

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 June 2007 Guernsey's annual rate of inflation was **4.7%**. This is slightly lower than the figure at the end of March 2007, which was 4.8%. The equivalent figure for the UK was also 4.4%. The Jersey figure was 4.3%.
- Guernsey's RPIX (inflation excluding mortgage interest payments) remained the same as last quarter at **3.1%**
- The **Housing** group, which has the largest weight within the Index, contributed **2.6%** of the overall increase, compared to 2.8% last quarter.
- The Index increased to **134.1** (1999 base).

Overview

The Guernsey RPI increased by 4.7% for all items ending 30th June 2007.

The Housing group continued to be the largest contributor to the RPI at 2.6% out of the overall figure. The continuing rise in this group is mainly due to the increasing cost of servicing a mortgage. This is a result of the combined effects of rising average house prices and interest rates, with another increase set by the Bank of England during the quarter.

The next highest contributors were Food, at 0.6%, followed by Alcohol and Food Away from home, which both contributed 0.4%. Personal Goods and Leisure Services groups contributed 0.3% and 0.2% respectively.

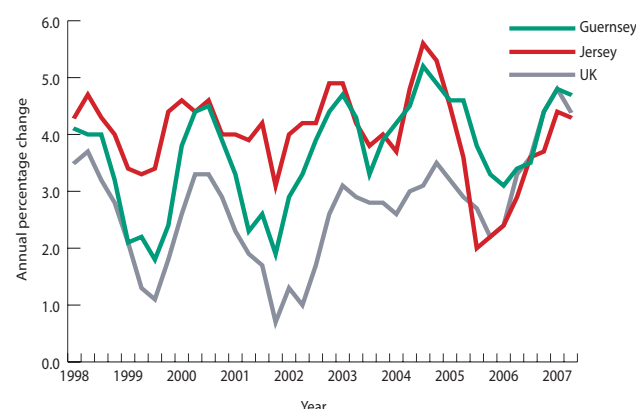
The Clothing and Footwear group was the only group to have a downward effect on the Index during the quarter, contributing -0.3%.

The RPI has decreased slightly this quarter (0.1% less than March 2007) following its rise from a 5 year low of 3.1% in March 2006.

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
2007	4.8	4.7		

Figure 1: Annual Rates of Inflation



RPI Analysis

Figure 2: Annual Contribution to RPI

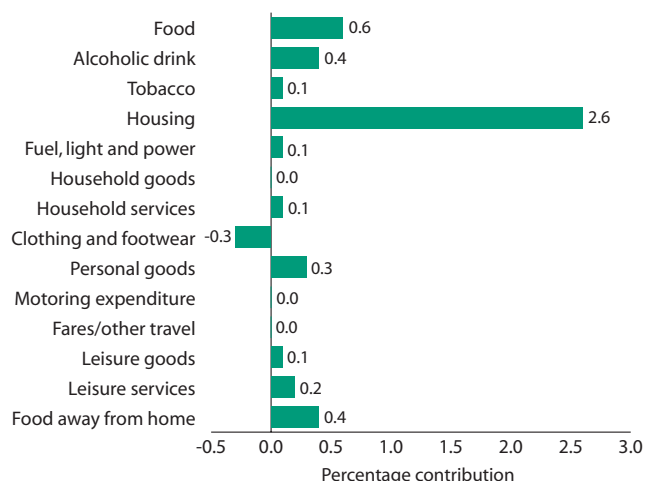


Figure 3: Annual Percentage Change

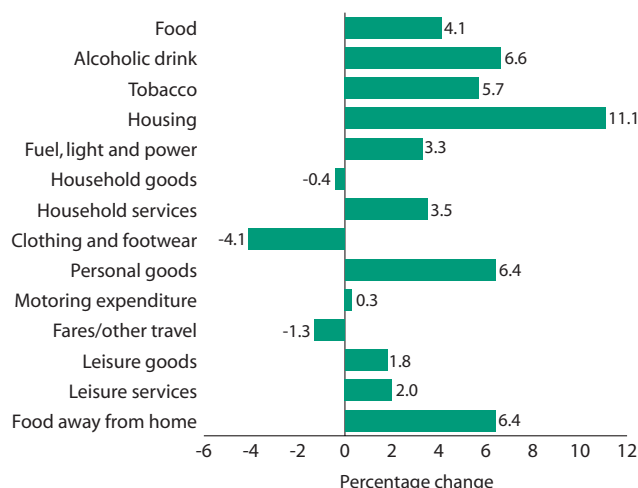
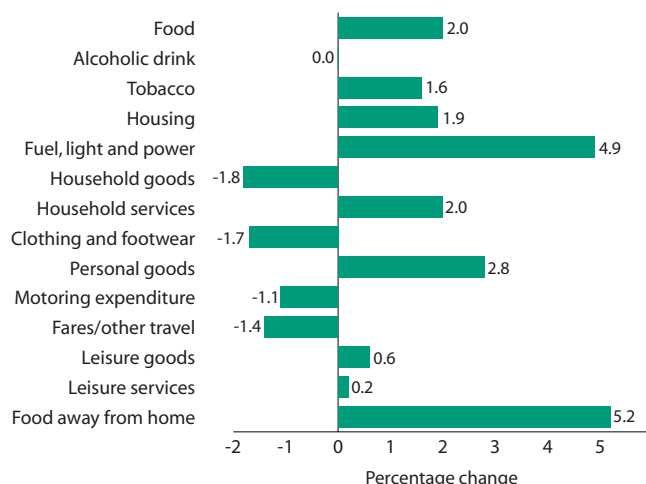


Figure 4: Quarterly Percentage Change



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*.

During the last 12 months, Housing has increased by 11.1% (*Figure 3*), the largest percentage increase of all the groups. This group also has a large weighting, so remains the largest contributor (2.6% out of 4.7%).

The Alcoholic Drink group, increased by 6.6% since last June, but remained constant during the second quarter of 2007. It has a low weight, so this resulted in an overall RPI contribution of 0.4%.

The Food group increased 4.1% over the year and since it holds the second highest weight in the RPI, it contributed 0.6% to the overall annual RPI rate.

Personal Goods and Food Away From Home (which also represented the largest quarterly percentage increase at 5.2%) both increased by 6.4% over the year.

Clothing and Footwear, Fares / Other Travel and Fuel Light and Power showed percentage decreases over the year. However, Fuel, Light and Power showed the second highest quarterly increase (4.9%)

Main contributions to the quarterly percentage change

Figure 4 shows percentage changes since the end of March 2007.

In addition to those mentioned above, Personal Goods and Food also showed large quarterly increases.

Housing, which often shows the highest increase, rose by 1.9%.

Household Goods and Clothing and Footwear decreased by 1.8% and 1.7% respectively during the quarter. Both of these groups also showed annual decreases, but due to the weighting, only Clothing and footwear had a significant downward effect on the index.

Fares / Other Travel and Motoring Expenditure also decreased.

RPI 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 (0.6%)

Along with seasonal fluctuations in prices of some items throughout the year, frozen vegetables, chicken, fresh fruit, flour and yoghurt showed the largest increases. Reductions were seen in the prices of several items including margarine and fresh potatoes and fish.

Alcohol (0.4%)

There were some slight fluctuations in prices of alcoholic drinks this quarter, but overall prices increased during the year, except the cost of cider brought home.

Tobacco (0.1%)

Prices of cigars, cigarettes and tobacco increased during the 12 month period, although prices of cigars fell during the quarter.

Housing Group (2.6%)

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% again during the quarter and the seven-year moving average in house prices also increased, resulting in a significant overall increase. Other price rises this quarter included increases in tax on rateable value and occupiers rates. Power tools and heating maintenance and repairs fell in price within the group, but all the other components increased.

Fuel, Light and Power (0.1%)

Gas remained stable and oil and coal prices continued to decrease. However, electricity (which has the highest weight within the group) increased in price, resulting in an overall increase.

Household Goods (0.0%)

There were some increases in the group, including toilet paper and spare parts and repairs for electrical goods and domestic appliances. These were balanced out by decreases in other household goods including cookers and furniture.

Household Services (0.1%)

Most services remained stable, but increases in postal expenses and subscriptions to trade unions were apparent this quarter.

Clothing and Footwear (-0.3%)

This group had the largest downward effect on the RPI. Decreases in prices of most women's clothing, (which have a higher weighting) outweighed increases in baby and infant clothes and some men's clothing.

Personal Goods (0.3%)

Relatively significant increases were seen in the cost of medical insurance, medicines and doctors fees.

Motoring (0.0%)

Decreases in vehicle insurance and unleaded petrol were offset by increases in servicing and repair costs.

Fares & Other Travel (0.0%)

The cost of sea travel decreased over the year, however there were also increases in bus and taxi fares.

Leisure Goods (0.1%)

Increases in prices of plants, flowers and newspapers combined with decreases in the cost of TVs, CDs and mobile phones resulted in a small increase overall for the 12 month period.

Leisure Services (0.2%)

This increase was a result of rises in the cost of entertainment and fees for educational courses during the year. Mooring fees also increased this quarter.

Food Away from Home (0.4%)

There were increases throughout this group this quarter, in particular, the cost of food at work.

RPI Indices and Reflation Factors

Table 2: RPI Indices

	March	June	September	December
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
2007	132.7	134.1		

Table 3: Percentage Change at June 2007

Period	Percentage change
3 months	1.1
6 month	3.2
9 months	4.3
12 months	4.7
18 month	7.7
2 years	8.2
3 years	13.2
4 years	18.4
5 years	23.5
10 years	44.9

Table 4: Index Figures at June 2007

Year of rebase (Index = 100)	Index Figures
1999	134.1
1994	159.2
1988	215.2
1983	287.5
1978	456.5

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. By determining the percentage change over one year, the annual RPI headline figures are calculated. The annual Index rose by 4.7% to 134.1 on 30th June 2007 (*Table 2*).

To calculate the percentage change in value 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 the answer 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 (i.e. set at 100) 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*.

It is hoped that the next Guernsey Household Expenditure Survey will be completed later in 2007. The resulting new weights will be applied, along with updates to the shopping basket, to represent households' expenditure more appropriately. The index will then be rebased.

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. These figures are calculated annually. 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 $£100 \times 1.44 = £144$ 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	2006 Jun	2006 Sept	2006 Dec	2007 Mar	2007 Jun	Annual % change	Quarterly % change
Food	127	122.9	122.6	124.2	125.4	127.9	4.1	2.0
Alcoholic Drink	52	156.9	156.9	156.8	167.3	167.2	6.6	0.0
Tobacco	19	263.7	263.8	264.1	274.4	278.6	5.7	1.6
Housing	216	185.8	190.8	197.0	202.6	206.5	11.1	1.9
Fuel, Light and Power	41	167.1	163.9	167.7	164.5	172.6	3.3	4.9
Household Goods	79	127.3	127.5	125.7	129.1	126.8	-0.4	-1.8
Household Services	33	151.1	151.8	151.8	153.3	156.4	3.5	2.0
Clothing & Footwear	56	101.2	101.7	95.1	98.7	97.1	-4.1	-1.7
Personal Goods	49	152.7	152.4	153.4	158.0	162.4	6.4	2.8
Motoring Expenditure	85	142.4	140.0	142.9	144.5	142.8	0.3	-1.1
Fares/Other Travel	33	187.0	183.4	180.9	187.2	184.5	-1.3	-1.4
Leisure Goods	63	103.3	102.9	103.1	104.5	105.1	1.8	0.6
Leisure Services	92	161.8	162.8	164.2	164.8	165.0	2.0	0.2
Food Away from Home	55	149.6	149.8	149.2	151.3	159.1	6.4	5.2

Individual group indices are presented for June 2006 to June 2007 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**.

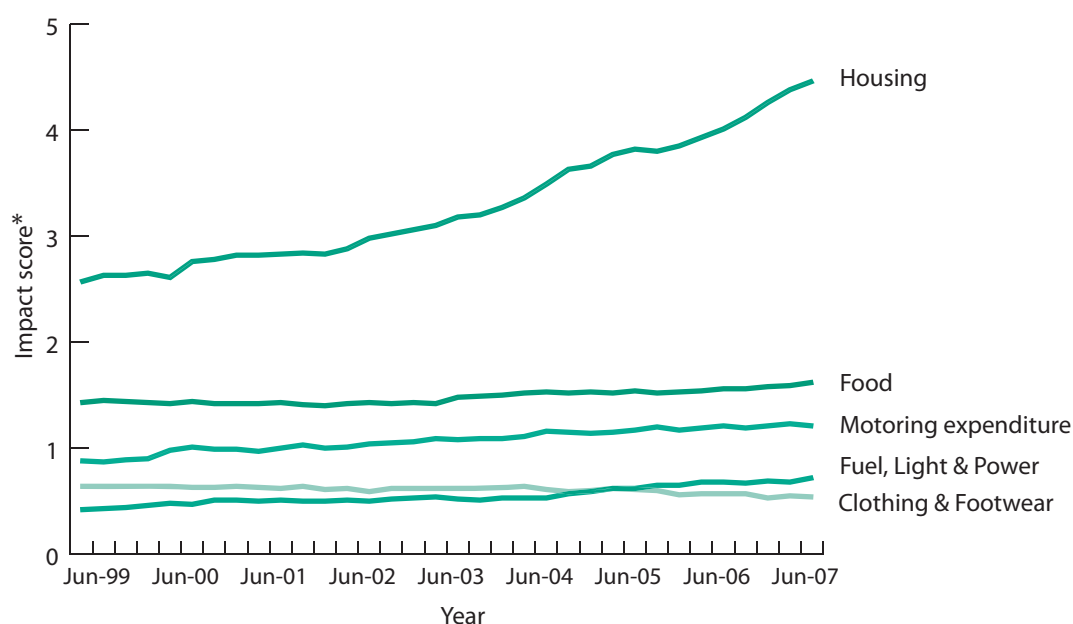
This quarter, the Housing group continued to show the fastest rate of increase shown by the steeper upward slope on the graph. Since this group has the highest weight, increases will have the highest impact on the overall Index.

Food, Motoring Expenditure and Fuel, Light and Power are also steadily increasing, but at a slower rate. These increases also impact on the overall Index but to a lesser extent than the Housing group due to having lower weights.

The Clothing and Footwear group continues to steadily decrease. This has a downward effect on the Index which means that on average, prices are now less than they were in December 1999.

The other groups have lower impact scores due to having lower weights.

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
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
2007	Mar	4.8	2.1	4.8	0.8	4.4	2.2
	June	4.7	1.1	4.4	1.4	4.3	1.0

In both Guernsey and Jersey, inflation fell by 0.1% (to 4.7% and 4.3% respectively). In the UK, inflation also fell back in June, decreasing by 0.4% to 4.4%.

The groups making up the Jersey index followed similar trends to the equivalent Guernsey groups. However, Housing contributed less to the Jersey increase and Fares and Other Travel Costs and Leisure Goods had greater downward effects.

In the UK, increases were mainly due to housing and transport. The main downward pressures came from average gas and electricity bills, food and non-alcoholic beverages, clothing and footwear,

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 RPI - 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.

The Guernsey RPIX remained at 3.1% in June, the same as in March 2007.

Both average mortgage interest rates and seven year rolling average house prices are rising, leading to a large increase in the mortgage interest component of the RPI. It is item within the index with the largest weight, so changes to this figure tend to have a large effect on the RPI.

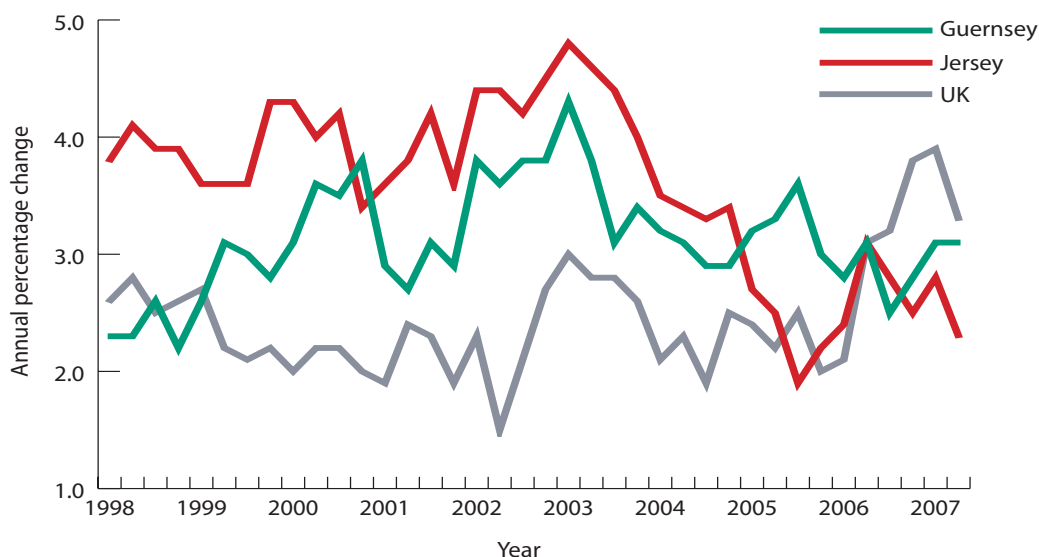
Guernsey's RPIX continues to be lower than that of the UK (3.3%), indicating that core inflationary pressures are less in Guernsey than is currently the case in the UK.

Although Guernsey's RPIX has been following a generally decreasing trend since 2003, for the last three quarters Jersey's RPIX has been lower.

Table 8: RPIX - Guernsey, Jersey and UK

		Guernsey	UK	Jersey
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
2007	Mar	3.1	3.9	2.8
	June	3.1	3.3	2.3

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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