

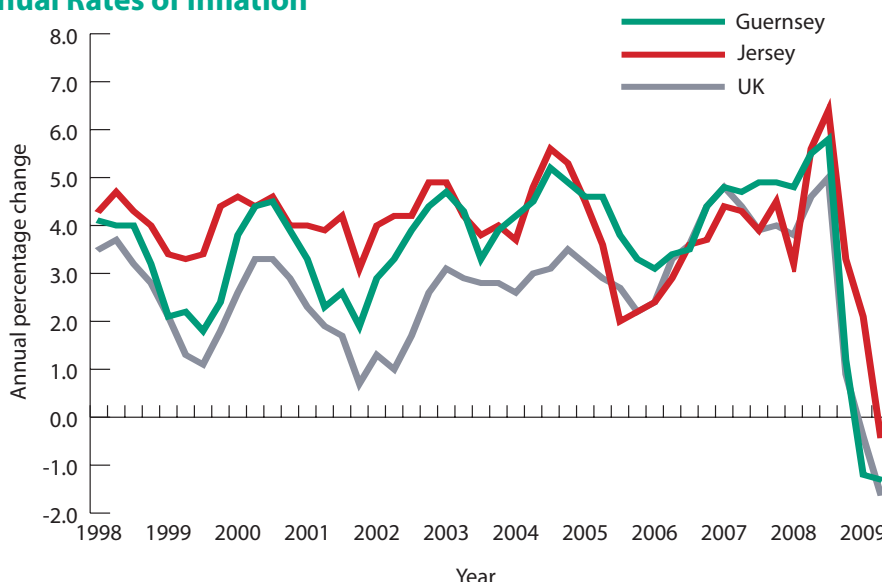
Introduction

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 2009 Guernsey's annual headline rate of inflation was -1.3%, compared to -1.2% at the end of March 2009 and 5.5% at the end of June 2008.
- In the UK and Jersey the equivalent figures for the end of June 2009 were -1.6% and -0.4% respectively (see *Figure 1*).
- Guernsey's RPIX ("core" inflation excluding mortgage interest payments) was 2.7% this quarter, compared to 3.3% at the end of March 2009 and 5.4% at the end of June 2008.
- The Housing group contributed a decrease of -2.8 percentage points to the headline annual rate of inflation as a result of the decreases in mortgage interest rates over the first three quarters of the year ending 30th June 2009
- The Fuel Light & Power, Clothing and Footwear, Fares and Leisure Goods groups also decreased during the year.
- However, the remaining nine of the fourteen RPI groups increased or remained stable over the year ending 30th June 2009: the Food, Household Services and Leisure Services groups contributed the largest increases.
- The Index stood at 139.6 (1999 base).

Figure 1: Annual Rates of Inflation



Overview

Table 1: Annual Rates of Inflation

Year	March	June	September	December
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	4.9	4.9
2008	4.8	5.5	5.8	1.2
2009	-1.2	-1.3		

RPI Analysis

Figure 2: Annual Percentage Change

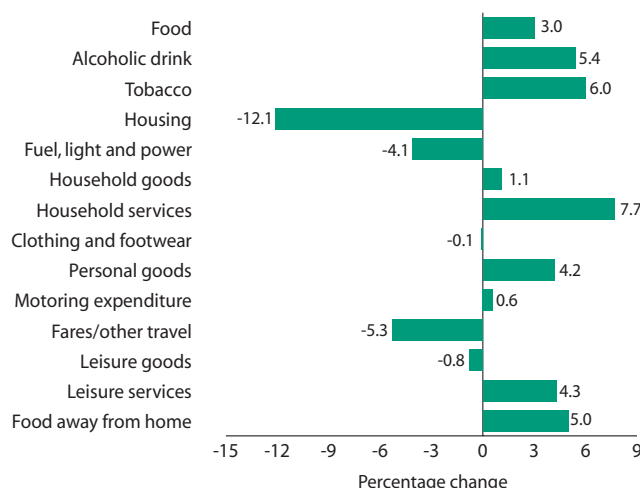
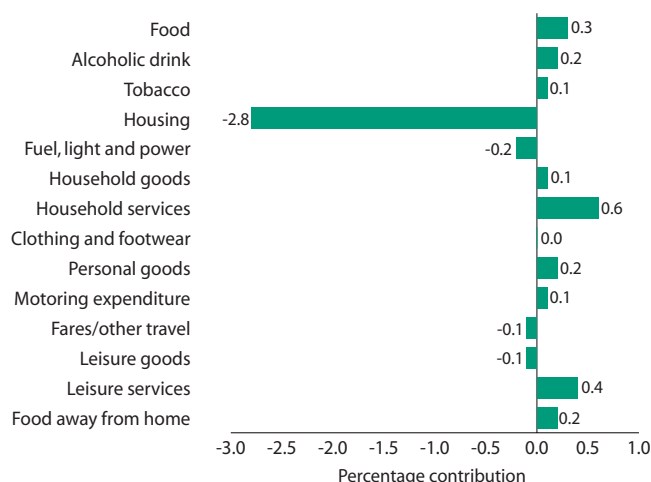


Figure 3: Annual Contribution to RPI



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

Overview of the annual and quarterly change

The Guernsey RPI changed by -1.3% for the twelve months ending 30th June 2009.

The change over the three months ending 30th June 2009 was 1.6%, compared to -0.4% during the previous quarter and -3.4% the quarter before.

Main contributions to the annual change

The annual percentage change of each of the RPI groups is shown in *Figure 2* and the contribution of each group to the overall annual rate is shown in *Figure 3*.

Out of the fourteen groups, nine increased and five decreased over the twelve months ending 30th June 2009. The Housing group decreased (-12.1%) by the largest amount over the year (see *Figure 2*).

The Bank of England has reduced the interest rate from 5% to 0.5% over the past twelve months, resulting in reductions in the average cost of mortgage repayments. This item has the highest weighting (14%) in the Guernsey RPI, reflecting the average proportion of Guernsey households' expenditure, which is spent on mortgage repayments. As a result of this, changes in this item have a large impact on the headline figure (see *Figure 3*), and for the year ending June 2009 were only partially offset by the increases in other groups

The Fuel, Light and Power, Fares and Leisure Goods groups also made negative contributions to RPI over the year.

The largest annual percentage increase occurred in the Household Services group, which increased by 7.7% since 30th June 2008. This was followed by increases in the Alcohol, Tobacco and Food Away from Home groups (5.4%, 6.0% and 5.0% respectively).

The Food group increased by 3.0%, which with its higher weighting, means that it made a larger contribution (0.3%) to the annual change than either the Alcohol or Tobacco groups.

RPI Analysis

Main contributions to the quarterly change

Figure 4 shows the percentage change over the three months ending 30th June 2009 for each of the RPI groups. The quarterly contribution of each group is shown in Figure 5.

Thirteen of the fourteen groups increased this quarter (see Figure 4). The Housing group, which has the highest weight within the Guernsey RPI increased by 1.7% (See Page 4 of this handout for more detail of the quarterly changes.). The Fares group was the only category to show a decrease over the quarter (-0.3%).

The largest increase was seen in the Fuel, Light and Power category, which increased by 9.4%, followed by Motoring which increased by 4.7%.

Figure 5 shows that, due to its high weighting, the contribution made by the Housing category to the quarterly percentage change is higher than that of the Fuel, light and power group and similar to the Motoring group, despite showing a smaller percentage change.

Group Indices

Individual group indices for December 2007 to June 2009 are presented in Table 2 (the percentage changes illustrated in Figures 2 to 5 are based on the changes in these index numbers). Please note that the weights were revised in September 2008.

Figure 4: Quarterly Percentage Change

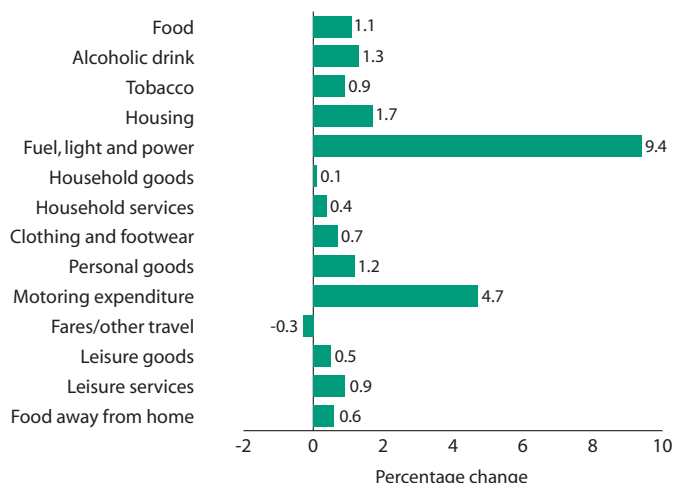
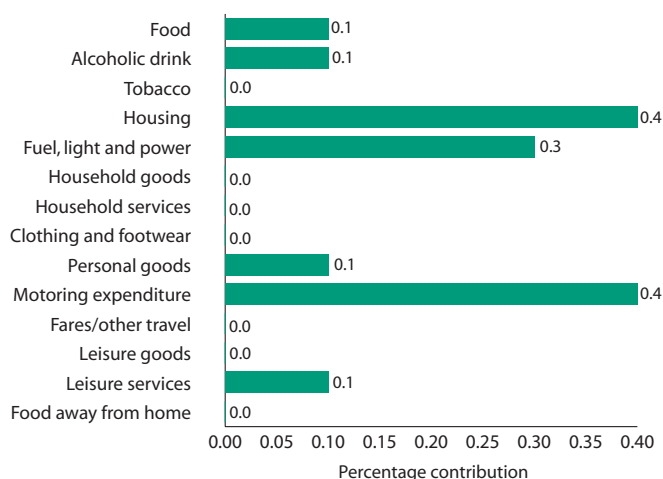


Figure 5: Quarterly Percentage Contribution



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

Table 2: Group Indices

RPI Group	Weight	2007 Dec	2008 Mar	2008 Jun	2008 Sep	2008 Dec	2009 Mar	2009 Jun
Food	107	131.3	133.8	137.4	138.6	139.1	140.0	141.5
Alcoholic Drink	42	170.0	180.4	186.3	187.1	187.5	193.9	196.4
Tobacco	16	281.8	291.0	290.9	291.4	298.0	305.6	308.2
Housing	264	213.0	212.9	216.3	219.8	195.7	187.0	190.2
Fuel, Light and Power	39	180.1	192.7	203.2	197.9	174.2	178.2	194.9
Household Goods	55	129.6	133.6	133.9	134.9	134.3	135.4	135.4
Household Services	77	158.0	159.7	161.9	164.0	173.4	173.7	174.3
Clothing & Footwear	41	98.5	92.5	91.8	93.3	91.7	91.1	91.7
Personal Goods	55	163.0	165.8	167.6	168.2	169.4	172.7	174.7
Motoring Expenditure	86	144.9	149.7	155.3	154.5	147.0	149.1	156.2
Fares/Other Travel	22	177.4	190.4	194.2	194.3	181.6	184.5	183.9
Leisure Goods	66	103.3	103.5	102.9	101.5	101.5	101.6	102.1
Leisure Services	88	166.2	168.6	170.9	177.7	177.5	176.6	178.3
Food Away from Home	44	153.6	163.4	162.5	164.3	164.8	169.7	170.7

RPI Group Analysis (Quarterly Percentage Changes)

Within each group, specific items can be identified as having an upward or downward effect on the Index, details are given below.

Food (1.1%)

In general, the price of staple food products such as bread, rice and pasta remained stable this quarter although a general increase was seen in the cost of potatoes and potato based products.

Alcoholic Drinks (1.3%)

A modest reduction in the cost of spirits brought for home consumption was offset by increases in the cost of some wines and liqueurs.

Tobacco (0.9%)

There was an increase in the cost of cigarettes this quarter, but the cost of cigars and tobacco remained unchanged.

Housing (1.7%)

Interest rates set by the Bank of England remained at 0.5% this quarter. However, an increase was seen in interest rates charged for some new mortgages. This was offset by a reduction in the average house price, but resulted in an overall increase in the mortgage repayments group this quarter. Other items in this category which have increased this quarter include household maintenance expenses and Tax on Real Property.

Fuel, Light and Power (9.4%)

This category showed the highest increase this quarter with the cost of electricity and oil both increasing.

Household Goods (0.1%)

Overall, very little change was seen in this category. Increases in cleaning materials and other household items were offset by discounts in other areas.

Household Services (0.4%)

Prices in this category remained relative stable, the most notable increases being in the cost of postal and cleaning services.

Clothing and Footwear (0.7%)

The cost of men's clothes remained relatively stable in price this quarter, however there was a general increase in the cost of women's clothes. The cost of children's clothes decreased.

Personal Goods (1.2%)

Increases in the cost of prescription charges and toiletries were the principle contributors to the increase in this category.

Motoring (4.7%)

The increase in this category is largely due to an increase in fuel prices which have a high weighting in this category. The cost of purchasing new vehicles also increased.

Fares & Other Travel (-0.3%)

The price of air fares and car hire decreased this quarter, but were largely offset by increases in the cost of sea and rail travel.

Leisure Goods (0.5%)

Most prices in this group remained stable but increases were seen in some consumable goods such as cut flowers and national newspapers.

Leisure Services (0.9%)

The cost of foreign holidays, which has the highest weighting in this category, increased this quarter. The cost of TV and satellite subscriptions also increased, however this was offset by a reduction in the cost of holiday accommodation.

Food Away from Home (0.6%)

The cost of meals in restaurants increased this quarter. All other items in this group remained stable.

RPI Indices and Reflation Factors

RPI Indices

RPI Indices are used to calculate the change in prices over time. By determining the percentage change in the Index over one year, the annual RPI headline figure can be calculated. The annual Index decreased by -1.3%, from 141.5 to 139.6 over the year ending 31st June 2009 (see *Table 3*).

To calculate the percentage change in value between two dates, use the following formula:

$$\% \text{ Change} = \frac{(\text{Most Recent Value} - \text{Earlier Value}) \times 100}{\text{Earlier Value}}$$

For ease of calculation, selected percentage increases for the most recent quarter are given in *Table 4*.

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

In order to ensure that the Guernsey RPI remains representative of the expenditure of an average Guernsey household, the shopping basket and weights are revised periodically.

Using the findings of the 2005/6 Household Expenditure Survey and local research, the basket and weights have been updated to better reflect what Guernsey people typically spend their money on.

Reflation Factors

The effect of inflation is to erode the purchasing power of currency. The reflation factors in *Table 6* are based on the fourth quarter figures and can be used to convert old values to approximate current prices.

To convert a price, multiply it by the appropriate year's value. For example, £100 in 1999 is equivalent to £100 x 1.39 = £139 in 2008.

Reflation factors can also be used in the opposite way. To calculate what £100 in 2008 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 perform reflation calculations for any period from 1965 onwards.

Table 3: RPI Indices

	March	June	September	December
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	134.9	136.4
2008	139.1	141.5	142.8	137.9
2009	137.4	139.6		

Table 4: Percentage Change at June 2009

Period	Percentage change
3 months	1.6
6 month	1.2
9 months	-2.3
12 months	-1.3
18 month	2.4
2 years	4.1
3 years	9.0
4 years	12.8
5 years	18.0
10 years	42.0

Table 5: Index Figures at June 2009

Year of rebase (Index = 100)	Index Figures
1999	139.6
1994	165.7
1988	224.0
1983	299.3
1978	475.2

Table 6: Reflation Factors for 2008

Year	Reflation Factor
1999	1.39
2000	1.33
2001	1.30
2002	1.25
2003	1.20
2004	1.14
2005	1.11
2006	1.06
2007	1.01
2008	1.00

Note: The percentage change figures given in Table 4 are calculated using unrounded index figures, so may differ slightly to those calculated using the index figures given in Table 3.

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
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
	Sept	4.9	0.6	3.9	0.4	3.9	0.4
	Dec	4.9	1.1	4.0	1.4	4.5	0.9
2008	Mar	4.8	2.0	3.8	0.6	3.2	0.9
	Jun	5.5	1.7	4.6	2.4	5.6	3.3
	Sept	5.8	0.9	5.0	0.6	6.4	1.1
	Dec	1.2	-3.4	0.9	-2.7	3.3	-2.0
2009	Mar	-1.2	-0.4	-0.4	-0.7	2.1	-0.3
	June	-1.3	1.6	-1.6	1.0	-0.4	0.9

The annual change in headline RPI was -0.4% in Jersey and -1.6% in the UK, compared to -1.3% in Guernsey.

The ten year trends, as illustrated in *Figure 7*, reveal a broadly similar trend for the three jurisdictions.

In Jersey, the Tobacco and Leisure Services groups both showed a 6.2% increase. In common with Guernsey, there was a decrease in the Housing group, which contributed -9.9% to the annual change.

In the UK, the Housing group was again the largest downward contributor to the RPI showing a fall of 11.6%. The largest upwards contributions to the UK RPI were from the Food and Non-alcoholic drinks and Fuel and light groups which increased by 5.3% and 9.6% respectively.

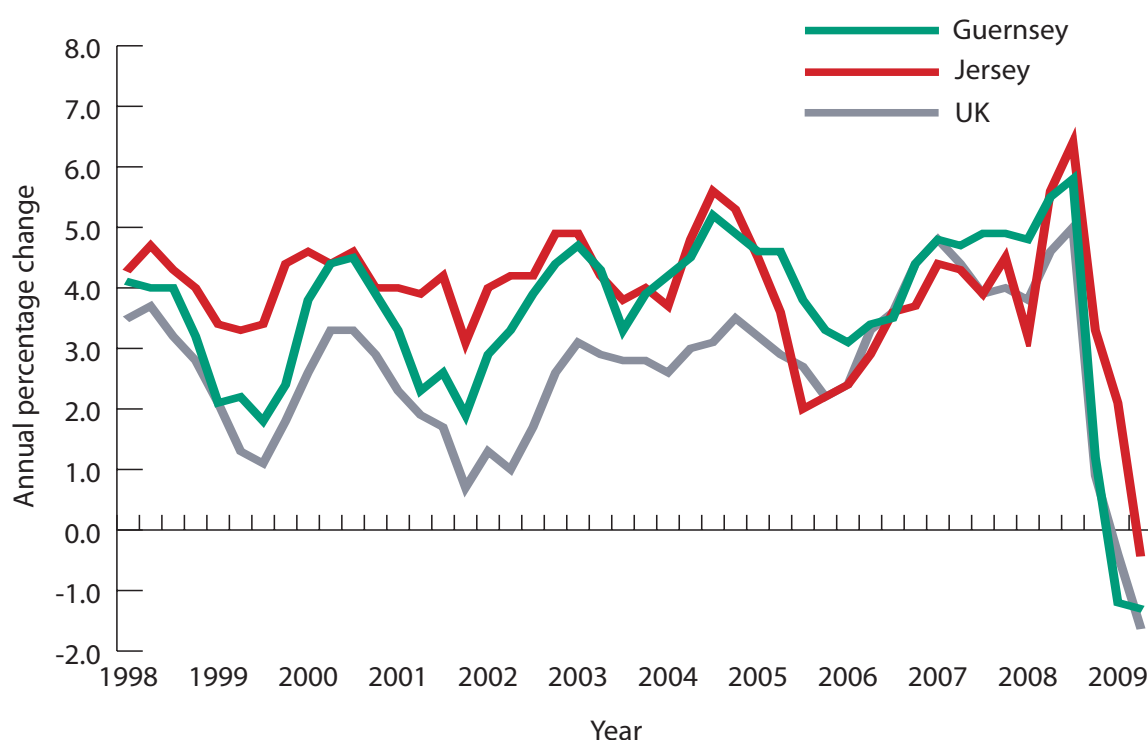
It should be noted that there are methodological differences between the three jurisdictions* but the figures are broadly comparable.

*More information can be found on the following websites:

UK RPI: www.statistics.gov.uk

Jersey RPI: www.gov.je/ChiefMinister/Statistics

Figure 7: 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.

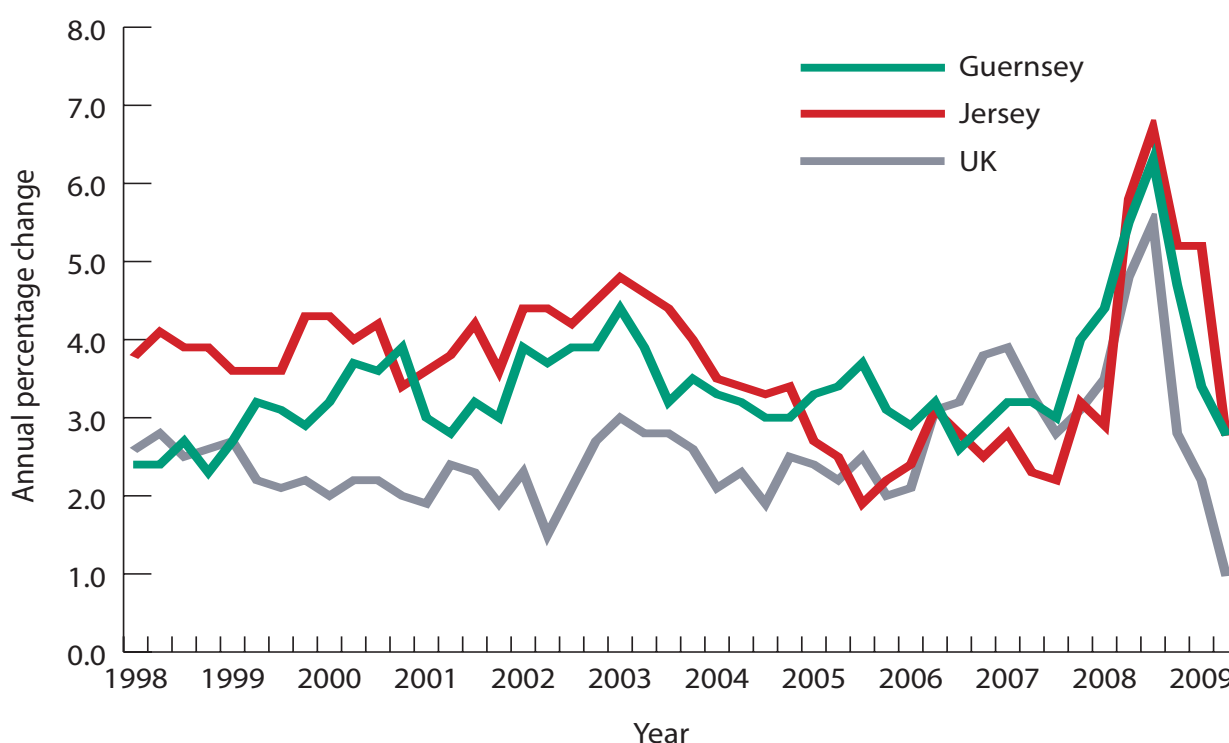
The Guernsey RPIX was 2.7%, compared to 3.3% last quarter and 5.4% the previous year. This implies that core inflationary pressures in the year ending 30th June 2008 were greater than those in the year ending 30th June 2009.

Guernsey's RPIX was similar to that of Jersey (2.8%), but remained higher than that of the UK (1.0%) this quarter. This indicates that core inflationary pressures in Guernsey and Jersey were higher than in the UK during the quarter ending 30th June 2009.

Table 8: RPIX - Guernsey, Jersey and UK

		Guernsey	UK	Jersey
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
	Sept	2.9	2.8	2.2
	Dec	3.9	3.1	3.2
2008	Mar	4.3	3.5	2.9
	Jun	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
	Jun	2.7	1.0	2.8

Figure 8: 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.

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 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 were introduced in 2008.

Further Information

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

Please contact Helen Walton (Senior Research Officer) for further information.

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