

Guernsey Economic and Financial Stability Overview

Issue date: December 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

1.1 Introduction

The Economic Overview is compiled by the States of Guernsey and brings together government statistics (www.gov.gg/data) and statistics from the Guernsey Financial Services Commission (www.gfsc.gg). 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

- Publication of first estimates of GDP for 2017 show a healthy level of economic growth, primarily driven by growth in the finance sector. The rate of growth is expected to slow through 2018 and 2019.
- Inflation, as measured by the annual change in RPIX, has increased to 2.8% in September 2018 but remains low relative to equivalent measures published in Jersey and the UK.
- After a period of nearly 5 years of contraction, the population has begun to expand. This expansion is a result of a net immigration of 210 people to Guernsey over the year ending December 2017. Natural changes in the population continue to exert a downward pressure on the population.
- Total employment in Guernsey continued to grow over the year ending June 2018 but the rate of growth has slowed. Median earnings have increased by slightly more than inflation over the same period following a similar pattern to that reported in the UK.
- The third quarter of 2018 was the second busiest quarter for local market housing transactions since 2007. More than 250 transactions took place at market value in the three month period resulting in a significant increase in new lending. However, the increase in local market property prices still lags behind general price inflation, meaning that mix adjusted house prices are still falling in real terms.
- Finance sector GVA growth was strong in 2017. Employment in the sector has been influenced by a number of mergers over the past 18 months. Total employment in the sector in June 2018 was slightly lower than at the same time the previous year, but supporting data suggests that conditions are generally stable.
- The construction sector, which had experienced a contraction between 2015 and 2017, now shows signs of recovery with three consecutive quarters of year on year employment growth reported by June 2018.

2. Macroeconomic indicators

Figure 2.1.1 Gross Domestic Product

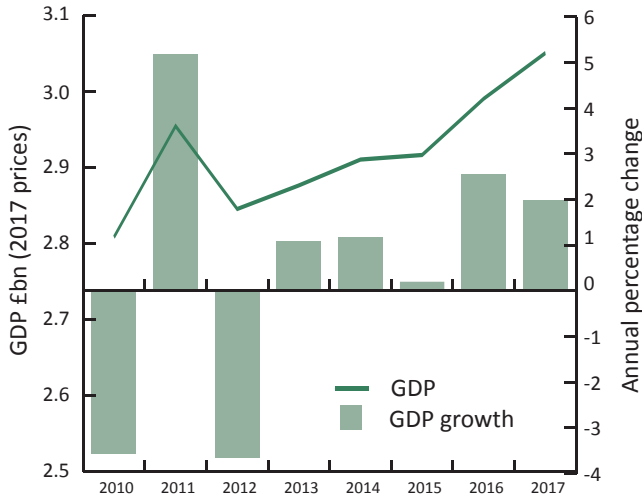


Figure 2.1.2 Factor income per worker (excl household sector)

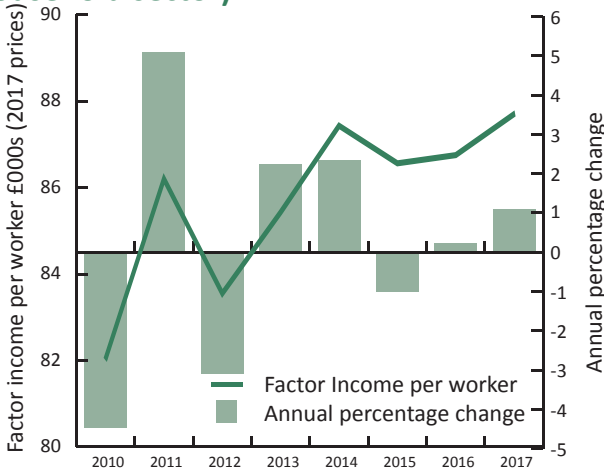
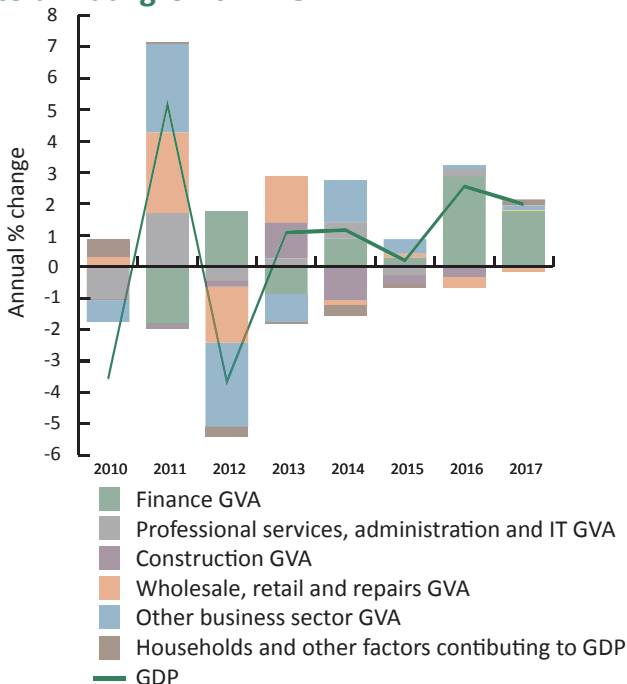


Figure 2.1.3 Contribution of economic sectors to annual growth in GDP



2.1 Gross domestic product (2017)

First estimates of GDP for 2017 show a healthy level of real growth. GDP in 2017 grew in real terms by 2.0% with GDP growth for 2016 revised upwards to 2.6% (figure 2.1.1). These two years of strong growth have increased GDP in Guernsey to more than £3bn.

Guernsey continues to sit consistently within the 20 richest jurisdictions in the world measured by GDP per capita. The island generated £49,000 of GDP per person in 2017, 2.4% more than the previous year.

Figure 2.1.2 presents the amount of GVA output product per person employed in the active sectors of the economy (excluding the household sector) (figure 2.1.2). This is the best available proxy for aggregate productivity in Guernsey. However, caution is needed because workforce data in Guernsey is not adjusted for working hours as it is in other jurisdictions. Current estimates for 2017 show a moderate level of growth of approximately 1.1%. The difference in the growth rates of headline GDP and this measure largely reflects growth in the workforce in 2016 and 2017.

The majority of growth in 2016 and 2017 can be attributed to growth in finance sector GVA which contributed 2.9% to GDP growth in 2016 and 1.8% in 2017 (figure 2.1.3). The amount of growth (or contraction) contributed by other sectors was comparatively small in 2017.

Local conditions reflect a strong global economy, albeit the steady global expansion is expected to peak in late 2018¹. For developed economies, there is an expectation that growth rates will slow during 2019 and that long term growth rates will normalise at a level well below the average rate of growth experienced in the decade before the financial crisis.

In Guernsey, similar expectations of slowing economic growth through 2019 were built into 2019 budget forecasting. The States have moved progressively towards assumptions of slower long-term growth rates since the financial crisis.

¹World Economic Outlook, October 2018

2. Macroeconomic indicators

2.2 Inflation

Inflation in Guernsey, as measured by the annual change in RPIX, continues to be relatively low (**figure 2.2.1**). The annual change in RPIX was 2.8% in September 2018 and the measure has not exceeded 3% since 2012. The measure also continues to be lower than the equivalent measures in the UK and in Jersey.

The increase in the cost of services has been the primary driver of inflation in both Guernsey and the UK (**figure 2.2.2**) for some time. The contribution of food prices to inflation has risen in the past year, but non-food goods have had very little impact on inflation.

Shifts in global oil prices tend to be a source of volatility in domestic inflation, with oil price shocks occurring in both directions in recent years. On the whole they have exerted an upward pressure on fuel and light, and motoring costs during 2018. However, since the last data capture at the close of September 2018, oil prices have fallen suggesting that the pressure may recede towards the end of the year.

Looking forwards, central forecasts suggest that RPIX should remain at about its current level for the next quarter before falling a little in early 2019 (**figure 2.2.3**). The Bank of England have suggested that, if conditions proceeded according to their forecast, they may make further limited increases in interest rates, but are not expected to do so until the middle of 2019 at the earliest. Any decision to change interest rates will depend heavily on the evolution of Brexit negotiations, their impact on the UK economy and the value of the pound. Should the UK economy see a slowing of economic growth as the negotiation deadline approaches, another rate rise is likely to be pushed back. If this is combined with a fall in the exchange rate, there is a risk that UK inflation will rise above its target and that this will be reflected in Guernsey's inflation rates.

Figure 2.2.1 RPIX in Guernsey, Jersey and UK

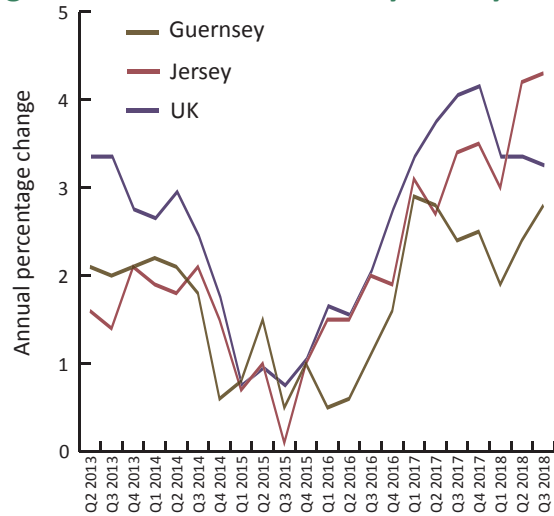


Figure 2.2.2 Contribution of groups to annual growth in RPIX

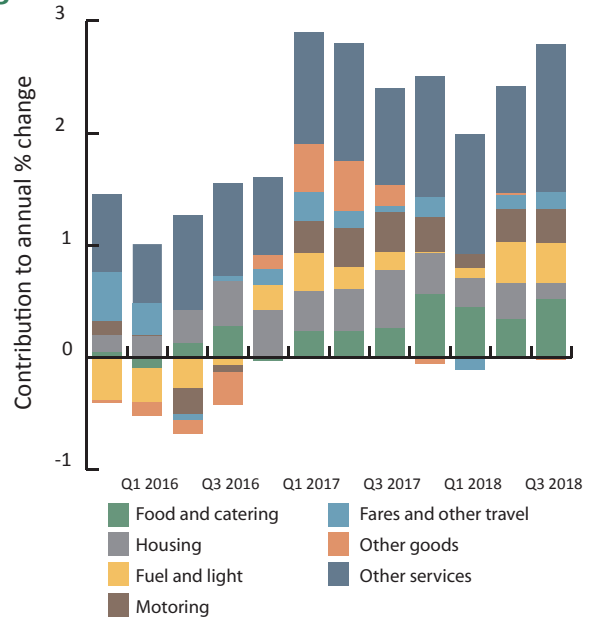
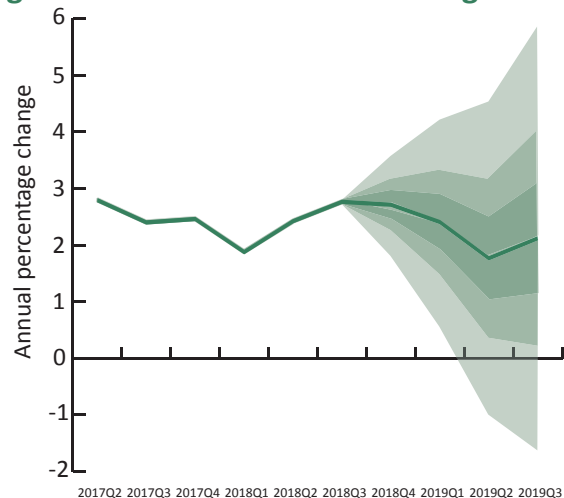


Figure 2.2.3 Forecast annual change in RPIX



2. Macroeconomic indicators

Figure 2.3.1 Annual migration

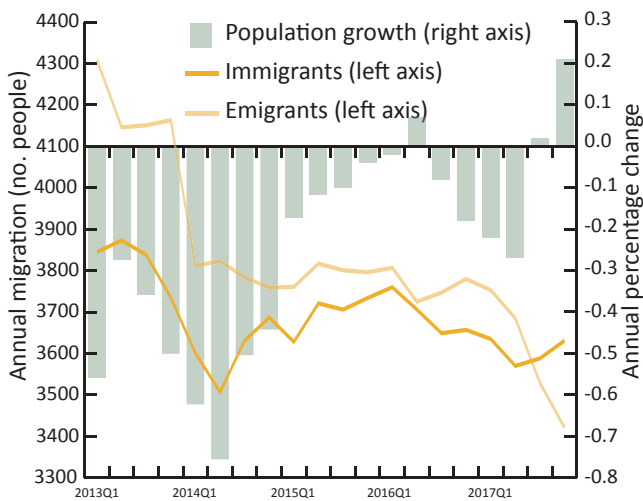


Figure 2.3.2 Population aged 16-64

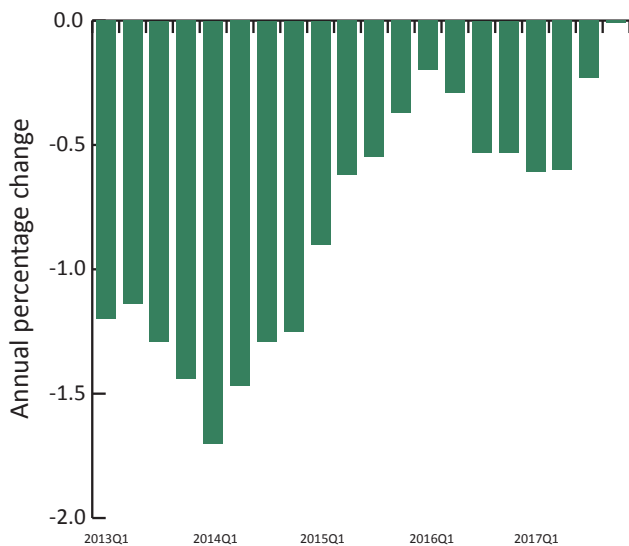
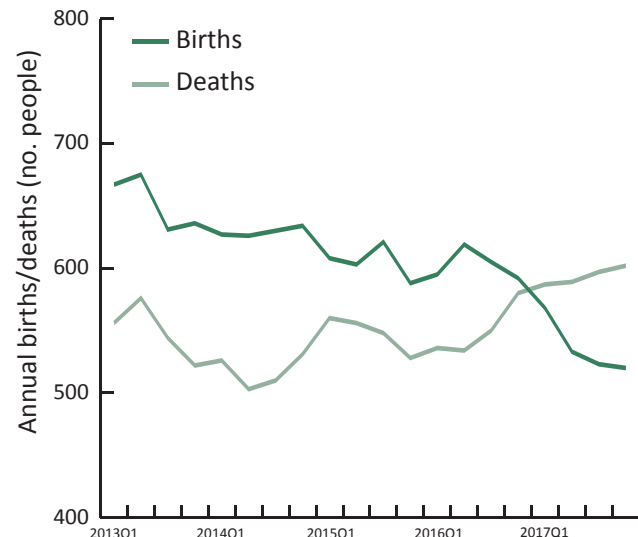


Figure 2.3.3 Natural population changes



2.3 Population

At the end of December 2017 (the latest available data), Guernsey's population was expanding after a sustained period of contraction (**figure 2.3.1**). Net migration for the year ending December 2017 was reported at net immigration of 210, only the second net inward movement of people to the island reported since the middle of 2012.

It is also the first time since 2011 that the level of net migration across a twelve month period has been sufficient to balance the impact of the aging of the population on the size of the working age population (aged between compulsory school age (16) and current State pension age(65)) (**figure 2.3.2**). In the long-term a sustained contraction of the more economically active portion of the population presents significant difficulties for Guernsey. That this trend has, at least temporarily, halted is a positive sign for the economy, implying that there are jobs available to attract and keep people in Guernsey.

Natural changes in the population (the balance between births and deaths) were negative over the year ending December 2017. This has been driven by both an increase in the number of deaths and a fall in the number of births. Both are an inevitable consequence of the aging of the population, although both aspects have progressed faster than anticipated over the most recently reported eighteen month period.

Both trends follow what has occurred in the UK. Age-standardised mortality rates in the UK in the first quarter of 2018 were the highest since 2009. The ONS stated that a combination of influenza and uncharacteristically cold weather were the likely cause. The ONS also reported a decline in the total fertility rate in 2017. In Guernsey, where the small number of births makes annual fertility rates volatile, the trend is more pronounced.

2. Macroeconomic indicators

2.4 Workforce and earnings

There were 31,442 people employed or self-employed in Guernsey in June 2018 (figure 2.4.1). Employment rates are still increasing year on year but the rate of increase has slowed to just 0.2% in June 2018 (figure 2.4.2).

As discussed in Section 2.3, before December 2017 the population aged between 16 and 64 had been falling. Increases in total employment prior to this point have been driven by increases in participation. Participation data is not yet available for 2018, but participation rates were still increasing to the end of 2017. However, there is a limit to the extent to which increasing participation can support employment levels as the population ages.

The return to net immigration at the level reported at the close of 2017, if it continues, could sustain the working age population and support employment at broadly its current level in the long term. Net immigration at a lower level or net emigration will place a downward pressure on employment in Guernsey.

Registered unemployment levels have increased slightly during 2018. The registered unemployment rate under the International Labour Office definition (which excludes anyone participating in more than 1 hour of paid work a week) was 0.9% in July 2018 (figure 2.4.3).

Data is also captured on those people who work on a part time or casual basis, but who are available for more hours and whose earnings are such that they are still eligible to claim a “top-up” to their income. The increase in this series is more pronounced, in part because the reform of the benefits system undertaken in July 2018 has extended the scope of the work requirements applied as a condition of receiving Income Support payments. In the months preceding the implementation of reforms, those affected were encouraged to register in order that the job centre might assist them in meeting their increased work requirement. In this instance, the increase in registered unemployment is therefore, at least in part, a result of a change in policy and should not be considered a reflection of general economic conditions.

Figure 2.4.1 Total employment

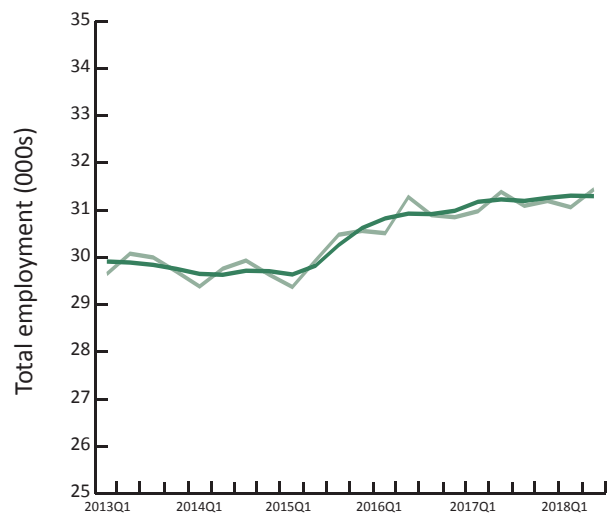


Figure 2.4.2 Total employment growth

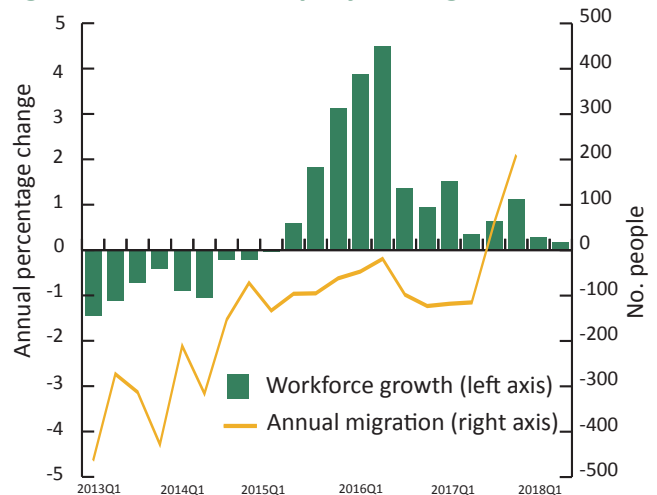
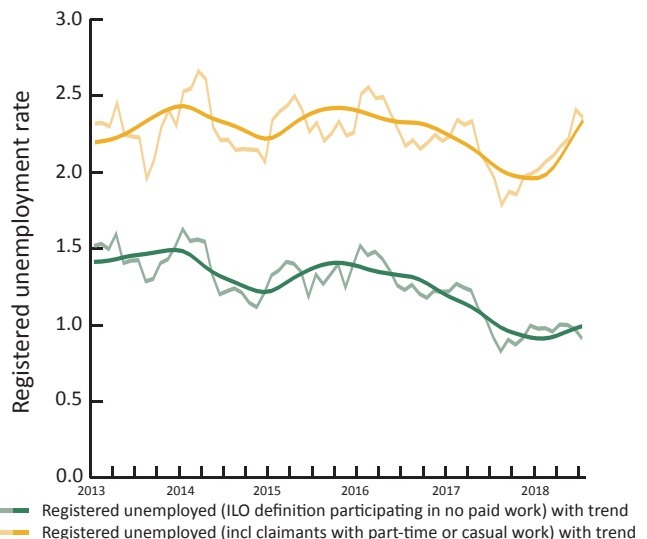
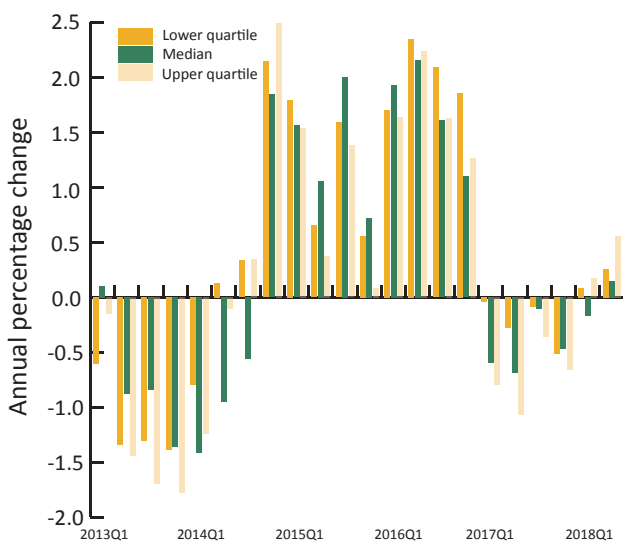


Figure 2.4.3 Registered unemployment



2. Macroeconomic indicators

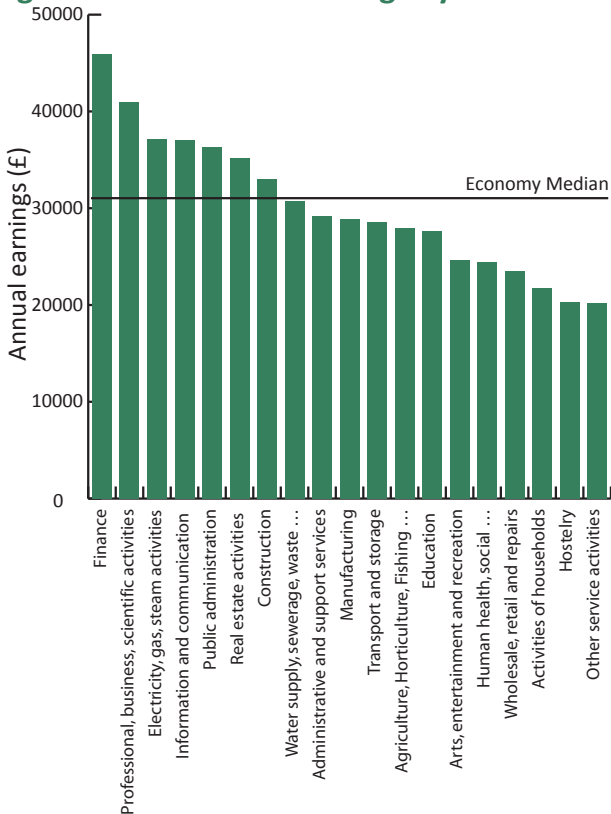
Figure 2.4.4 Median earnings growth (real)



Several developed economies, including the UK and the US, have reported growth in median earnings measures which have been lagging behind price inflation in the past year despite low levels of unemployment and growing employment levels. Guernsey has seen similar patterns through to the end of 2017 (**figure 2.4.4**). Like the UK, the most recent quarters reported have seen a return to real (above inflation) earnings growth for the second quarter of 2018.

At the end of June 2018, median earnings (averaged over 4 quarters) in Guernsey, unadjusted for working hours, was £32,800. This is a year on year increase in real terms of 0.2%. Increases in earnings at the lower and upper qualities were slightly greater.

Figure 2.4.5 Median earnings by sector



By sector, there is substantial variation in median earnings (**figure 2.4.5**). High value sectors, which tend to employ staff on an annual salary and have a high proportion of professionals or technical specialists, exhibit the highest median earnings. The finance sector, for example, has median earnings of £46,000, significantly higher than the median for the economy as a whole.

Sectors which have a high proportion of part-time or seasonal staff, such as Retail or Hostelry, tend to exhibit lower median earnings.

2.5 Property market

Local market property prices continue to trend downwards in real terms, although they have showed some signs of stabilising again in the third quarter of 2018 (figure 2.5.1).

However, local market transaction numbers for the third quarter increased significantly. The total number of transactions taking place between July and September exceeded 250 for only the second time since 2007. Transaction numbers tend to be seasonal and with quarters two and three typically higher than quarters one and four. Some of this increase is therefore seasonal in nature, but nonetheless a return to a level of quarterly transaction closer to the pre-crisis average is encouraging.

There are other signs which suggest that the market is functioning more fluidly. The discount on sales between their first advertised price and final sale price has reduced to an average of less than 10%, which suggests that the initial pricing of properties now better reflects demand conditions (figure 2.5.2). A shortening of the average number of days properties remain on the market before a sale is completed also point to a market which is functioning more efficiently.

2.6 Mortgages and Borrowing

Following work streams to examine the statistical framework and the monitoring of financial stability, the intention is to extend this publication to capture more information on household debt. This edition captures information on mortgage debt and it is hoped that this information will be extended in future editions to include unsecured debt and hire purchase debt.

As one might expect, the increase in transactions has increased the value of bonds registered in the third quarter (figure 2.6.1).

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

Figure 2.5.1 Local property market (real prices)

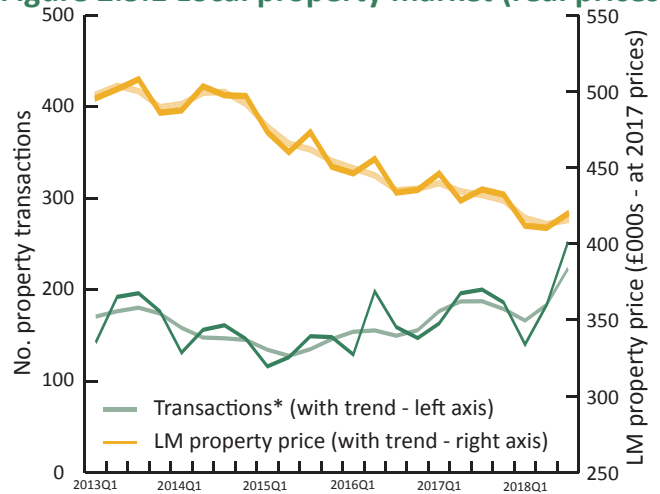


Figure 2.5.2 Local market discount rate and sale period

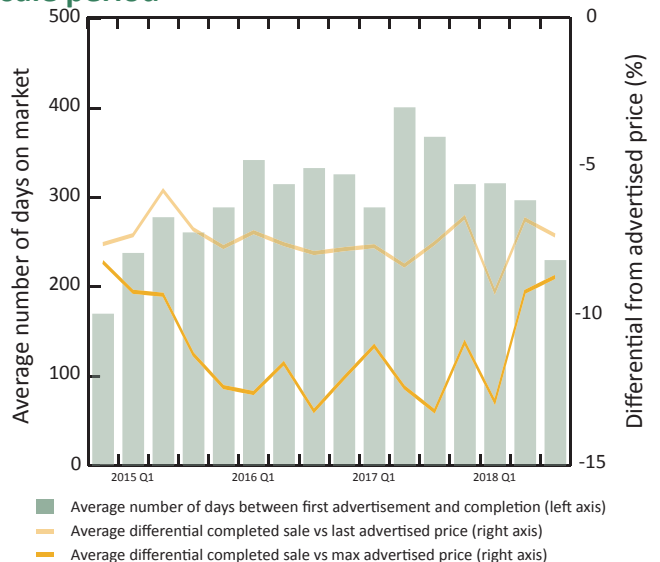


Figure 2.6.1 Index of new bond registrations**

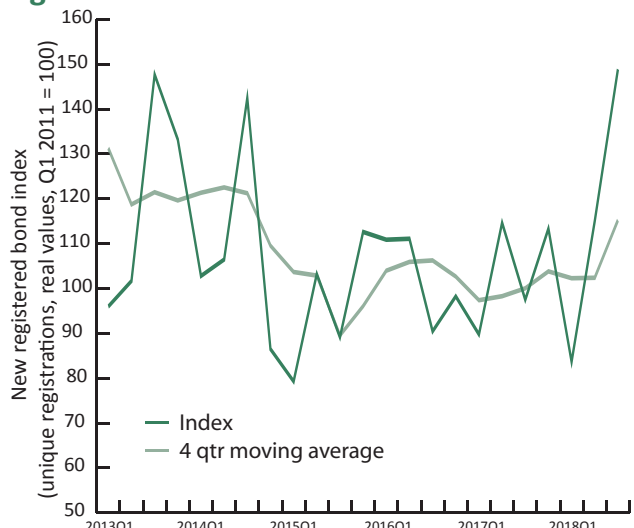
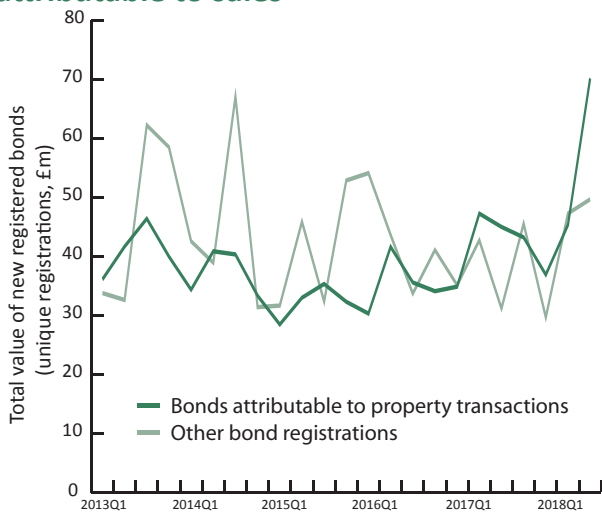


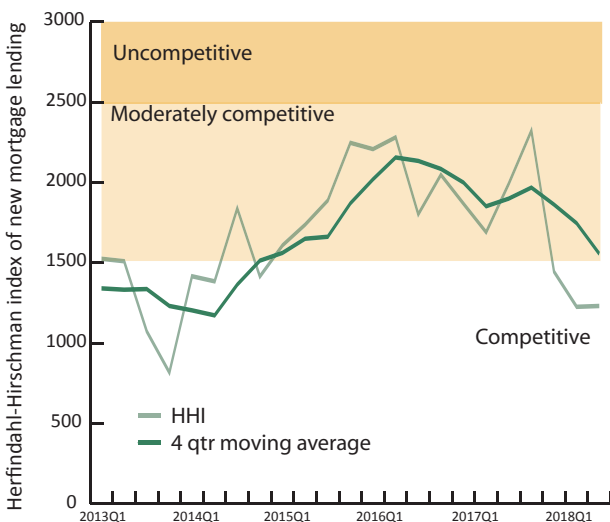
Figure 2.6.2 Value of new bond registrations attributable to sales**



Approximately half of the new registered bonds in each quarter can be attributed to residential property and the value of these has increased very significantly in the third quarter of 2018 (figure 2.6.2). The total value of new bond registrations in the third quarter was 55% greater than the previous three months, reflecting the high level of activity in the property market.

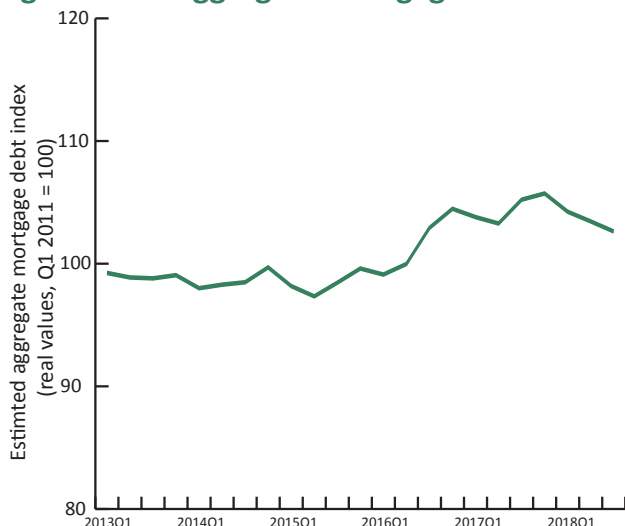
Other bond registrations will include second mortgages and re-mortgages for existing home owners and commercial developments. The series is typically more volatile than those attributable to sales but lending values over the 12 months ending September 2018 were 15% higher than that over the preceding 12 months.

Figure 2.6.3 Market concentration index



A review of the housing market commissioned by the States of Guernsey published in 2017 raised concerns about the concentration of new lending activity among a very small number of lenders. The States have continued to monitor the concentration of new lending activity (figure 2.6.3). Since the publication of that report, some of the less active lenders have increased their activity in the market and the degree of market concentration has improved to a point where the mortgage market is once again well served by a number of lenders.

Figure 2.6.4 Aggregate mortgage debt index



The index of the estimated value of real aggregate mortgage debt has decreased during 2018, despite the increase in new lending in the third quarter (figure 2.6.4). This suggests that the downward pressure from mortgage repayments and the erosion of the real value of existing debt by price inflation exceeds the value of new mortgage lending being undertaken.

** This series includes unique bond registrations only and duplicate registrations (where a bond is registered to multiple borrowers) are excluded. Bonds of exceptional size (greater than £10m) are also excluded to reduce volatility.

3. Business sector indicators

3.1 Financial services

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

As a whole the sector showed a year on year decline in employment over 2017, in part, as result of a small number of substantial mergers and restructuring. Data for the first half of 2018 show a respectable year on year growth for the first quarter before declining once again in the second quarter (**figure 3.1.1**).

Banking

The underlying performance across the four primary sub-sectors differs. Data published by the Guernsey Financial Services Commission (GFSC) shows the total nominal sterling value of Banking deposits in Guernsey had increased quarter on quarter by £2.5bn or 2.9% to £89.0bn in June 2018 (**figure 3.1.2**).

Tables 3.1.1 and **tables 3.1.2**, detail the composition of the liabilities and assets of the Guernsey banking sector. Deposits are typically fairly evenly distributed between bank deposits and third party deposits although this balance has shifted in the last nine months as the sterling value of third party deposits has declined.

At the end of the second quarter of 2018, 69% of banking assets in Guernsey were held in the form of interbank loans, compared to 59% the previous quarter. This high proportion of interbank lending reflects the up-streaming model employed in many Guernsey institutions.

The small proportion of banking activity dedicated to other loans (i.e. not interbank loans) in Guernsey represents what might be considered to be domestic retail activity in Guernsey. This will include the majority of the estimated £2.0bn of residential mortgages currently offered on residential property in the island, as well as any domestic or commercial loans offered to local residents and businesses.

Figure 3.1.1 Finance: employment and earnings growth

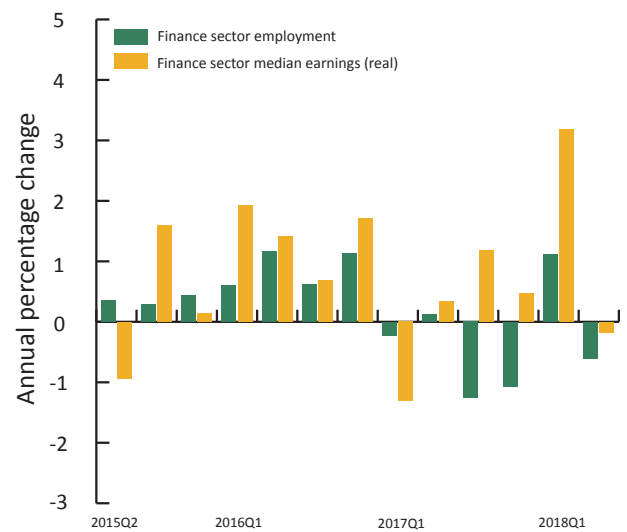


Figure 3.1.2 Finance: sub-sector asset values#

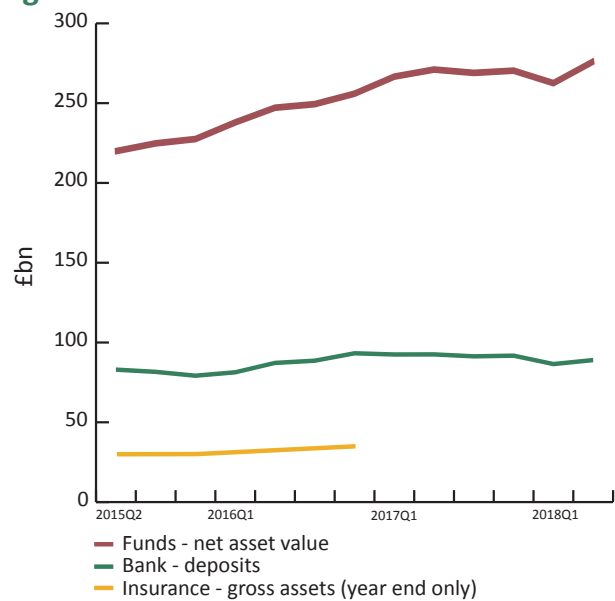


Table 3.1.1 Banking sector liabilities#

	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	119.0
Mar 18	23	46.0	40.5	86.5	113.4
Jun 18	23	47.3	41.7	89.0	116.8

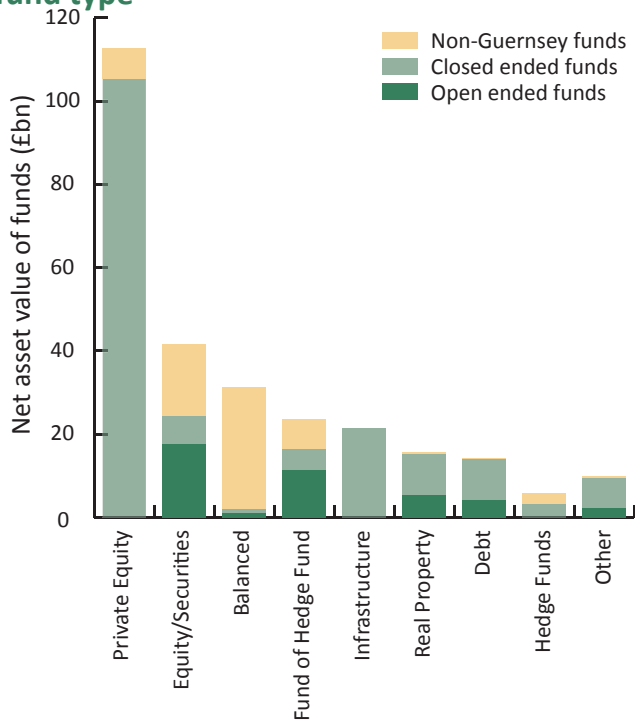
Table 3.1.2 Banking sector assets#

	Loans to banks (£bn)	Other loans in Guernsey (£bn)	Other loans not in Guernsey (£bn)	Other Assets (£bn)	Total Assets (£bn)
Dec-16	66.1	3.5	26.4	23.7	119.7
Mar 17	64.8	3.7	25.5	26.0	120.0
Jun 17	67.4	3.8	24.9	24.7	120.7
Sept 17	67.2	3.7	24.5	24.5	119.1
Dec 17	70.1	3.5	21.6	21.6	119.0
Mar 18	67.1	3.5	20.0	22.7	113.4
Jun 18	80.1	3.4	8.8	24.4	116.8

Table 3.1.3 Fund statistics#

	No. funds		Net asset value (£bn)	
	Jun 17	Jun 18	Jun 17	Jun 18
Open ended schemes	152	142	43.9	43.2
Closed ended schemes	650	658	159.4	166.5
Non-Guernsey open ended schemes	176	170	54.3	60.4

Figure 3.1.3 Value of investment activities by fund type#



Funds

The net asset value of funds under management or administration in Guernsey had grown by £5bn over the year ending June 2018, bringing the total value of Guernsey and non-Guernsey funds managed or administered in Guernsey to £276bn.

Closed ended funds continue to comprise the majority of fund activity in Guernsey (table 3.1.3) and represent the largest growth area in the sub-sector. There was a net increase of eight closed ended funds over the year ending June 2018 and the total net asset value increased by 4.4%.

Closed ended schemes include a significant majority of private equity funds which form the core of regulated investment activity in Guernsey (figure 3.1.3).

Open ended fund activity has been in decline for some time and the number and value of funds has continued a downward trend over the year ending June 2018. Open ended funds in Guernsey operate primarily as equity and securities funds or funds of hedge funds.

Non-Guernsey funds are funds incorporated in other jurisdictions (largely in the Caribbean) but administered by local fund administrators. By value these are predominantly open ended balanced funds and equity 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](#) and [table 3.1.5](#)).

Employment data indicates that employment growth in the sub-sector was particularly strong in that last quarter of 2017. However, the rate of underlying employment growth in insurance would appear to have slowed in 2018.

Fiduciaries

In October 2018, there were 763 authorised fiduciary licences in Guernsey ([table 3.1.6](#)) including 150 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. Net changes in company registrations tend to be seasonal in nature with company formations and company dissolutions following the financial year. As a result, there is usually a net increase in companies in the first and second quarters and a net decrease in the third and fourth quarters ([figure 3.1.3](#)). Net company formation for the first half of 2018, primarily holding companies, was strong, although the net increase in companies in the first six months of 2018 was less than in the same period the previous year.

Table 3.1.4 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 3.1.5 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 3.1.6 Fiduciary licences[#]

	Apr 18	Oct 18
Lead licences	151	150
Joint licences	575	570
Personal licences	40	43
Total	766	763

Figure 3.1.3 Net company incorporations (seasonally adjusted)

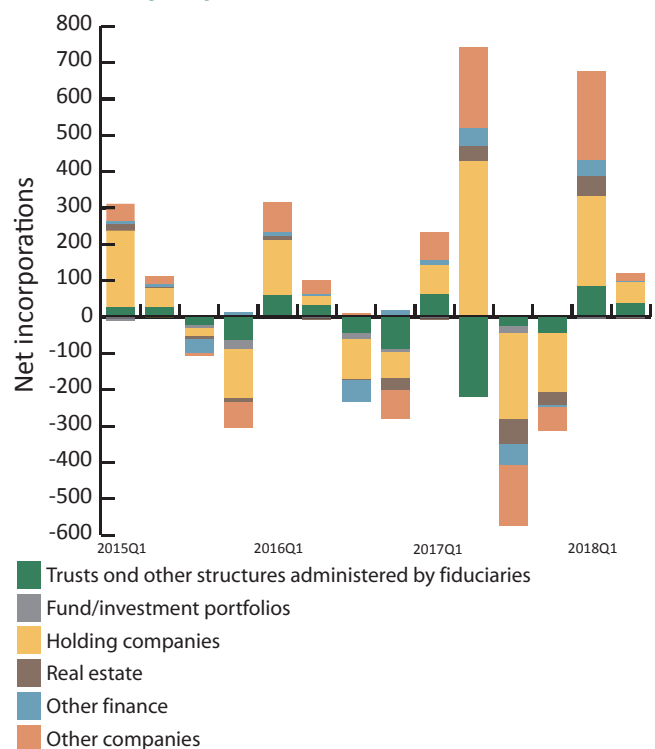


Figure 3.2.1 Professional and business services: employment and earnings growth

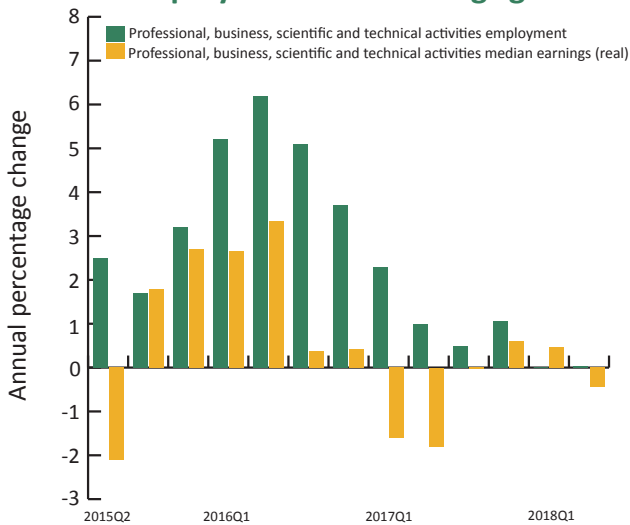


Figure 3.2.2 Information and communications services: employment and earnings growth

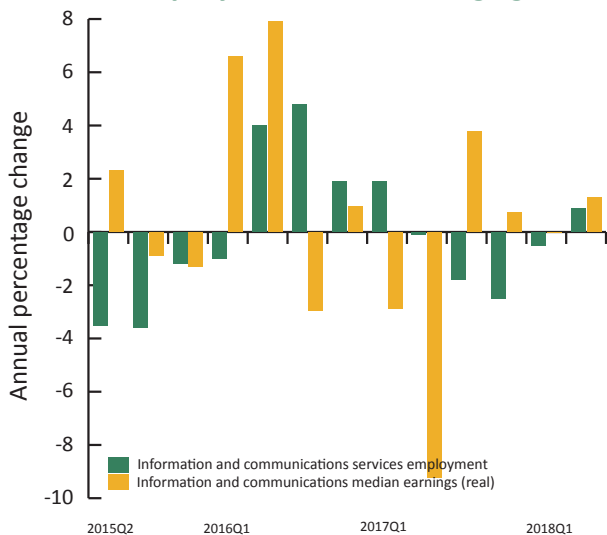
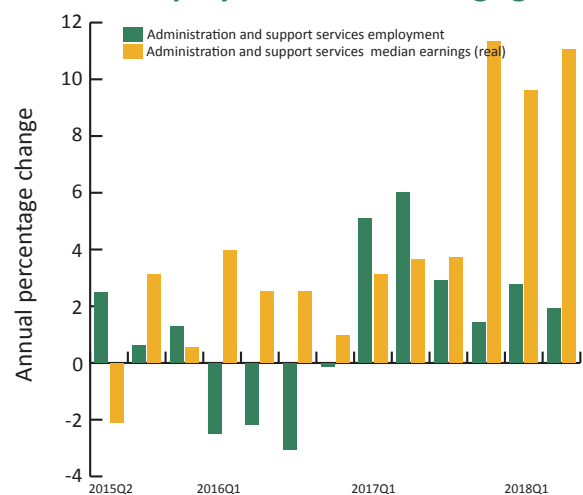


Figure 3.2.3 Administration and support services: employment and earnings growth



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. 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. Growth rates in this sector have slowed and over the year ending June 2018 there was almost no change in employment levels (figure 3.2.1). Median earnings in this sector also show a slight decline in real terms.

Information and communications

Employment and median earnings in this sector (which includes IT support services, telecommunications and publishing activities) has stabilised after a period of volatility (figure 3.2.2). Over the year ending June 2018 both employment and real earnings in this sector showed a modest level of growth.

Administrative and support service activities

Employment and real earnings growth in this sector (which includes human resources support, cleaning and security activities) continues to be strong (figure 3.2.3). While the median earnings in this sector are still lower than the economy average, year on year real earnings growth has increased the value added from this sector. The employment expansion and earnings growth appears to be focused in office administration and business support activities.

3. Business sector indicators

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). Late 2017 and early 2018 have seen some signs of recovery with three successive quarters of modest year on year growth in employment in the sector.

Median earnings in the sector have shown a slight real decline year on year. Given that the trend in median earnings for the sector was upwards while employment was in decline, it seems likely that the industry shed many lower paid positions while in contraction while retaining higher paid (presumably more skilled) staff. In recovery therefore, it is possible that the sector is replacing some portion of its less skilled workforce which may have pushed median earnings for the sector down.

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. This likely reflects strong demand for staff in the sector and the need to compensate migrant workers for the falling value of wages paid in Sterling relative to their home currencies. While the sector remains one of the lowest paying in the economy, the deviation of the sector

Figure 3.3.1 Construction: employment and earnings growth

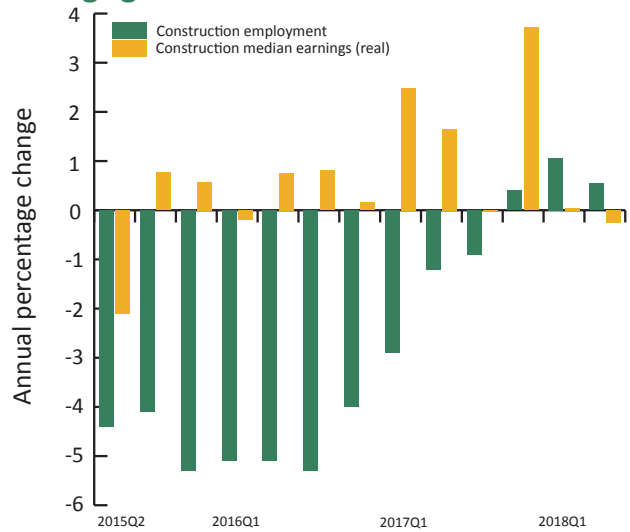


Figure 3.3.2 Wholesale retail and repairs: employment and earnings growth

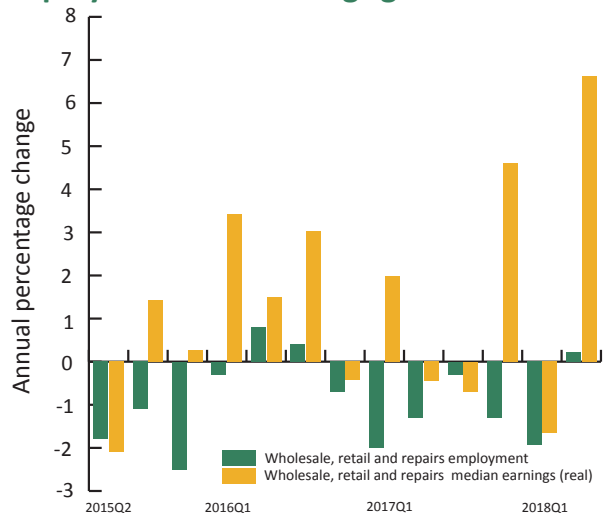
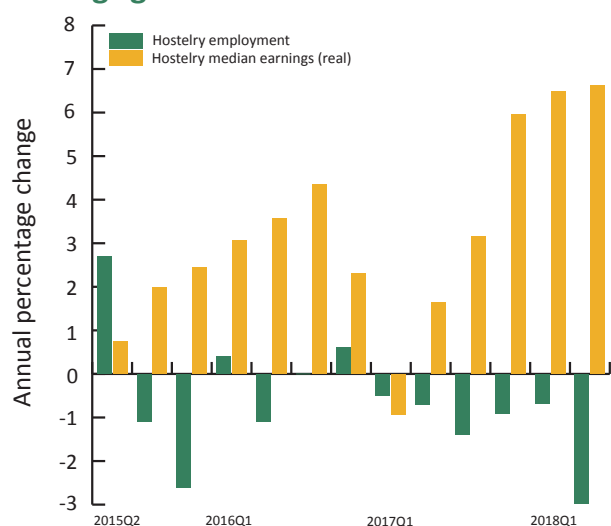
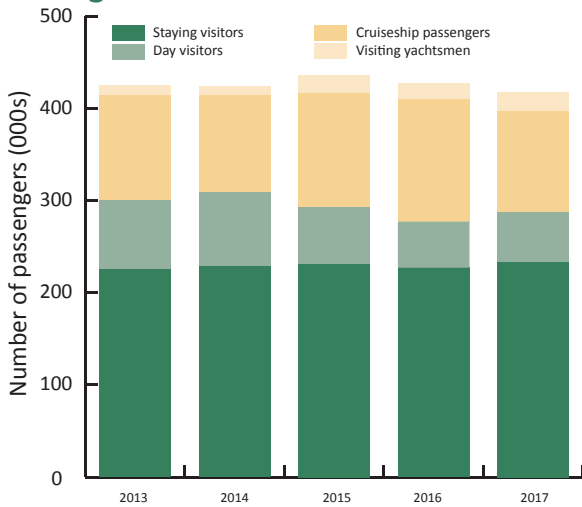


Figure 3.4.1 Hostelry: employment and earnings growth



3. Business sector indicators

Figure 3.4.2 Visitor departures and cruise passengers

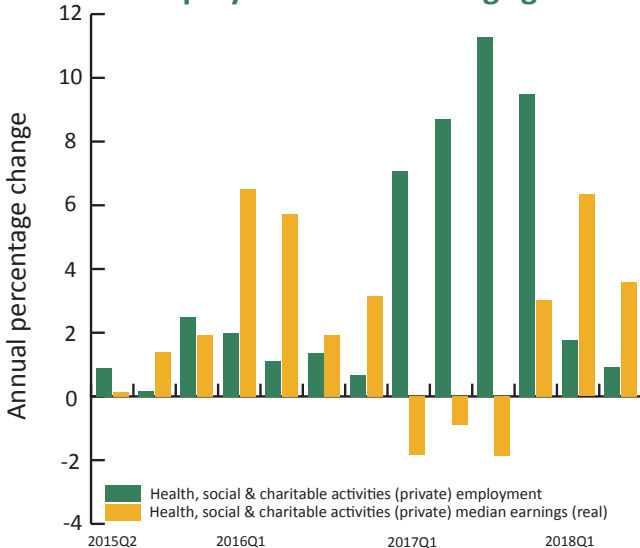


from the overall median has lessened significantly.

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). 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%.

Data for 2018 (available up to the end of June) shows a strong second quarter with a 1% increase in the number of staying visitors and a 5% increase in day visitors compared to the same period the previous year.

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



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 increase.

Employment in this sector continues to grow (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.

4. Contact details and other information

This bulletin is presented by the States of Guernsey. 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 marked with # are published by the Guernsey Financial Services Commission and available at www.gfsc.gg.

