

Guernsey Quarterly Inflation Bulletin

31st December 2010 - release date 21st January 2011



POLICY COUNCIL
THE STATES OF GUERNSEY

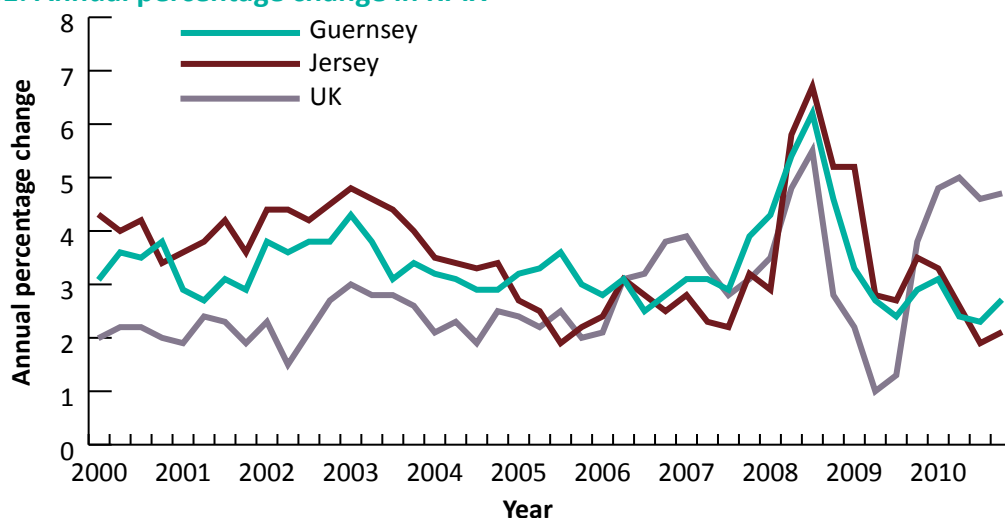
1.1 Introduction

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 represent the average change in these prices. More detailed information on the calculation of these indices can be found at the end of this handout.

1.2 Headlines

- Guernsey's annual inflation as measured by RPIX ('core' inflation excluding mortgage interest payments) was 2.7% in the year ending December 2010, compared to 2.3% in the year ending September 2010 and 2.9% in the year ending December 2009.
- In the UK and Jersey the equivalent RPIX figures for the year ending December 2010 were 4.7% and 2.1% respectively (see [Figure 1.2.1](#)).
- Eleven of the fourteen RPIX groups increased in the year ending December 2010.
- For the fifth successive quarter the fuel, light and power and motoring groups made the largest contributions (0.6 and 0.5 percentage points respectively) to the annual increase in RPIX.
- The household services group made the largest negative contribution (0.2 percentage points) to the annual change.
- The 'all items' RPI inflation rate was 2.3% in the year ending December 2010, compared to 1.6% in the year ending September 2010 and 2.2% in the year ending December 2009.

Figure 1.2.1: Annual percentage change in RPIX



2.1 RPIX overview

Table 2.1.1: RPIX overview

		Annual % change	Quarterly % change	Index (1998 base)
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
2010	Mar	3.1	1.2	145.4
	June	2.4	0.8	146.6
	Sept	2.3	0.3	147.1
	Dec	2.7	0.3	147.6

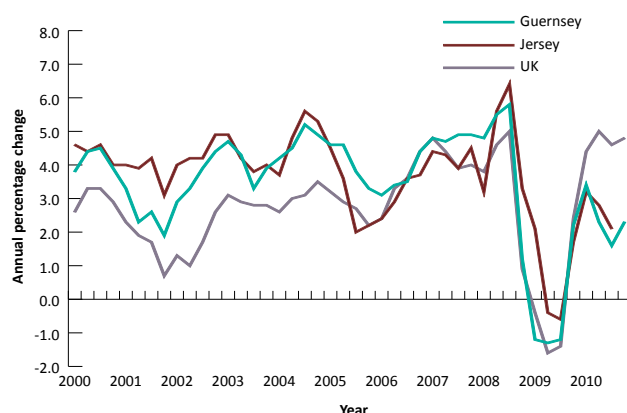
The annual change in the RPIX was 2.7% at the end of December 2010, 0.4 percentage points higher than September 2010 and 0.2 percentage points lower than December 2009 ([Table 2.1.1](#) and [Figure 1.1.1](#)). This implies that overall core inflationary pressures in the 2010 calendar year were broadly the same as those experienced in 2009.

In the quarter ending December 2010 RPIX increased by 0.3%, the same level of increase as that which occurred in the previous quarter. In the same quarter the previous year RPIX decreased by 0.1%.

Annual changes in the RPIX in the UK and Jersey were 4.7% and 2.1% respectively. The majority of the differential between UK and Channel Island inflation can be attributed to indirect tax changes in the UK.

2.2 RPI Overview

Figure 2.2.1: Annual changes in RPI



The annual change in the RPI was 2.3% in December 2010, 0.7 percentage points higher than in September 2010 and 0.1 percentage points higher than in December 2009 ([Figure 2.2.1](#) and [Table 2.1.1](#)).

In the quarter ending 31st December 2010, the RPI increased by 0.6%, compared to an increase of 0.4% in the quarter ending September 2010 and no change in the quarter ending December 2009.

The annual changes in RPI in the UK and Jersey were 4.8% and 2.3% respectively.

Table 2.2.1: RPI overview

		Annual % change	Quarterly % change	Index (1999 base)
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
2010	Mar	3.4	0.7	142.1
	June	2.3	0.5	142.8
	Sept	1.6	0.4	143.4
	Dec	2.3	0.6	144.2

3.1 Group analysis - annual

Figure 3.1.1 shows the annual percentage change in each of the fourteen RPI and RPIX groups. **Figure 3.1.2** shows the number of percentage points contributed to the annual change in the indices by each group.

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 3.1.1**) the contribution made by each group to the RPI and RPIX differs.

In the year ending December 2010 eleven of the fourteen groups increased. The fuel light and power group made the largest annual percentage change, increasing by 14.8% and contributing 0.6 percentage points to the annual change in RPIX. This increase was principally due to an overall increase in global oil prices.

The motoring group, which is also heavily affected by oil prices, increased by 4.7%, contributing 0.5 percentage points to the annual increase in RPIX.

The housing group, which has the highest weighting in RPIX and RPI, increased by 3.4% in the RPIX and 1.1% in the RPI in the year ending December 2010.

Figure 3.1.1: Annual percentage change

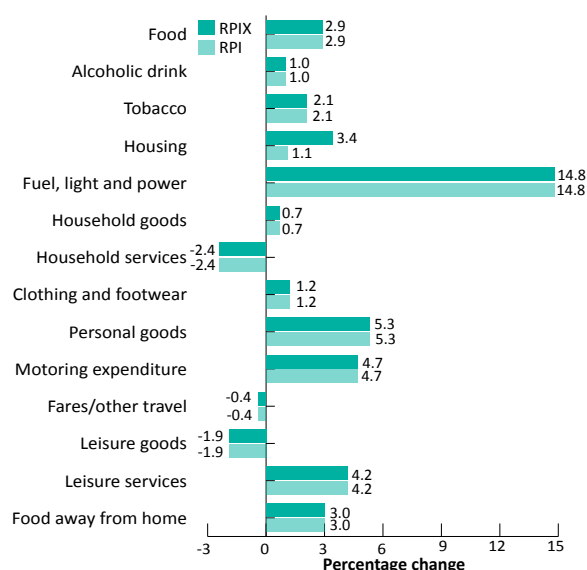


Figure 3.1.2: Annual contribution

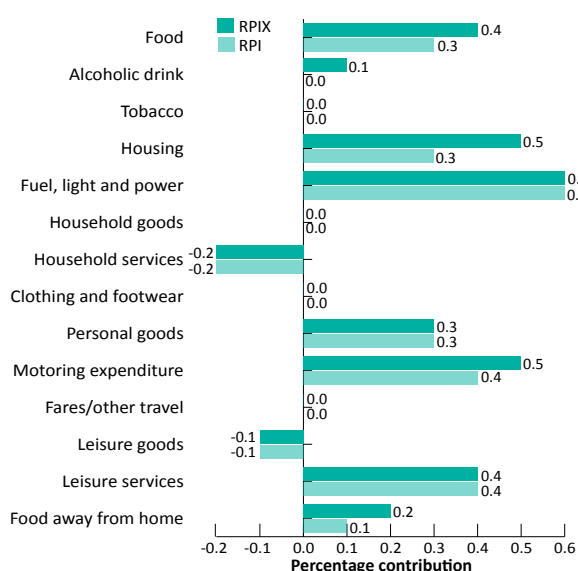
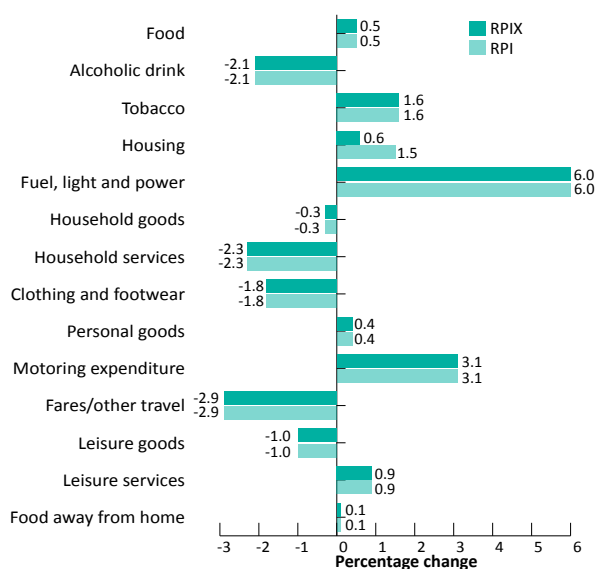


Table 3.1.1: Group weighting

	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	99	86
Fares/other travel	26	22
Leisure goods	76	66
Leisure services	101	88
Food away from home	51	44

3.2 Group analysis - quarterly

Figure 3.2.1: Quarterly percentage change

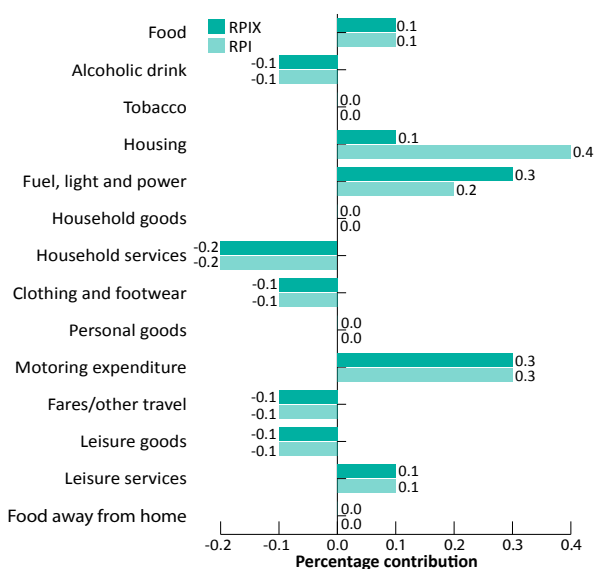


The average price level increased in eight of the fourteen groups in the quarter ending 31st December 2010 (**Figure 3.2.1**).

The fuel, light and power group showed the largest percentage increase (6.0%) contributing 0.3 percentage points to the quarterly change in RPIX (**Figure 3.2.2**). The motoring group showed the second largest quarterly increase (3.1%) and also contributed an increase of 0.3 percentage points to RPIX, due to its higher weight.

Of the five groups that decreased in the quarter ending 31st December 2010, the fares and other travel group showed the largest decrease (2.9%) contributing a decrease of 0.1 percentage points to the quarterly change in RPIX. This is largely due to seasonal reductions in air and sea fares.

Figure 3.2.2: Quarterly contribution



Household services, which has a higher weighting than fares and other travel, made the largest negative contribution (0.2 percentage points) to the change in RPIX over the quarter ending December 2010.

The housing group made the largest contribution (0.4 percentage points) to RPI, but contributed an increase of only 0.1 percentage points to RPIX.

3.2 Group analysis - quarterly

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 (0.5%)

Increases in the cost of some staple food items including bread, flour and dairy products were partially offset by decreases in other items including some fresh and frozen meat products.

Alcoholic drinks (-2.1%)

Special offers on wine and spirits bought for home consumption resulted in a decrease in this group despite increases in the cost of beers, ciders for home consumption and alcoholic drinks bought for consumption on licensed premises.

Tobacco (1.6%)

There was an increase in this group in the quarter ending December 2010 due to an increase in duty charges.

Housing (0.6% RPIX, 1.5% RPI)

This quarter saw increases in the cost of private rentals and the price of some DIY items. The cost of mortgages interest payments, which is only included in the RPI, also showed an increase this quarter.

Fuel, light and power (6.0%)

Global increases in oil and fuel prices led to large increases in the cost of heating oil and gas this quarter.

Household goods (-0.3%)

Decreases in the cost of soft furnishings and household textiles was partially offset by increases in the cost of some household appliances.

Household services (-2.3%)

Decreases in the cost of some bank charges and domestic services led to a decrease in this group this quarter.

Clothing and footwear (-1.8%)

Decreases in the cost of some women's clothing resulted in a decrease in this group.

Personal goods (0.4%)

Increases were seen in the cost of some items, such as vitamins and some medical expenses, but these were partially offset by a reduction in the price of other items such as travel accessories.

Motoring (3.1%)

Petrol and diesel prices both increased over the quarter resulting in an overall increase in this group.

Fares & other travel (-2.9%)

Seasonal changes to the cost of air and sea fares led to a decrease in this group this quarter.

Leisure goods (-1.0%)

Decreases in the cost of some electrical goods and prerecorded material led to a decrease in this group.

Leisure services (0.9%)

Increases in the cost of foreign holidays, holiday accommodation and sports and entertainment subscriptions led to an increase in this group this quarter.

Food away from home (0.1%)

There was little change in the cost of meals away from home this quarter.

4.1 Cumulative changes, refation factors and indices

Table 4.1.1: RPIX cumulative changes and refation factors for the period ending 31st December 2010

	Cumulative % change	Refation factor
3 months	0.3	1.00
6 month	0.7	1.01
9 months	1.5	1.01
12 months	2.7	1.03
15 months	2.7	1.03
18 months	3.1	1.03
2 years	5.7	1.06
3 years	10.6	1.11
4 years	14.9	1.15
5 years	18.2	1.18
10 years	38.3	1.38

Table 4.1.2: RPI cumulative changes and refation factors for the period ending 31st December 2010

	Cumulative % change	Refation factor
3 months	0.6	1.01
6 month	1.0	1.01
9 months	1.5	1.02
12 months	2.3	1.02
15 months	2.2	1.02
18 months	3.3	1.03
2 years	4.5	1.05
3 years	5.8	1.06
4 years	10.9	1.11
5 years	15.9	1.16
10 years	38.9	1.39

Table 4.1.3: RPIX Index figures at 31st December 2010

Year of base	Index
1998	147.6
2008	105.9

Table 4.1.4: RPI Index figures at 31st December 2010

Year of base	Index
1949	3148.2
1965	1838.9
1974	1014.2
1979	490.8
1983	309.1
1988	231.4
1994	171.2
1999	144.2
2008	101.9

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.

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

The effect of inflation is to erode the purchasing power of currency. The refation factors in [Tables 4.1.1](#) and [4.1.2](#) can be used to inflate old values to approximate current prices.

To convert a price, multiply it by the appropriate refation factor. For example, using RPIX refation factors, £100 in December 2000 is equivalent to £100 x 1.38 = £138 in December 2010.

Refation factors can also be used in the opposite way. To calculate what £100 in 2010 would have been worth in 2000, divide by the relevant refation factor.

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.

Following each Household Expenditure Survey the index is rebased (i.e. set to 100). [Tables 4.1.3](#) and [4.1.4](#) show the index value for the current quarter for each year of base. Full time series of index figures for each base is available on our website (www.gov.gg/rpi).

5.1 UK and Jersey inflation rates

Table 5.1.1 and **Table 5.1.2** show the comparable RPIX and RPI inflation rates reported by the UK Office of National Statistics¹ and the States of Jersey Statistics Unit². There may be differences in the methodology used to calculate inflation and care should be taken when comparing figures from different jurisdictions.

Typically inflation in the three jurisdictions follow broadly the same trends. However, it should be noted that changes in taxation and other circumstances specific to a particular jurisdiction may have a significant impact on inflation. For example, the introduction of the Goods and Services Tax in Jersey in 2008 exerted an upwards pressure on both RPIX and RPI which was not experienced in either Guernsey or the UK. Similarly the temporary reduction of the UK VAT rate to 15% in 2009 and it's subsequent return to 17.5% in 2010 will have influenced the inflation in the UK but had little impact in Guernsey and Jersey.

The higher cost of housing experienced in Guernsey and Jersey compared to the UK, and the resultant higher weighting of housing in the inflation rates of the Island's, means that changes in the cost of housing typically exert more inflationary pressure in the Guernsey and Jersey than in the UK. Differences in spending patterns in other areas, such as motoring, will also affect the relative effect of price changes on the indices.

Table 5.1.1: Annual change in RPIX in Guernsey, the UK and Jersey

		Guernsey	UK	Jersey
2007	Mar	3.1	3.9	2.8
	June	3.1	3.3	2.3
	Sept	2.9	2.8	2.2
	Dec	3.9	3.1	3.2
2008	Mar	4.3	3.5	2.9
	June	5.4	4.8	5.8
	Sept	6.2	5.5	6.7
	Dec	4.6	2.8	5.2
2009	Mar	3.3	2.2	5.2
	June	2.7	1.0	2.8
	Sept	2.4	1.3	2.7
	Dec	2.9	3.8	3.5
2010	Mar	3.1	4.8	3.3
	June	2.4	5.0	2.6
	Sept	2.3	4.6	1.9
	Dec	2.7	4.7	2.1

Table 5.1.2: Annual change in RPI in Guernsey, the UK and Jersey

		Guernsey	UK	Jersey
2007	Mar	4.8	4.8	4.4
	June	4.7	4.4	4.3
	Sept	4.9	3.9	3.9
	Dec	4.9	4.0	4.5
2008	Mar	4.8	3.8	3.2
	June	5.5	4.6	5.6
	Sept	5.9	5.0	6.4
	Dec	1.2	0.9	3.3
2009	Mar	-1.2	-0.4	2.1
	June	-1.3	-1.6	-0.4
	Sept	-1.2	-1.4	-0.6
	Dec	2.2	2.4	1.7
2010	Mar	3.4	4.4	3.2
	June	2.3	5.0	2.8
	Sept	1.6	4.6	2.1
	Dec	2.3	4.8	2.3

¹ www.statistics.gov.uk

² www.gov.je/statistics

6.1 Methodology

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.

Further information regarding the methodology, calculation and uses of the inflation indices can be found in the Guide to the Guernsey Inflation Indices which is available online at www.gov.gg/rpi

7.1 Contact details and further information

For more information on how the RPIX and RPI are calculated please see the Guide to the Guernsey Retail Prices Indices, which, along with the Inflation Calculator, is available via www.gov.gg/rpi.

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

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The next inflation bulletin (for March 2011) will be published at 9:30am on Thursday 21st April.