

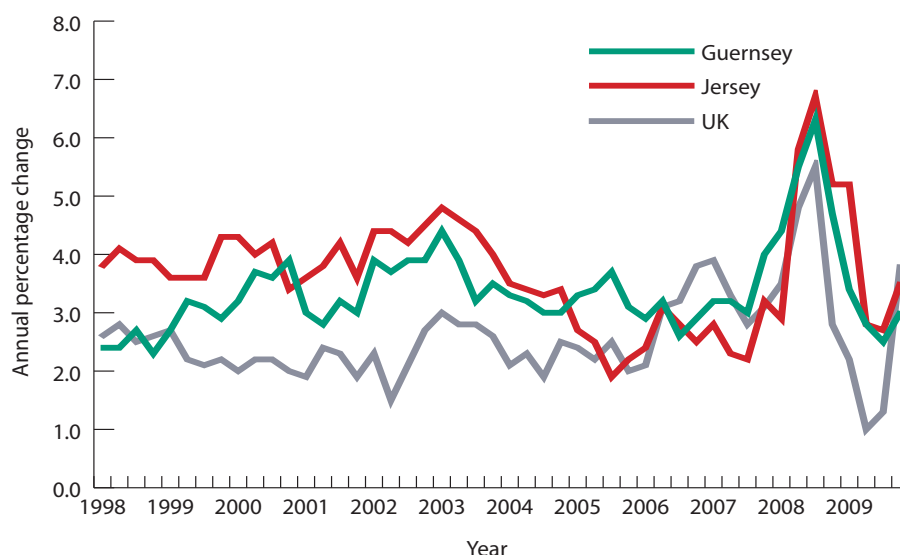
Introduction

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

Headlines

- Guernsey's RPIX ("core" inflation excluding mortgage interest payments) was 2.9% this quarter, compared to 2.4% at the end of September 2009 and 4.6% at the end of December 2008.
- In the UK and Jersey the equivalent RPIX figures for the end of December 2009 were 3.8% and 3.5% respectively (see Figure 1).
- Eleven of the fourteen RPIX groups increased over the year ending December 2009. The Motoring group made the largest contribution to the annual increase.
- The RPIX index stood at 143.7 (1998 base).
- The annual RPI inflation rate was 2.2% compared to -1.2% at the end of September 2009 and 1.2% at the end of December 2008.
- The RPI index stood at 141.0 (1999 base)

Figure 1: Annual Rates of Inflation - RPIX



RPIX Overview

Table 1: RPIX Overview

		Annual % Change	Quarterly % Change	Index (1998 base)
2007	Mar	3.1	2.0	130.9
	June	3.1	1.0	132.2
	Sept	2.9	-0.3	131.9
	Dec	3.9	1.2	133.5
2008	Mar	4.3	2.3	136.6
	June	5.4	2.1	139.4
	Sept	6.2	0.7	140.4
	Dec	4.6	-0.5	139.6
2009	Mar	3.3	1.0	141.0
	June	2.7	1.5	143.2
	Sept	2.4	0.4	143.7
	Dec	2.9	-0.1	143.7

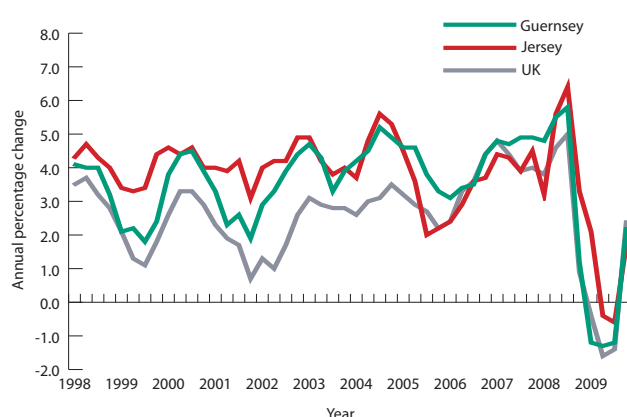
The RPIX annual inflation rate stood at 2.9% in the 12 months ending 31st December 2009, 1.7 percentage points lower than in December 2008 (see *Table 1*). This implies that core inflationary pressures in Guernsey were less in the year ending 31st December 2009, than in the year ending 31st December 2008.

The quarterly rate of change of RPIX was -0.1% over the three months ending December 2009 RPIX, compared to an increase of 1.5% in the previous quarter and decrease of 0.5% the previous year..

RPIX in the UK and Jersey for the year ending December 2009 increased by 3.8% and 3.5% respectively (see *Figure 1*), indicating that core inflationary pressures in Guernsey were less than in the UK and Jersey.

RPI Overview

Figure 2: Annual Rates of Inflation - RPI



The annual inflation rate of RPI increased by 2.2% over the year ended 31st December 2009, compared to -1.2% in September 2009 and 1.2% in December 2008 (see *Table 2*).

The large decreases in the Bank of England interest rate during the last quarter of 2008, which had a significant impact on RPI, no longer fall within the 12 month period over which the annual change in RPI is calculated. This has resulted in a return to positive annual inflation this quarter, despite the continued downward effect of a further decrease in the base rate in the first quarter of 2009

Similar effects were seen in the UK and Jersey, with RPI increasing by 2.4% and 1.7% respectively (see *Figure 2*).

Table 2: RPI Overview

		Annual % Change	Quarterly % Change	Index (1999 base)
2007	Mar	4.8	2.1	132.7
	June	4.7	1.1	134.1
	Sept	4.9	0.6	134.9
	Dec	4.9	1.1	136.4
2008	Mar	4.8	2.0	139.1
	June	5.5	1.7	141.5
	Sept	5.9	0.9	142.8
	Dec	1.2	-3.4	137.9
2009	Mar	-1.2	-0.4	137.4
	June	-1.3	1.6	139.6
	Sept	-1.2	1.1	141.1
	Dec	2.2	0.0	141.0

Over the three months ending December 2009 the RPI showed no change, compared to an increase of 1.1% during the previous quarter and a decrease of 3.4% during the fourth quarter of the previous year.

Group Analysis

The annual inflation rate of each of the RPIX and RPI groups is shown in *Figure 3* and the contribution of each group to the overall annual rate is shown in *Figure 4*.

Of the fourteen groups only the Housing group shows a different percentage change between the RPIX and RPI, as a result of the exclusion of the mortgage interest item in the calculation of RPIX. However, due to differences in the weighting of the groups (see *Table 3*) the contribution made by each group to RPI and RPIX differs.

The RPIX Housing group increased by 2.4% over the year ending December 2009, contributing an increase of 0.4 percentage points to the annual change in RPIX. The RPI Housing group showed no change over the 12 month period and made so no contribution to the annual change in RPI.

Out of the remaining thirteen groups, ten increased and three decreased over the twelve months ending 31st December 2009. Of these the Tobacco, Fuel light and power and Motoring groups showed the largest increases (12.4%, 14.9% and 10.0% respectively). The Motoring group made the largest contribution to the annual changes in both RPIX (0.9 percentage points) and RPI (0.8 percentage points).

The Household services, Clothing and footwear and Leisure goods groups each showed a decrease over the year ended 31st December 2009.

Table 3: Group Weights

	RPIX	RPI
Food	124	107
Alcoholic drink	48	42
Tobacco	19	16
Housing	147	264
Fuel, light and power	45	39
Household goods	64	55
Household services	89	77
Clothing & footwear	47	41
Personal goods	64	55
Motoring expenditure	99	86
Fares/other travel	26	22
Leisure goods	76	66
Leisure services	101	88
Food away from home	51	44

Figure 3: Annual Percentage Change

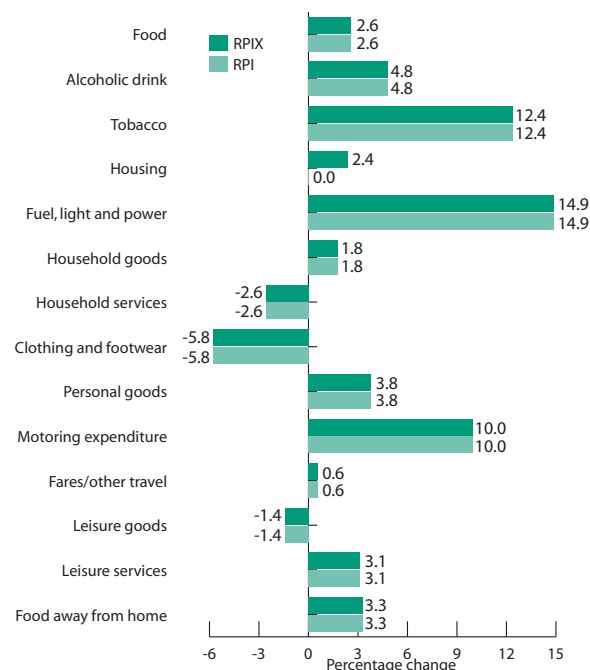
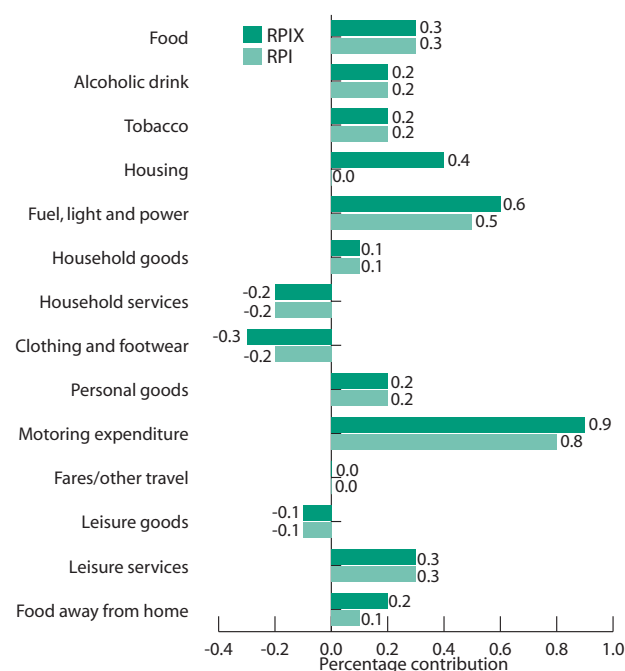


Figure 4: Annual Contribution



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

Group Analysis

Figure 5: Quarterly Percentage Change

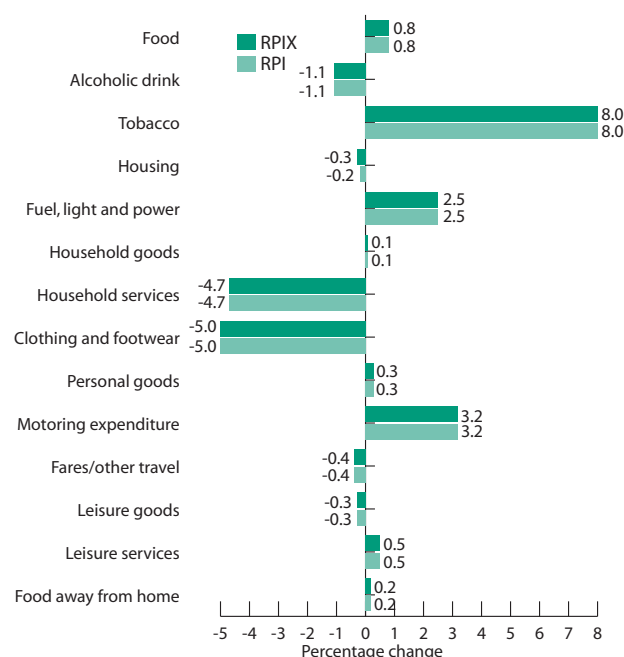


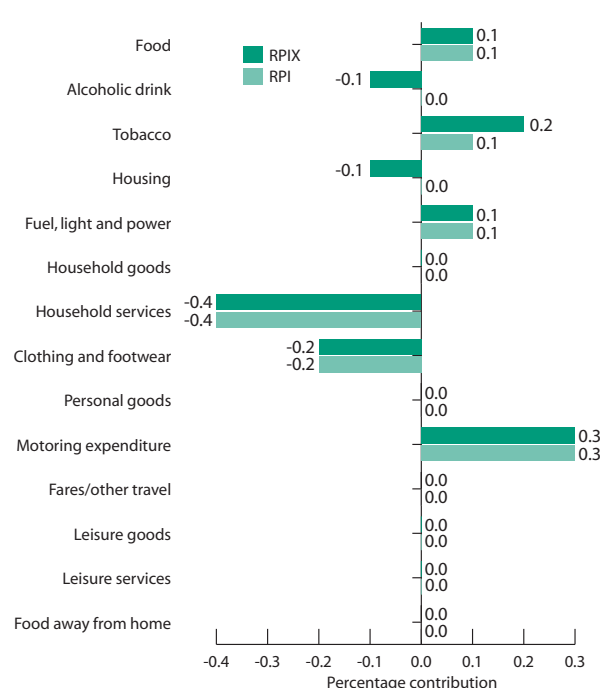
Figure 5 shows the percentage change over the three months ending 31st December 2009 for each of the RPIX and RPI groups. The quarterly contribution of each group is shown in Figure 6.

Eight of the fourteen RPIX groups increased this quarter. The Tobacco group showed the largest increase (8.0%) but as the lowest weighted group contributed only 0.2 percentage points to RPIX. The Motoring group made the largest positive contribution to RPIX (0.3 percentage points).

The Clothing and footwear group showed the largest decrease this quarter (-5.0%), followed by the Household services group (-4.7%) contributing a decrease of 0.2 and 0.4 percentage points respectively.

The Alcohol and Housing groups also made negative contributions to the quarterly change to RPIX this quarter.

Figure 6: Quarterly Contribution



The index figures for the fourteen RPIX and RPI groups are available from the Policy and Research Unit on request.

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

RPI Group Analysis

Within each group, specific items can be identified as having an upward or downward effect on the Index, details are given below. The figures presented in brackets are the quarterly changes for each group.

Food (0.8%)

Together with seasonal variations in the price of fruit and vegetables, an increase in the cost of bread products resulted in an increase in this group this quarter. This was partially offset by a decrease in the price of cooked meat products

Alcoholic drinks (-1.1%)

A large number of special offers on alcoholic drinks brought for consumption at home resulted in a decrease in this group.

Tobacco (8.0%)

A general increase in the cost of cigarettes and tobacco this quarter lead to a large increase in the tobacco group.

Housing (-0.3% RPIX, -0.2% RPI)

Decreases in some household maintenance costs lead to a decrease in this RPIX group. The inclusion of the mortgage interest component in this group for the RPI calculation resulted in a slightly smaller decrease in this group in the RPI

Fuel, light and power (2.5%)

There were increases in the cost of oil and bottled gas this quarter resulting in an increase in this group.

Household goods (0.1%)

A decrease in the price of furniture and household appliances were off set by increases in other house goods such as pet expenses and cleaning products.

Household services (-4.7%)

The majority of items in this group showed little change during the last quarter. A decrease in the cost of bank charges made the largest contribution to a decrease in this group.

Clothing and footwear (-5.0%)

The extent of the winter sales, particularly in women's clothes lead to a large decrease in the Clothing and footwear group this quarter.

Personal goods (0.3%)

An increase in various medical expenses led to a small increase in the group.

Motoring (3.2%)

An increase in the cost of petrol and diesel was the principle contributor to the increase in the cost of motoring this quarter.

Fares & other travel (-0.4%)

The costs of boat and train fares decreased this quarter but were partially offset by an increase in air fares.

Leisure goods (-0.3%)

Decreases in the cost of electrical goods and software were offset by an increase in the cost of sports goods.

Leisure services (0.5%)

An increase in the cost of foreign holidays led to an increase in this group

Food away from home (0.2%)

A moderate increase in the cost of takeaway meals has lead to a increase in this group.

Indices and Reflation Factors

Table 4: RPIX Reflation Factors for the Period Ending December 2009

	Cumulative % Change	Reflation Factor
3 months	-0.1	1.00
6 month	0.4	1.00
9 months	1.9	1.02
12 months	2.9	1.03
15 months	2.3	1.02
18 months	3.1	1.03
2 years	7.6	1.08
3 years	11.9	1.12
4 years	15.0	1.15
5 years	18.5	1.19
10 years	39.7	1.40

Table 5: RPI Reflation Factors for the Period Ending December 2009

	Cumulative % Change	Reflation Factor
3 months	0.0	1.00
6 month	1.0	1.01
9 months	2.6	1.03
12 months	2.2	1.02
15 months	-1.3	0.99
18 months	-0.3	1.00
2 years	3.4	1.03
3 years	8.5	1.08
4 years	13.3	1.13
5 years	17.2	1.17
10 years	41.1	1.41

Reflation Factors

Indices are used to calculate the change in prices over time. The headline annual inflation in RPIX or RPI is the percentage change in the index over a year. However, it is possible to calculate percentage changes over longer periods of time.

The effect of inflation is to erode the purchasing power of currency. The reflation factors in *Tables 4 and 5* can be used to inflate old values to approximate current prices.

To convert a price, multiply it by the appropriate reflation factor. For example, using RPI reflation factors, £100 in December 1999 is equivalent to £100 x 1.41 = £141 in 2009.

Reflation factors can also be used in the opposite way. To calculate what £100 in 2009 would have been worth in 1999 divide by the relevant reflation factor.

There is an *inflation calculator* on our website (www.gov.gg/pru), which you can use to calculate the percentage change in RPI between any two quarter from 1965 onwards. The inflation calculator can also calculate the reflation value of a monetary sum (e.g. a rental payment) across the specified period.

When making long-term comparisons, it should be taken into account that the 'shopping basket' may have changed over time, since households may not be spending money on the same products as they did in the past.

Methodology

How are the RPIX and RPI calculated?

The calculations of the RPIX and RPI are 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 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.

The methodology is continuously monitored and is periodically audited and updated to ensure it remains accurate and representative.

Which items are included?

All goods and services on which a household typically spends money make up the basket. 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 RPIX and RPI 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 were introduced in 2008.

Further Information

The Guide to the Guernsey Retail Prices Index is now available on our website.

Please contact Liz Laine (Research and Information Officer) for further information.

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