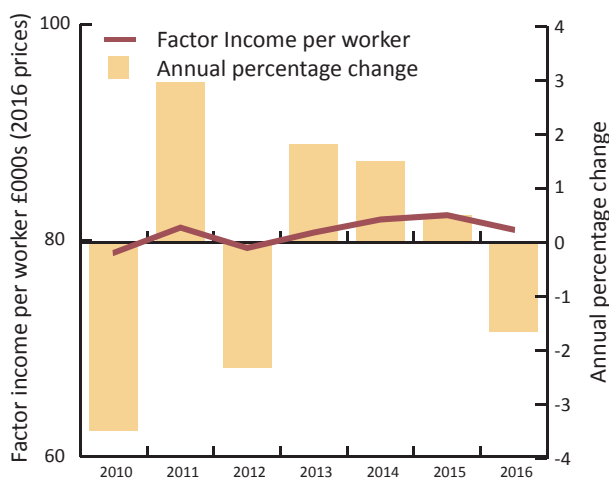
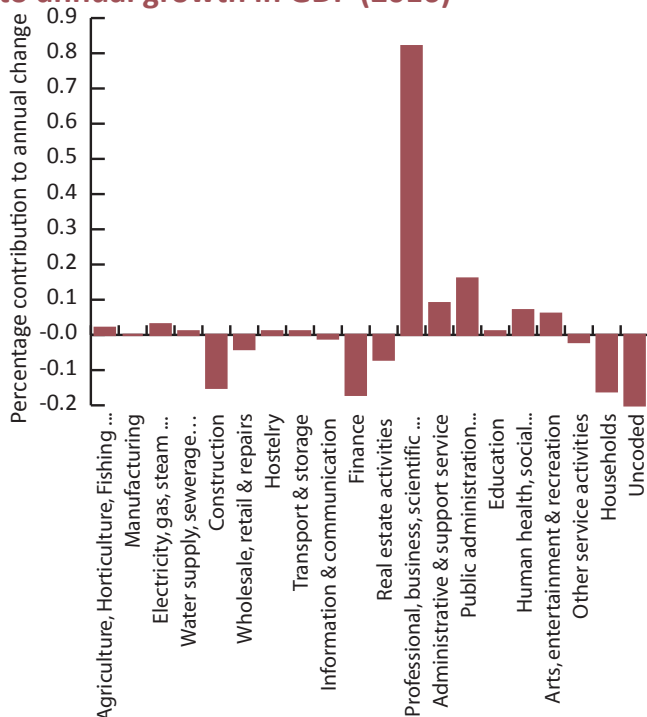


Figure 2.1.3 Contribution of economic sectors to annual growth in GDP (2016)



2.1 Gross domestic product (2016)

As part of the on-going development of the statistical framework, Guernsey's GDP data was subject to a major review in 2017 resulting in significant revisions to the level and growth patterns of GDP. The revised data (**figure 2.1.1**) shows Guernsey to have shown very little cumulative growth over a seven year period. This comprises a period of high volatility between 2009 and 2012 followed by a period between 2013 to 2016 showing modest but more consistent growth.

Factor income per worker is the amount of GVA output product per person employed in the active sectors of the economy (**figure 2.1.2**). This is the best available proxy for productivity and shows that Guernsey appeared to make respectable gains in productivity in 2013 and 2014, but that current estimates for 2016 show a fall of 1.6%.

The majority of GDP growth in 2016 can be attributed to the Professional, business, scientific & technical activities sector (**figure 2.1.3**) which contributed 0.8% to GDP growth for 2016. While this sector is the third most productive in the economy, GDP per worker generated is slightly lower than the economy average, which is dominated by the large and highly productive Finance sector. The shift in distribution from Finance to Professional and business services is therefore likely to exert a downward pressure on aggregate productivity. However, despite the possible negative impact on productivity, this diversification should be considered positively in terms of improving economic resilience.

The workforce numbers on which factor income per worker is based are not adjusted for working hours as this data is not currently available. While the data shows an increase in the number of people working, if there has been a shift in the proportion of people working part time, which is possible in the context of an aging workforce, this might produce a downward pressure on factor income per worker.

Data for 2017, including current estimates of government revenues for the year suggests that growth continued through 2017, with the positive impact of the strengthening of the global economy tempered by the uncertainty created by the UK's ongoing Brexit negotiations.

2. Macroeconomic indicators

2.2 Inflation

After rising sharply in the first half of 2017 headline price inflation measures in Guernsey fell unexpectedly over the second half of the year (**figure 2.2.1**). The deviation of inflation in Guernsey from UK trends highlights a change in the relationship between local and UK inflation.

Prior to the financial crisis inflation measures in Guernsey were typically 0.5% to 1.0% higher than equivalent measures in the UK. However, since 2009 both RPIX and RPI measures have tended to be lower than the UK equivalents. The implication of this is that over the past eight years the cumulative increase in the price level measures on a comparable basis has been significantly lower in Guernsey than in the UK (**figure 2.2.2**). This suggests that the acknowledged difference in prices between the UK and Guernsey should have narrowed.

However, the differences in the level of inflation in the UK and Guernsey are not consistent across product types. For example, over the last three years trends in food prices between the two jurisdictions have been similar, whereas the price of heating fuels and electricity have increased by about three percentage points more in the UK than they have in Guernsey.

Looking forwards, central forecasts suggest that RPIX should remain at about its current level for the next quarter before rising again later in the year (**figure 2.2.3**). Recent reports suggest that the Bank of England may choose to raise interest rates again during 2018, with an increase possible as early as May. Should an interest rate rise be made early it may push inflation forecasts for the end of 2018 slightly downwards.

Figure 2.2.1 RPIX in Guernsey, Jersey and UK

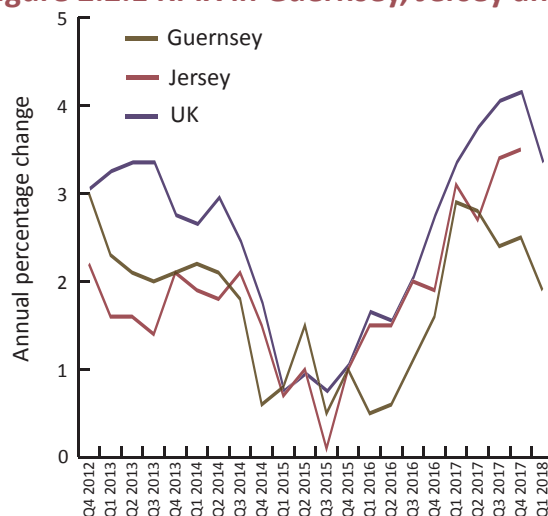


Figure 2.2.2 RPIX (index 2009 = 100)

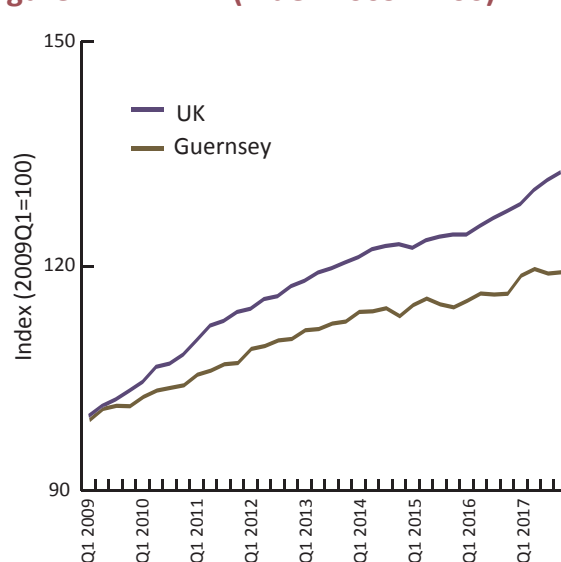
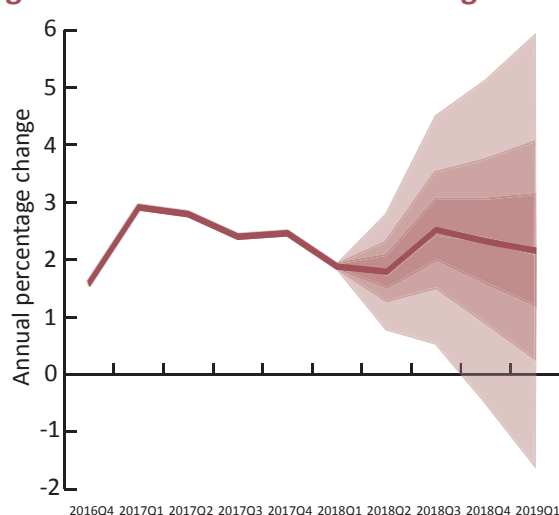


Figure 2.2.3 Forecast annual change in RPIX



2. Macroeconomic indicators

Figure 2.3.1 Annual migration

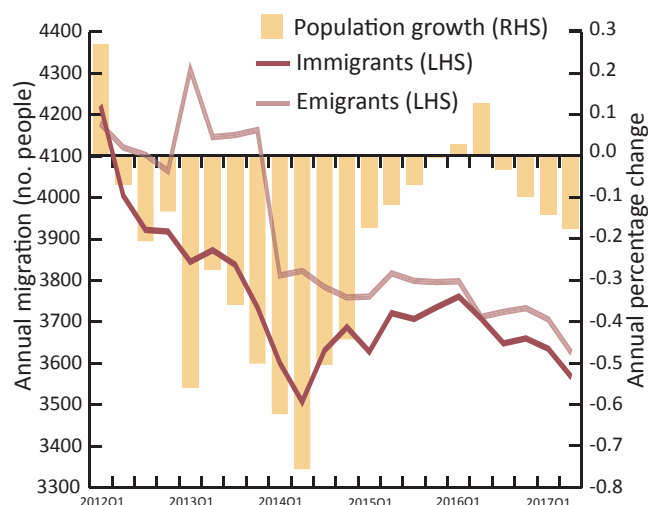


Figure 2.3.2 Natural population changes

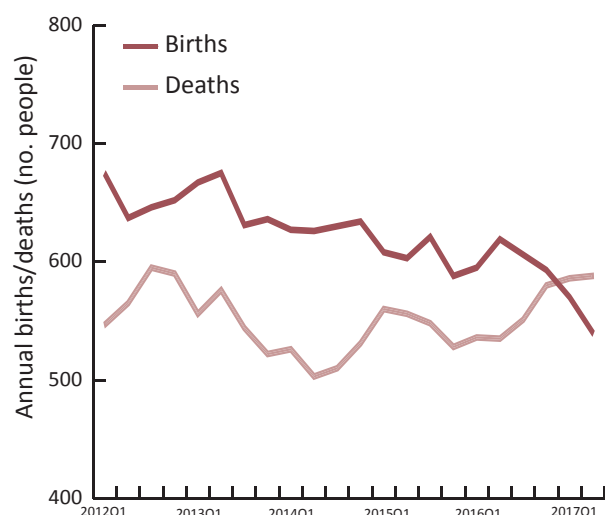
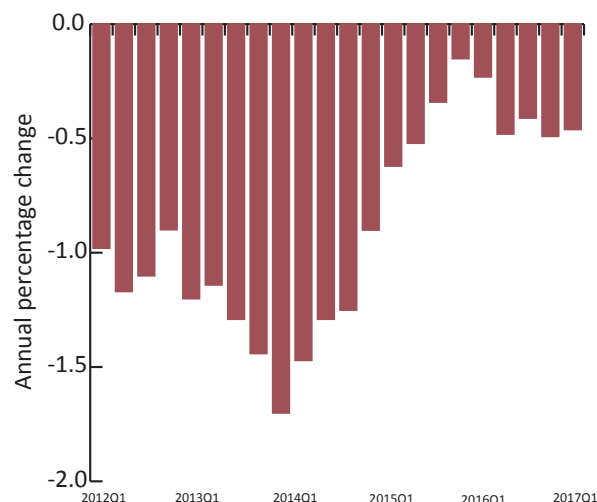


Figure 2.3.3 Population aged 16-64



2.3 Population

As at the end of June 2017 (the latest available data) Guernsey's population was contracting (**figure 2.3.1**). The annual decrease in the population reported for the year ending June 2017 was a result of both a net emigration of people from the island and a natural decline in the population (**figure 2.3.2**).

The number of people emigrating from Guernsey continues to exceed those immigrating. Net emigration is significantly reduced since 2014 and 2015 however continuing low levels of net emigration could present fiscal and economic challenges if it continues in the medium term.

Natural declines in the population have occurred on a few isolated occasions in the past, usually associated with severe flu seasons and a spike in winter deaths. However, the trends show that the typical variance between annual births and deaths has been closing over the past five years. In the long term the aging of the population is likely to increase the number of deaths and the upward trend is expected to continue until the middle of the century.

The number of women of child bearing age has reduced and is expected to continue to fall. As a result, the fall in the number of births in Guernsey is also expected to continue unless fertility rates increase from their current level. These factors combined mean that the natural decreases in the population are likely to become more common and, may become the norm in the medium term.

The aging of the population and net emigration continue to exert downward pressures on the population above compulsory school age (16) and below the States pension ages (currently 65) typically referred to as the working age population (**figure 2.3.3**). The cumulative impact of the continuing downward trend is a 5% reduction in the size of the working age population between 2012 and 2018. This has been offset by an increase in workforce participation rates, particularly between 2016 and 2017 (see **section 2.4**).

2. Macroeconomic indicators

2.4 Workforce and earnings

Despite net emigration and the decline in the working age population, the total number of people engaged in the workforce has increased in the last two years (**figure 2.4.1**). Over the year ending December 2017, the total number of people in the workforce had increased by 1.1%.

Increases in participation rates among both men and women have more than compensated for the decline in the working age population (**figure 2.4.2**). The registered unemployment rate has also fallen to below 1% (**figure 2.4.3**). The increase in the percentage of people engaged in the workforce is most noticeable among younger and older age groups. The increase in participation among those aged 20 to 29 is consistent with falling unemployment. The participation rate for 25 to 29 year olds is now approximately the same as the core active age groups (aged 30 and 49) and any further increase in participation among these age groups is likely to be slower.

Participation rates typically tail off as people approach state pension age. However, a significant increase in participation among those aged 55 to 64 has meant this tailing off has become less pronounced. The number of people working beyond state pension age also appears to be increasing. There are several possible contributory factors:

- improvements in health, wellbeing and standards of health and safety mean some people are fit enough to work longer than they may previously have done;
- evaporation of capital in the financial crisis and the shift away from defined benefit pensions means some people may have fewer resources available to retire early;
- the low interest rate environment makes it difficult to achieve sufficient investment return to supplement income which may discourage early retirement;
- people may be opting to delay early retirement in anticipation of the increase in the pension age from 2020; and
- the progression of a generation of women more engaged in the workforce through the age profile will have pushed female participation upwards.

Figure 2.4.1 Total employment growth

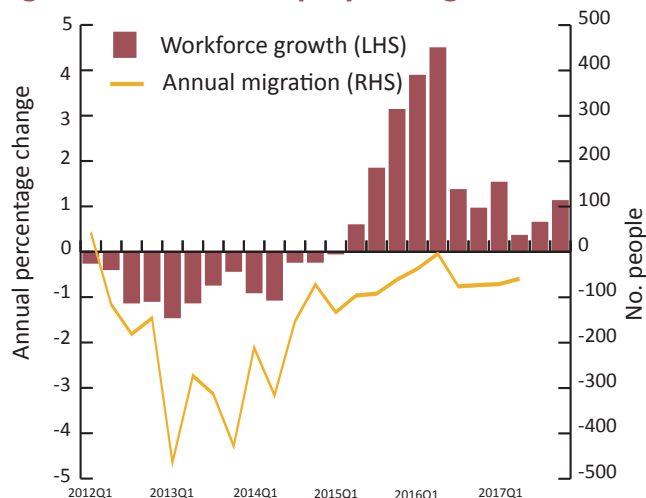


Figure 2.4.2 Participation in employment (% of total population aged 16+)

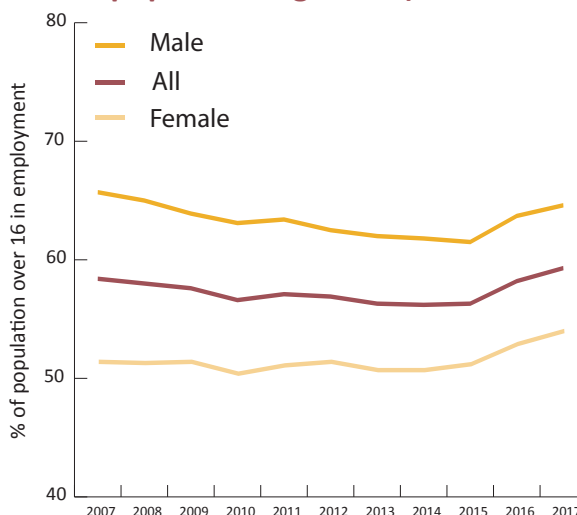
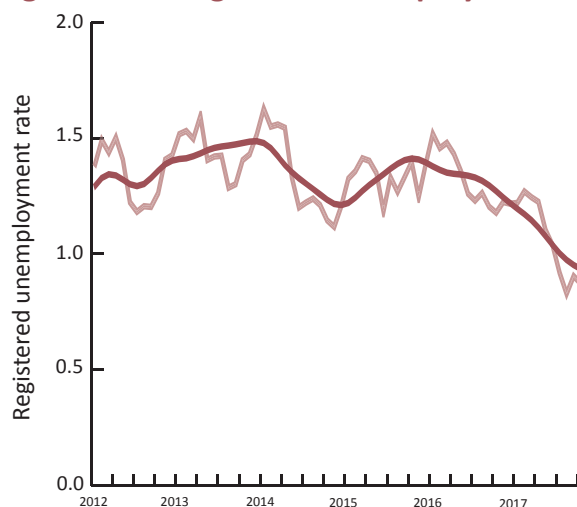
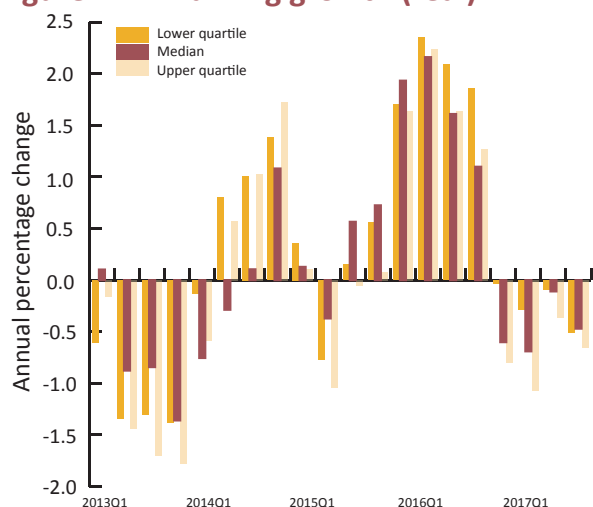


Figure 2.4.3 Registered unemployment



2. Macroeconomic indicators

Figure 2.4.4 Earning growth (real)

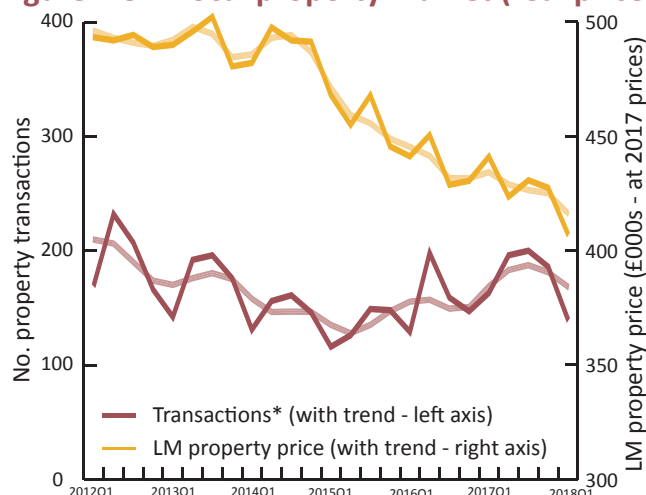


Real median earnings growth in Guernsey was largely negative throughout 2017 after a period of strong growth in 2015 and 2016. This fall in real earnings has occurred despite falling unemployment and rising employment, which basic economic theory suggests would place an upward pressure on wages.

This apparent disconnect between the price of labour and demand is not unique to Guernsey. Similar trends have been reported in the UK and the US and seem to suggest a structural change in the functioning of the international labour market.

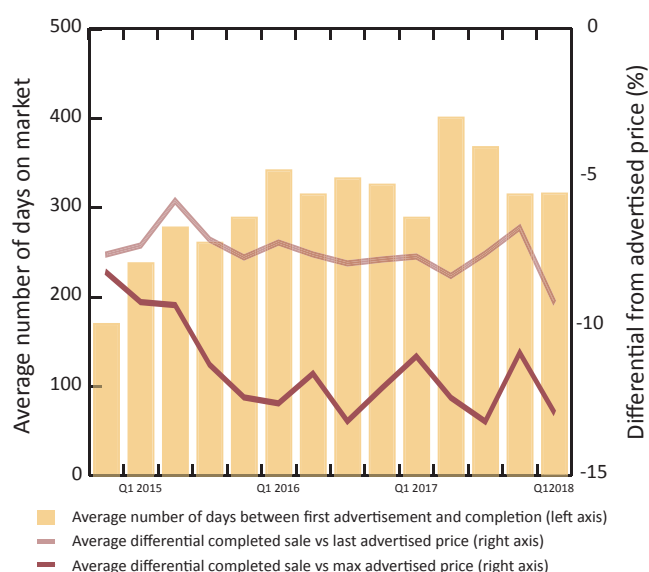
2.5 Property market

Figure 2.5.1 Local property market (real prices)



Guernsey's local residential property market had shown signs of stabilising through 2017. The upward trend in sales* continued and a prices showed a nominal increase. As a result the rate of decline real in prices (after adjustment for inflation) slowed (**figure 2.5.1**). The improvement in the number of transactions during 2017 will have made a significant contribution to the improvement in government revenues for 2017 and could be viewed as a sign of improved confidence. The length of time properties are on the market before the completion of a sale would appear to have stopped increasing and the discount rate (the differential between the advertised price and the recorded sale price) also appears to have stabilised (**figure 2.5.2**).

Figure 2.5.2 Local market discount rate and sale period



However, statistics for the first quarter of 2018 showed a fall in transaction numbers compared to the previous year and larger fall in prices year on year. The setback in the first quarter may be temporary- it is too early to confirm- but it does illustrate that conditions are still fragile.

The open market is typically too small for much meaningful analysis with measures of average prices very heavily influenced by the profile of properties sold each quarter. Broadly speaking, the number of transactions* in the open market seems to be increasing, with more properties sold during 2017 than in any of the three preceding years. However, like the local market, transaction numbers remain significantly below the levels recorded at the height of the property market (c2007).

*Data on transaction numbers exclude transactions between family members, exchanges, reposessions and by share transfer

3. Business sector indicators

3.1 Financial services

Financial services (not including accountancy and legal services) is the largest sector in Guernsey economy and comprises 21% of employment in Guernsey and 40% of GVA.

The most recent statistics show a decrease of 1.1% in the number of people employed in Finance over the year ending December 2017 (**figure 3.1.1**). This is believed to be in part a result of ongoing restructuring in the local industry, including the completion of company mergers.

Median earnings in the finance sector are the highest in the economy at £42,900 per annum. Earnings in the sector continue a general modest upward trend in real terms.

Banking

The underlying performance across the four primary sub-sectors differs. Data published by the Guernsey Financial Services Commission (GFSC) shows the total sterling value of Banking deposits in Guernsey had declined by 1.9% in nominal terms by the end of 2017 (**figure 3.1.2**). Exchange rate effects, particularly the recovery of sterling against the US dollar, will have exerted downward pressures on the sterling value of deposits held in Guernsey and will have contributed to this fall.

At a more detailed level it can be seen that the decline can be attributed to a fall in third party deposits (**table 3.1.1**), and those from financial corporations in particular. Other bank deposits are reported to show a healthy 6% annual growth in December 2017.

Funds

The net asset value of funds under management or administration in Guernsey had grown by £4bn over the year ending December 2017, bringing the total value of Guernsey and non-Guernsey funds managed or administered in Guernsey to £270bn.

Figure 3.1.1 Finance: employment and earnings growth

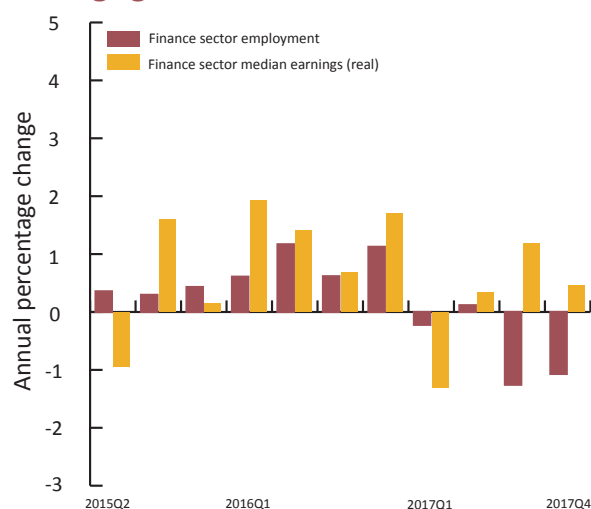


Figure 3.1.2 Finance: sub-sector asset values*

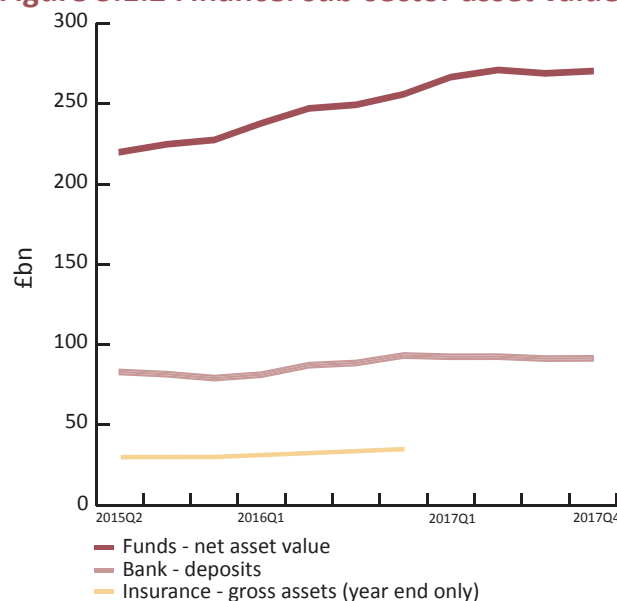


Table 3.1.1 Banking sector statistics*

	No. Banks	Bank deposits (£bn)	Third party deposits (£bn)	Total deposits (£bn)	Total liabilities (£bn)
Dec-16	25	47.5	45.7	93.2	119.7
Mar 17	24	46.4	46.1	92.5	120.0
Jun 17	24	47.0	45.5	92.6	120.7
Sept 17	24	46.1	45.5	91.3	119.1
Dec 17	23	50.4	41.1	91.5	118.7

* data published by the Guernsey Financial Services Commission

Table 3.1.2 Fund statistics*

	No. funds		Net asset value (£bn)	
	Dec 16	Dec 17	Dec 16	Dec 17
Open ended schemes	157	148	42.3	43.5
Closed ended schemes	650	658	159.4	166.5
Non-Guernsey open ended schemes	176	170	54.3	60.4

Table 3.1.3 Insurance managers, intermediaries and domestic insurers*

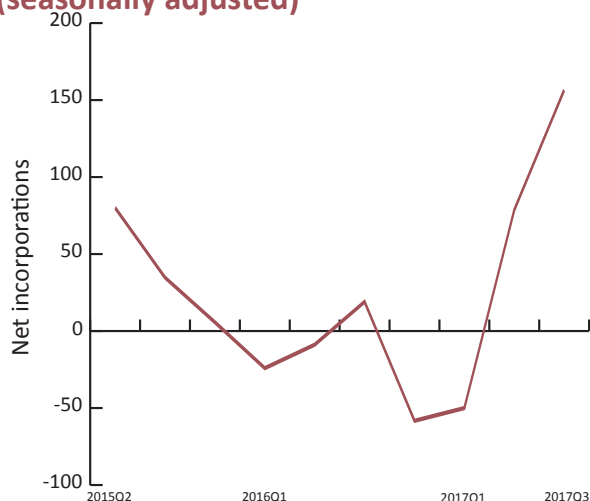
	Dec 16	Additions	Surrenders	Dec 17
Authorised managers	19	3	2	20
Insurance intermediaries	34	3	1	36
Domestic insurers	8	0	0	8

Table 3.1.4 Insurance vehicles*

	Dec 16	Additions	Surrenders	Dec 17
Companies	242	7	10	239
PCCs	65	1	5	61
PCC Cells	470	67	51	486
ICCs	14	1	0	15
ICC Cells	44	8	0	52
Total	835	84	66	853

Table 3.1.5 Fiduciary licences (Apr 2018)*

Lead licences	151
Joint licences	575
Personal licences	40
Total	766

Figure 3.1.3 Net company incorporations (seasonally adjusted)

Closed ended funds continue to comprise the majority of fund activity in Guernsey (**table 3.1.2**) and represent the largest growth area in the sub-sector. There was a net increase of eight closed ended funds during 2017 and the total net asset value increased by 5.7%.

The continuing strong performance of closed ended funds in Guernsey and a reduction in the number and value of open ended schemes since the financial crisis in 2008 has resulted in a substantial shift in the make-up of the sector over the past decade. The reshaping of the funds sector has resulted in an environment in which closed ended Private Equity funds now represent almost half the total net asset value of Guernsey registered funds.

Insurance

Data on the international insurance assets show a strong performance for the insurance sector in 2016 with a 20% nominal increase in gross assets. While data on insurance assets is not yet available for 2017, a net increase in the number of authorised managers and intermediaries and an increase in the number of insurance vehicles indicates that growth conditions continued in 2017 (**table 3.1.4**).

Fiduciaries

In April 2018, there were 766 authorised fiduciary licences in Guernsey (**table 3.1.5**) including 151 lead licences. Fiduciaries in Guernsey offer a wide range of services to international clients from private trust and wealth management to the provision of corporate services. A significant majority of company formations in Guernsey are operated by corporate service providers. A net increase in company registrations (**figure 3.1.2**) would support anecdotal evidence that conditions in the trust and fiduciaries are relatively strong.

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. Combined, these sectors represent 15% of the labour market in Guernsey.

Professional, business, scientific and technical activities

This sector (which includes specialist services such as accountancy, consultancy, legal and marketing services) is among the largest employers of graduates in Guernsey and has been one of the most consistent growth sectors in recent years. The sector continues to perform better than the economy as a whole. While growth rates have slowed, the number of people employed in this sector continues to increase (**figure 3.2.1**). Median earnings in this sector increased by 1.1% in real terms over the year ending December 2017.

Information and communications

Employment and median earnings in this sector (which includes IT support services, telecommunications and publishing activities) continues to be volatile (**figure 3.2.2**). This makes trends difficult to assess but the most recent data shows a contraction employment.

Administrative and support service activities

Employment growth in this sector (which includes human resources support, cleaning and security activities) continued over the year ending December 2017 (**figure 3.2.3**). Median earnings in the sector also continue to increase with median earning in the sector in December 2017 and were 11% higher than the same time the previous year. Both the increase in employment and the increasing earnings have been focused in employment activities. This suggests an increase in demand for recruitment services which is consistent with overall employment growth and demand for labour.

Figure 3.2.1 Professional and business services: employment and earnings growth

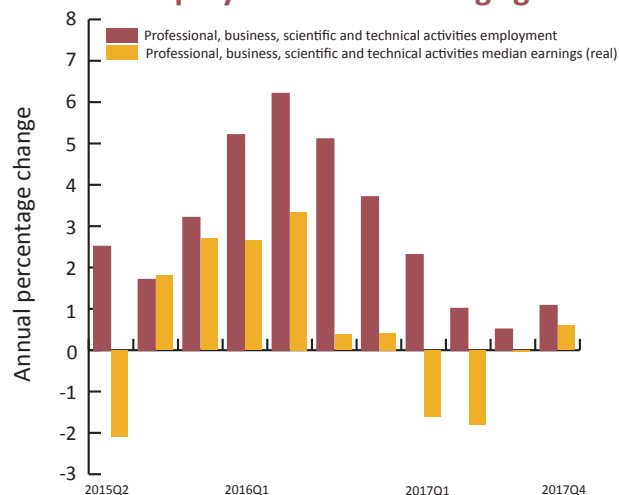


Figure 3.2.2 Information and communications services: employment and earnings growth

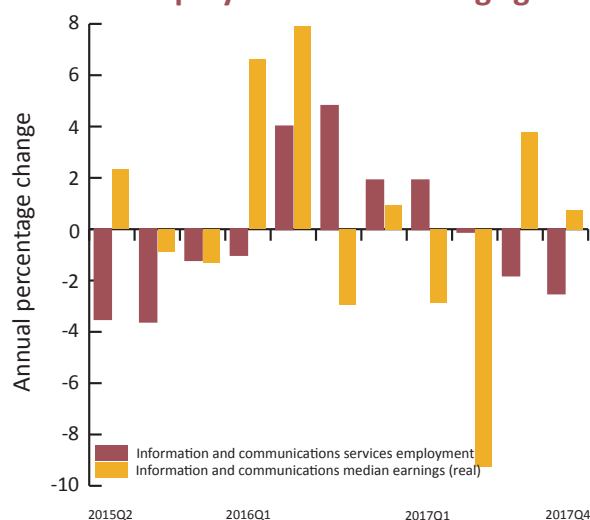
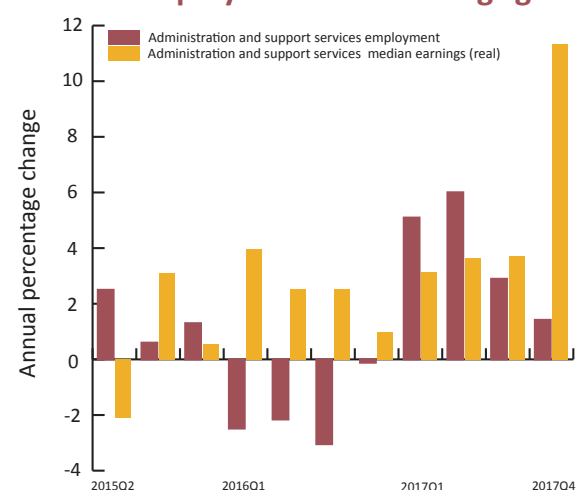


Figure 3.2.3 Administration and support services: employment and earnings growth



3. Business sector indicators

Figure 3.3.1 Construction: employment and earnings growth

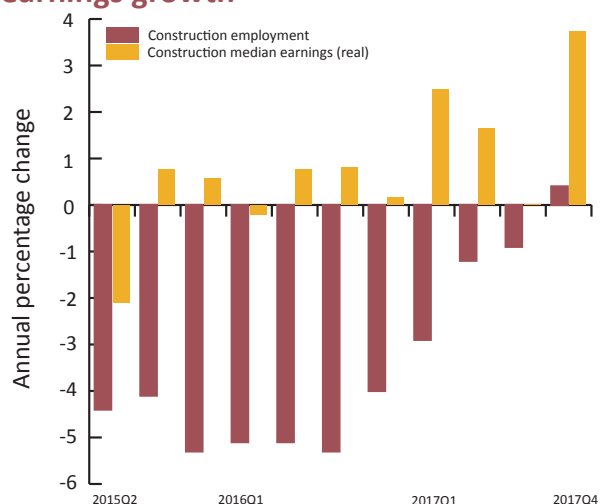


Figure 3.3.2 Wholesale retail and repairs: employment and earnings growth

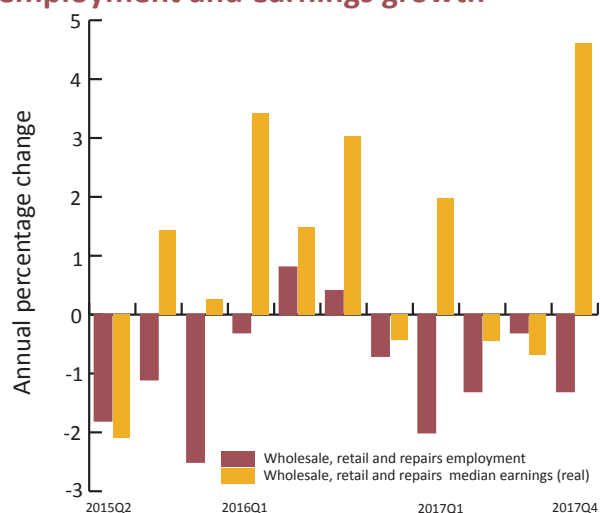
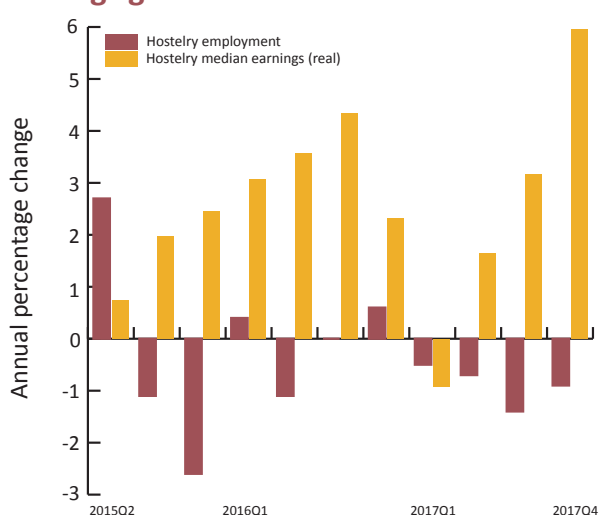


Figure 3.4.1 Hostelry: employment and earnings growth



3.3 Construction and Wholesale, retail and repairs

These two sectors comprise much of the domestic economy and comprise about 21% of total employment. They also employ a significant proportion of those who leave school before the age of 18.

Construction

The Construction sector has faced significant challenges in the last three years with a lack of large scale building activity resulting in a substantial loss of employment from the sector (**figure 3.3.1**). The small increase (0.4%) in employment over the year ending December 2017 was the first since 2014. Combined with a 3.7% real increase in median earnings in the sector over the same period, there is reason to believe that conditions in the sector may have stabilised.

Wholesale, retail and repairs

Employment in Wholesale, retail and repairs has been in general decline for some years, reflecting a global change in the way retailers operate and an increasing level of automation and online trading (**figure 3.3.2**). Annual changes in median earning have been fairly volatile over the past two years, but overall there has been a general trend of increasing median earnings in this sector.

3.4 Hostelry and visitor movements

Employment in hostelry, which is highly seasonal, continues a general downward trend (**figure 3.4.1**). However, real median earnings in the sector continue to increase at a rate substantially faster than the median for the economy as a whole. While the sector remains one of the lowest paying in the economy, the deviation of the sector from the overall median has lessened significantly.

Incorporating both the core visitors numbers and those arriving by cruise liners or on visiting yachts a total of 418,000 people visited Guernsey in 2017, approximately 2% fewer than the previous year (**figure 3.4.2**).

3. Business sector indicators

However, the overall decline was largely driven by a reduction in the number of cruise ship passengers landed in 2017. The number of staying visitors, who typically have the largest economic value, increased by 2.7% between 2016 and 2017 while the number of day trip passengers increased by 7.9%

3.5 Private health and social care and charitable activities

This sector covers the private provision of health and social care services, including 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.

Employment in this sector has been growing for some time (**figure 3.5.1**). Growth in this sector appears to be largely independent of other movements in the economy, but is likely to be driven instead by the change in the demographic profile. This sector is also reliant on inward migration for a significant proportion of nursing and care staff.

Figure 3.4.2 Visitor departures and cruise passengers

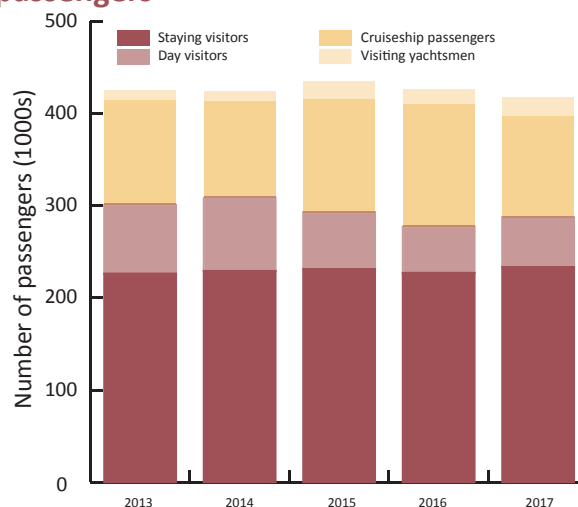
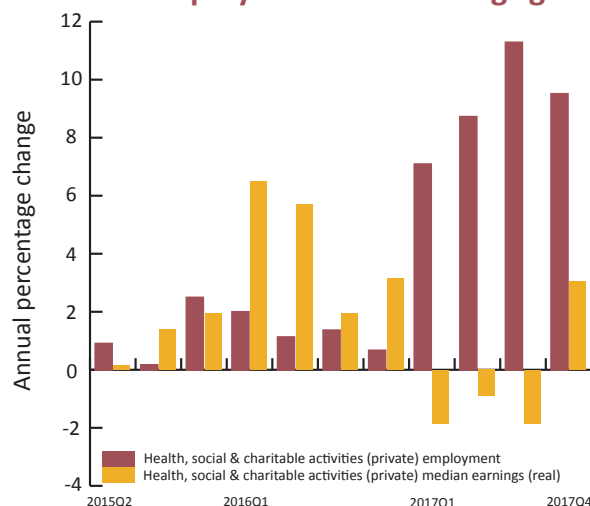


Figure 3.5.1 Health, social and charitable activities: employment and earnings growth



4. Contact details and other information

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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 marked with * are published by the Guernsey Financial Services Commission and available at www.gfsc.gg.

