

Introduction

The Guernsey Retail Prices Index (GRPI) is the measure of inflation used in Guernsey. It measures the change in the prices of goods and services bought for the purpose of consumption or use by households in Guernsey. It is published quarterly by the States of Guernsey Policy and Research Unit. The calculation of the GRPI is based on the price change of items within a 'shopping basket'. Whilst some prices rise over time, others will fall or fluctuate and the Index represents the average change in these prices. More detailed information on the RPI and its calculation can be found at the end of this handout.

Headlines

- At the end of December 2006 Guernsey's annual rate of inflation was **4.4%**. This increased from 3.5% in September 2006. The equivalent figure for the UK was 4.4% and 3.7% for Jersey.
- Guernsey's RPIX (inflation excluding mortgage interest payments), increased to **2.8%** from 2.5% last quarter, when it was at its lowest since December 1998.
- The **Housing** group has the largest weight within the Index. It contributed **2.6%** to the 4.4% total, a rise from 2.1% in September 2006.
- The Index increased to **130.0** (1999 base).

Overview

The Guernsey RPI increased by 4.4% for all items ending 31st December 2006.

The Housing group was the largest contributor to the December RPI at 2.6% out of the 4.4% figure. This group has increased noticeably during 2006 (from 1.1% in March 2006 to 1.2% in June 2006 and 2.1% in September 2006). The rise in this group is mainly due to the increasing cost of servicing a mortgage, due to the combined effects of rising interest rates and average house prices.

Elsewhere, the Food, Motoring and Leisure Services groups contributed 0.4% each. Fuel, Light and Power contributed 0.3% and the Alcohol group contributed 0.2%.

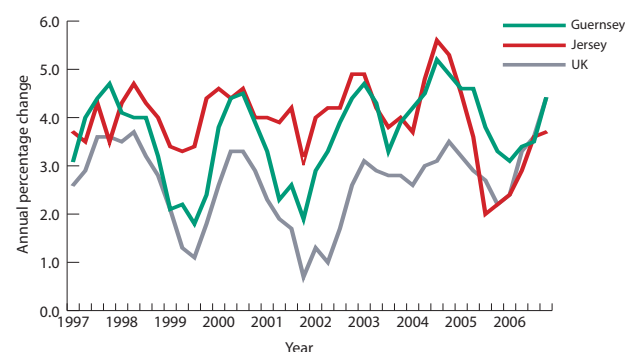
The Clothing and Footwear group had a downward effect on the Index at -0.3%. This was mainly due to seasonal sales that took place at the end of December.

The RPI was at its lowest for five years in March 2006, when it stood at 3.1%. It increased to 3.4% in June, 3.5% in September and by 0.9% to 4.4% in December.

Table 1: Annual Rates of Inflation

Year	March	June	September	December
2002	2.9	3.3	3.9	4.4
2003	4.7	4.3	3.3	3.9
2004	4.2	4.5	5.2	4.9
2005	4.6	4.6	3.8	3.3
2006	3.1	3.4	3.5	4.4

Figure 1: Annual Rates of Inflation



RPI Analysis

Figure 2: Annual Contribution to RPI

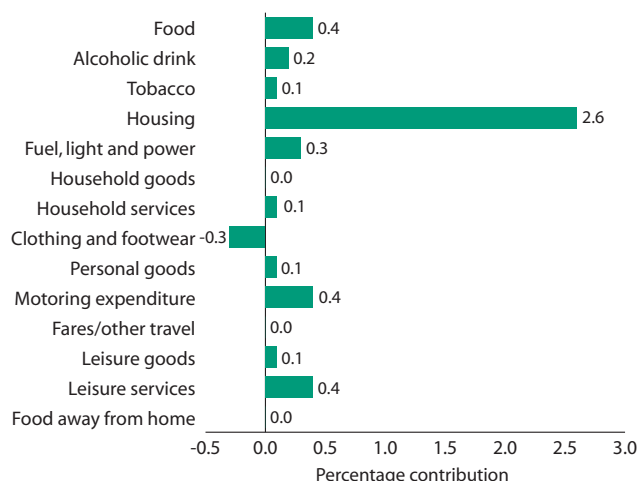


Figure 3: Annual Percentage Change

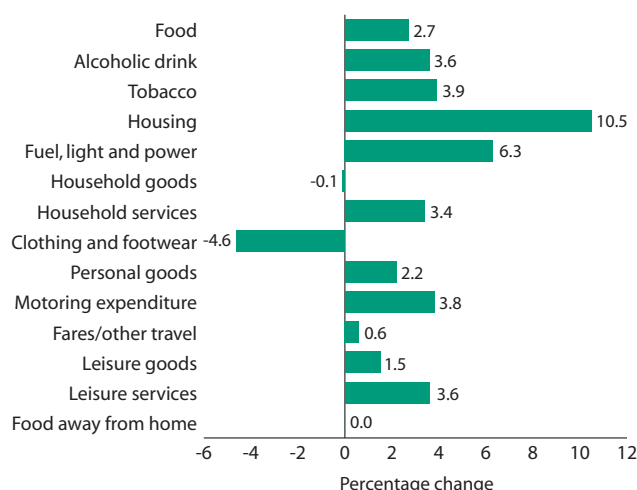
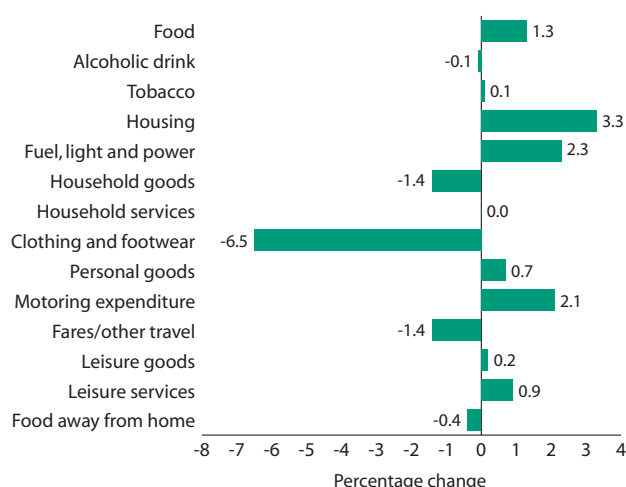


Figure 4: Quarterly Percentage Change



Note: Individual contributions to the change in rates may not sum to the total due to rounding.

Main contributions to the annual percentage change

The contribution of each of the RPI groups to the overall annual rate are shown in *Figure 2*. The Housing group remains the largest contributor (2.6% out of 4.4%). During the last 12 months Housing has increased by 10.5% (*Figure 3*), the largest percentage increase of all the groups.

Despite some minor decreases in oil prices during the last 12 months their impact on the RPI is still apparent. There was a 6.3% increase in the Fuel, Light & Power Group, leading to its contribution of 0.3% to the RPI. Similarly, the Motoring group experienced an increase of 3.8% leading to a 0.4% contribution to the RPI. There was little change to the Fares & Other Travel group which therefore did not contribute an upward effect to the RPI.

The Food group holds the second highest weight in the RPI and despite a low percentage increase of 2.7% over the year it contributed 0.4% to the overall annual RPI rate.

A decrease of 4.6% in the Clothing & Footwear group over the 12-month period led to a downward effect on the RPI of 0.3%.

Main contributions to the quarterly percentage change

Again the Housing group represents the largest percentage increase over the quarter (*Figure 4*). Other large quarterly increases were driven by the Fuel, Light & Power, Motoring and Food groups.

The Clothing and Footwear group experienced a substantial decrease (-6.5%) due to widespread seasonal sales at the end of the quarter.

Further group analysis

Within each group, specific items can be identified as having an upward or downward effect on the Index according to their price increase or decrease. The most salient of which are identified below.

Food (0.4%)

The Food group contributed 0.4% to the overall figure of 4.4%. Annually there were increases in items such as cheese, fresh vegetables, potatoes and potato products, soft drinks, beef and white bread. However, the index also saw decreases in fresh fish and poultry. Despite a general decrease in fresh fruit during the twelve-month period, it increased in price over the last quarter, which is in keeping with seasonal trends.

RPI Analysis

Alcohol (0.2%)

Annually, there were increases in the cost of spirits, liqueurs and cider bought for consumption at home. There was a slight decrease in wines bought away from home.

Tobacco (0.1%)

Annually, the cost of cigarettes, cigars and tobacco has increased by approximately 4%.

Housing Group (2.6%)

Housing continues to be the main contributor to the overall rise in the GRPI and represents 22% of the total weighting of the Index. Mortgage interest is the highest component of the Housing Group and is calculated using the seven-year moving average house price, together with interest rates. The Bank of England increased the base rate by 0.25% twice during the twelve month period ending December 2006, the first in August and the second in November. The effect of this increase, combined with an increase in the seven-year moving average in house prices are the main contributing factors.

Other price rises influencing the Housing group over the 12 month period include increases in major household improvement such as kitchens, building work and materials. Further rises came from water rates, occupiers rates and private rents. DIY goods, tools and household insurance were among the items that fell in price within the group.

Fuel, Light and Power (0.3%)

Electricity, which has the highest weight within the group was unchanged over the last quarter but increased by as much as 11% over the year. The cost of coal rose both annually and quarterly by an increase of almost 18%. Heating oil prices have fallen back from their all-time high at the end of 2005 and experienced a slight decline annually. However, prices rose during the last quarter of 2006. Gas prices have remained stable over the last 12 months.

Household Goods (0.0%)

There were downward effects from seasonal sale prices for furniture and textiles. These were balanced by other increases in the group.

Household Services (0.1%)

Annual increases in telephone line rental, postage and legal fees.

Clothing and Footwear (-0.3%)

This group has the largest downward effect on the group, fuelled primarily by widespread seasonal sales at the end of December 2006.

Personal Goods (0.1%)

Increases in medical insurance, hairdressing, jewellery etc.

Motoring (0.4%)

Increases in the price of new cars and parts. Unleaded petrol rose by 8% and diesel by 4% over the twelve month period.

Fares & Other Travel (0.0%)

Increases in bus and taxi fares, car hire and some air and sea travel.

Leisure Goods (0.1%)

Increases in national newspapers and magazines, cut flowers and plants. Decreases in the price of home entertainment goods.

Leisure Services (0.4%)

Increases in the cost of holidays and accommodation along with increases in fees for educational courses, TV license and satellite subscriptions.

Food Away from Home (0.0%)

Some increases in take-aways and snacks.

RPI Indices and Reflation Factors

Table 2: RPI Indices

	March	June	September	December
1999	-	-	-	100.0
2000	101.2	102.7	103.3	103.9
2001	104.5	105.2	106.0	105.8
2002	107.5	108.6	110.1	110.5
2003	112.6	113.3	113.8	114.8
2004	117.4	118.4	119.7	120.5
2005	122.8	123.9	124.2	124.5
2006	126.6	128.1	128.6	130.0

Table 3: Percentage Change at Dec 2006

Period	Percentage change
3 months	1.1
6 month	1.5
9 months	2.7
12 months	4.4
18 month	4.9
2 years	7.9
3 years	13.2
4 years	17.6
5 years	22.8
10 years	44.0

Table 4: Index Figures at December 2006

Year of rebase (Index = 100)	Index Figures
1999	130.0
1994	154.3
1988	208.5
1983	278.6
1978	442.4

Table 5: Reflation Factors for 2006

Year	Reflation Factor
1995	1.48
1996	1.44
1997	1.38
1998	1.33
1999	1.30
2000	1.25
2001	1.23
2002	1.18
2003	1.13
2004	1.08
2005	1.04
2006	1.00

RPI Indices

RPI Indices are used to calculate change in prices over time. Annual RPI headline figures are calculated in this way by determining the percentage change over one year. The Index rose by 4.4% annually to 31st December 2006 to 130.0 (*Table 2*). Similarly, the Index can be used to obtain changes over longer periods of time.

To obtain the percentage change between two dates, use the following formula:

Take the most recent value and subtract the earlier value. Divide this number by the earlier value and multiply by 100 to achieve a percentage figure.

For ease of calculation, selected percentage increases for the most recent quarter are given in *Table 3*.

It is possible to calculate percentage changes over longer periods of time. However, it should be taken into account when making long-term comparisons that the 'shopping basket' may have changed over time and households may not be spending money on the same products as they did in the past.

The RPI Index is rebased approximately every five years, which normally coincides with the introduction of new weights from the Guernsey Household Expenditure Survey. The Indices as they stand at the end of December 2006 for the 1994, 1988, 1983 and 1978 bases along with the current base are shown in *Table 4*.

Reflation Factors

The effect of inflation is to erode the purchasing power of currency. Reflation factors (*Table 5*) can be used to convert old values to current prices. For example, £1 would buy more in 1996 than it would in 2006.

To convert a price, multiply it by the appropriate year's value. For example, £100 in 1996 is equivalent to £100 x 1.44 = £144 in 2006.

Reflation factors can also be used in the opposite way. To calculate what £100 in 2006 would have been worth in 1996 divide by the relevant reflation factor.

RPI Group Indices

Table 6: Group Indices

RPI Group	Weight	2005 Dec	2006 Mar	2006 Jun	2006 Sept	2006 Dec	Annual % change	Quarterly % change
Food	127	120.9	121.0	122.9	122.6	124.2	2.7	1.3
Alcoholic Drink	52	151.3	157.4	156.9	156.9	156.8	3.6	-0.1
Tobacco	19	254.2	262.0	263.7	263.8	264.1	3.9	0.1
Housing	216	178.4	181.8	185.8	190.8	197.0	10.5	3.3
Fuel, Light and Power	41	157.8	165.5	167.1	163.9	167.7	6.3	2.3
Household Goods	79	125.8	128.7	127.3	127.5	125.7	-0.1	-1.4
Household Services	33	146.8	147.1	151.1	151.8	151.8	3.4	0.0
Clothing & Footwear	56	99.7	101.5	101.2	101.7	95.1	-4.6	-6.5
Personal Goods	49	150.1	151.1	152.7	152.4	153.4	2.2	0.7
Motoring Expenditure	85	137.7	139.9	142.4	140.0	142.9	3.8	2.1
Fares/Other Travel	33	179.8	184.9	187.0	183.4	180.9	0.6	-1.4
Leisure Goods	63	101.5	102.4	103.3	102.9	103.1	1.5	0.2
Leisure Services	92	158.5	160.7	161.8	162.8	164.2	3.6	0.9
Food Away from Home	55	149.2	149.3	149.6	149.8	149.2	0.0	-0.4

Individual group indices are presented for December 2005 to December 2006 in *Table 6* along with their corresponding annual and quarterly percentage change (the same group percentage changes are illustrated in *Figures 3 & 4* on Page 2)

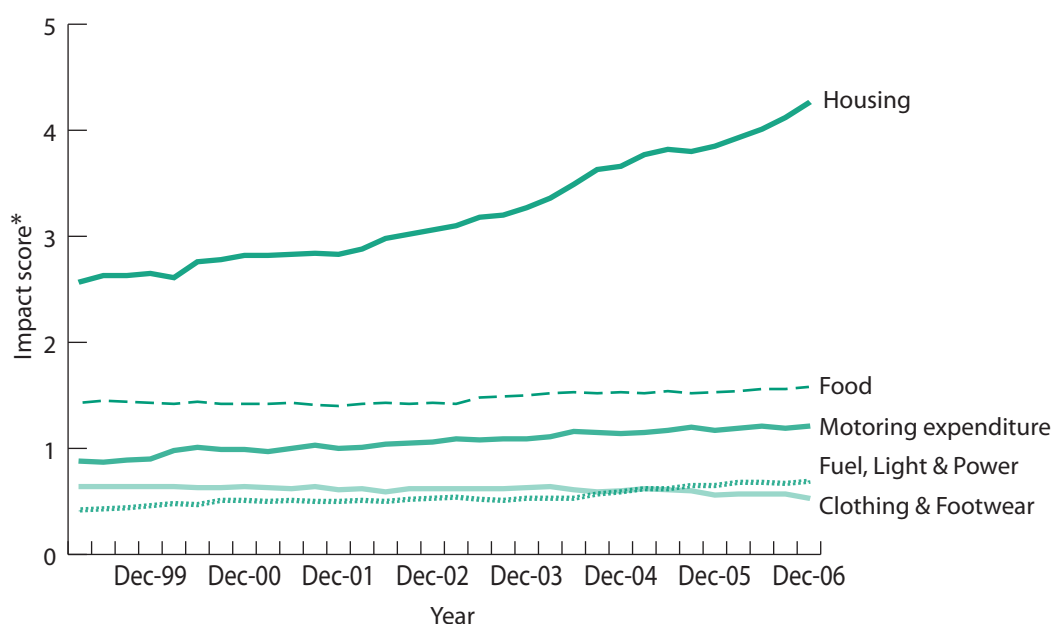
It is possible to use the group indices to track the impact of each group on the RPI over time. This is done by multiplying the index value by the group weight. The results of the most salient groups are presented graphically in *Figure 5*.

The Housing group has experienced the greatest increase since December 1999 and more markedly since the beginning of 2003.

The effect of an increase in global oil prices is evident in the increases in the Motoring and Fuel, Light & Power groups, which have increased at a consistent rate. The food group has also experienced a slight increase.

The Clothing and Footwear group has a downward effect on the Index, where, on average, prices are now less than they were in December 1999.

Figure 5: Impact of RPI Group Indices



*Impact score is calculated by multiplying the group index figure by its weight and dividing by 10,000

Comparison with Other Jurisdictions

Table 7: Headline RPI - Guernsey, Jersey, UK

		Guernsey		UK		Jersey	
		Headline RPI	Quarterly Change	Headline RPI	Quarterly Change	Headline RPI	Quarterly Change
2000	Mar	3.8	1.2	2.6	0.3	4.6	1.3
	June	4.4	1.6	3.3	1.6	4.4	1.0
	Sept	4.5	0.7	3.3	0.4	4.6	1.1
	Dec	3.9	0.5	2.9	0.3	4.0	0.5
2001	Mar	3.3	0.6	2.3	0.0	4.0	1.4
	June	2.3	0.8	1.9	1.3	3.9	0.9
	Sept	2.6	0.8	1.7	0.1	4.2	1.3
	Dec	1.9	-0.1	0.7	-0.7	3.1	-0.6
2002	Mar	2.9	1.6	1.3	0.6	4.0	2.3
	June	3.3	1.0	1.0	1.0	4.2	1.1
	Sept	3.9	1.4	1.7	0.8	4.2	1.3
	Dec	4.4	0.4	2.9	0.5	4.9	0.1
2003	Mar	4.7	1.9	3.1	0.8	4.9	2.4
	June	4.3	0.6	2.9	0.8	4.2	0.4
	Sept	3.3	0.4	2.8	0.7	3.8	0.9
	Dec	3.9	1.0	2.8	0.5	4.0	0.3
2004	Mar	4.2	2.2	2.6	0.6	3.7	2.1
	June	4.5	0.9	3.0	1.2	4.8	1.5
	Sept	5.2	1.1	3.1	0.8	5.6	1.7
	Dec	4.9	0.7	3.5	1.0	5.3	0.0
2005	Mar	4.6	1.9	3.2	0.2	4.5	1.3
	June	4.6	0.9	2.9	0.9	3.6	0.6
	Sept	3.8	0.3	2.7	0.6	2.0	0.1
	Dec	3.3	0.2	2.2	0.5	2.2	0.2
2006	Mar	3.1	1.7	2.4	0.4	2.4	1.5
	June	3.4	1.2	3.3	1.8	2.9	1.1
	Sept	3.5	0.4	3.6	0.9	3.6	0.8
	Dec	4.4	1.1	4.4	1.3	3.7	0.3

Inflation in both Guernsey and the UK increased to 4.4% at the end of December 2006. In Jersey it rose to 3.7%.

All three jurisdictions noted increases in the Housing groups as the main driver of the rise in the overall annual rate, mainly due to the mortgage interest component.

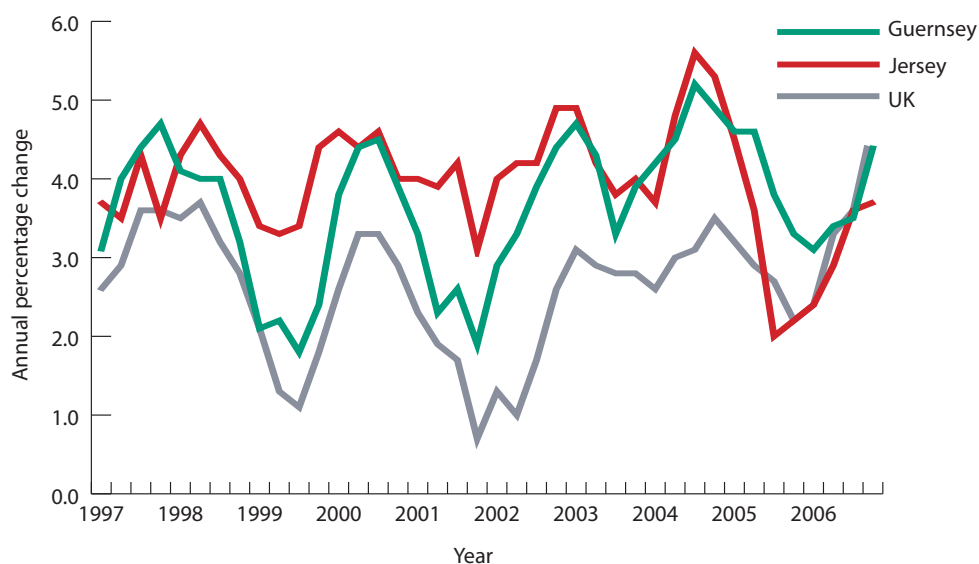
The UK also noted large upward contributions from Motoring expenditure, due to increases in petrol and oil, and Household goods, where furniture prices rose by more than a year ago over a broad range of items.

In Jersey, very similar increases were noted as in Guernsey, with the exception of the Housing group, where Guernsey observed a larger increase (2.6% out of 4.4% compared to 1.7% out of 3.7% in Jersey - a difference of 0.9%). This variation may be due to a number of factors including differences in the housing markets between the two Islands, as well as offsetting decreases in other items within the Housing Group, such as a decrease in rates in Jersey.

The ten year trends as illustrated in *Figure 6* reveal a broadly similar cyclical trend among the three jurisdictions.

It should be noted that there are methodological differences between the three jurisdictions but the figures are broadly comparable.

Figure 6: Headline Inflation - Guernsey, Jersey and UK



RPIX

RPIX is RPI excluding the mortgage interest component. The mortgage interest component is calculated as a combination of increases/decreases in interest rates combined with the effects of rising / falling house prices.

In Guernsey, both mortgage interest rates and house prices are rising, leading to a large increase in the mortgage interest component. It is also the item within the index with the largest weight, so that changes to this figure tend to have a large effect on the RPI.

The Guernsey RPIX rose to 2.8% in December from 2.5% in September 2006.

Jersey's RPIX is slightly lower than Guernsey's at 2.5%, but the two figures are only 0.3% apart. Both Guernsey and Jersey are much lower than the UK RPIX figure of 3.8%.

The mortgage interest component accounted for 1.6% of all items RPI in Guernsey, 1.2% in Jersey and 0.6% in the UK.

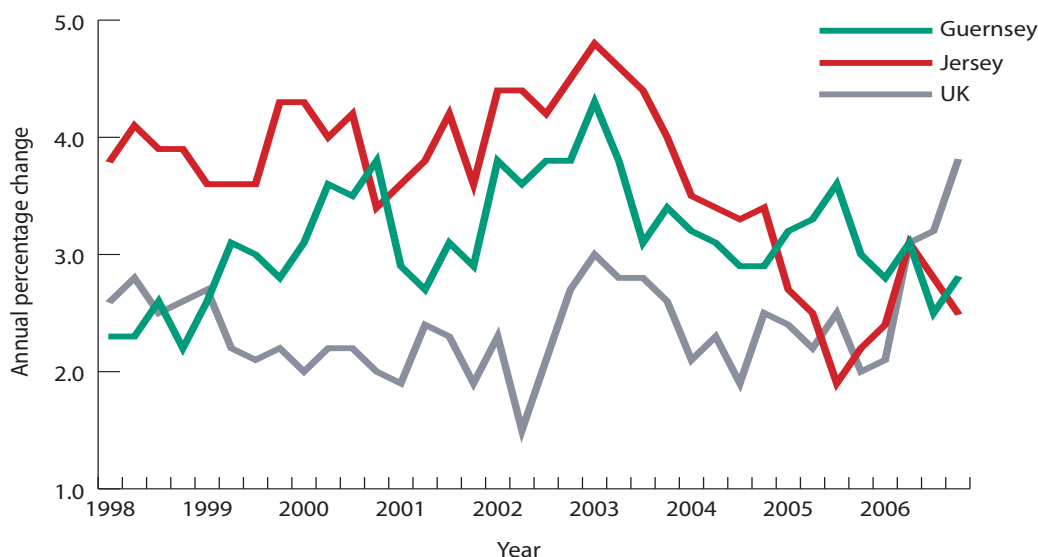
These figures indicate that housing costs are higher in the Islands, reflected in a higher weighting for the mortgage interest component in Guernsey and Jersey than in the UK.

In terms of RPIX, the Islands are faring better than the UK, indicating that core inflationary pressures are less in the Islands than is currently the case in the UK.

Table 8: RPIX - Guernsey, Jersey and UK

		Guernsey	UK	Jersey
2000	Mar	3.1	2.0	4.3
	June	3.6	2.2	4.0
	Sept	3.5	2.2	4.2
	Dec	3.8	2.0	3.4
2001	Mar	2.9	1.9	3.6
	June	2.7	2.4	3.8
	Sept	3.1	2.3	4.2
	Dec	2.9	1.9	3.6
2002	Mar	3.8	2.3	4.4
	June	3.6	1.5	4.4
	Sept	3.8	2.1	4.2
	Dec	3.8	2.7	4.5
2003	Mar	4.3	3.0	4.8
	June	3.8	2.8	4.6
	Sept	3.1	2.8	4.4
	Dec	3.4	2.6	4.0
2004	Mar	3.2	2.1	3.5
	June	3.1	2.3	3.4
	Sept	2.9	1.9	3.3
	Dec	2.9	2.5	3.4
2005	Mar	3.2	2.4	2.7
	June	3.3	2.2	2.5
	Sept	3.6	2.5	1.9
	Dec	3.0	2.0	2.2
2006	Mar	2.8	2.1	2.4
	June	3.1	3.1	3.1
	Sept	2.5	3.2	2.8
	Dec	2.8	3.8	2.5

Figure 7: RPIX - Guernsey, Jersey and UK



Methodology

How is the RPI calculated?

The calculation of the GRPI is based on the price change of items within a 'shopping basket'. Whilst a single household's shopping basket may contain anywhere in the region of one to several hundred items, the 'basket' of goods and services used in the calculation of the GRPI contains over 2,000 items. This list of goods and services remains the same every quarter in order to measure price changes over time.

Every household in the Island spends its income in different ways so it is impractical to monitor changes in the price of every single item on sale. Therefore, the Index contains a representation of what 'typical' consumers in a Guernsey household spend their money on. It should not be confused with a 'cost of living' index, which will vary according to individual expenditure.

Which items are included?

All goods and services on which a household typically spends money make up the GRPI. The shopping basket stretches from the inexpensive, such as the cost of a loaf of bread to expensive items such as the cost of new car.

Prices are collected quarterly from over 250 local suppliers, businesses and internet shopping sites and in order to maintain consistency, they are collected from the same establishment each quarter.

Are all items equally represented?

The average person spends more of their budget on some items and less on others. Therefore the GRPI is weighted, which means that some items have a higher importance or 'weight' than others. An increase in certain items will have more of an impact on the GRPI than others, for example, an increase in the price of petrol will have more effect on the Index than an increase in the price of milk.

How is it kept up to date?

The shopping basket is updated by means of a Household Expenditure Survey (HES), which takes place approximately every five to six years. The main purpose of the HES is to establish the proportion of expenditure spent on particular items in an average household budget. The 'shopping basket' is then revised according to the results of the survey. A new HES was undertaken in 2005/6 and the revised set of items and weights are expected to be introduced in 2007.

What is RPIX?

RPIX is simply RPI excluding mortgage interest payments. It is sometimes referred to as the "underlying" rate of inflation. Some jurisdictions use RPIX to set inflation targets as it does not reflect the direct impact of interest rate changes made to control inflation.

Further Information

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