

# Guernsey Inflation

## Quarter 2 - 30th June 2010

Issue Date - 23rd July 2010

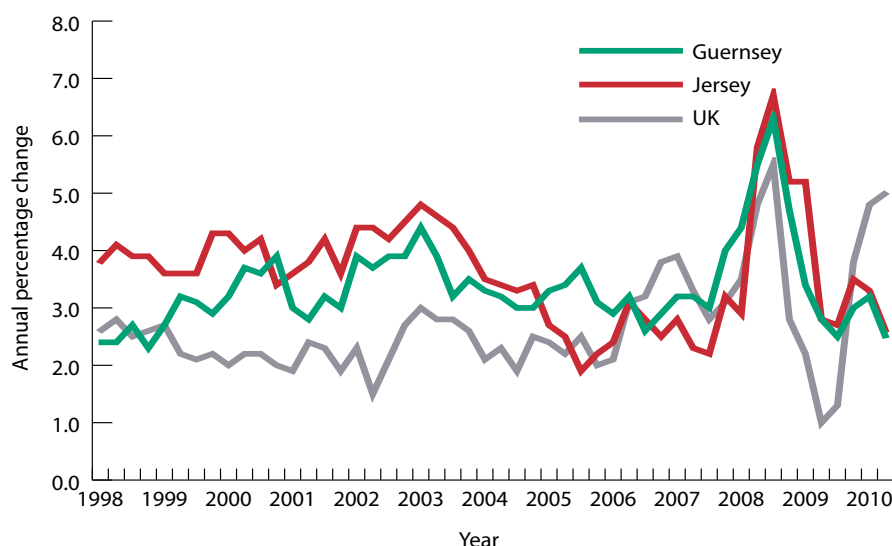
### Introduction

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.

### Headlines

- Guernsey's RPIX inflation rate ("core" inflation excluding mortgage interest payments) stood at 2.4% over the year ending June 2010, compared to 3.1% over the year ending March 2010 and 2.7% over the year ending June 2009.
- In the UK and Jersey the equivalent RPIX figures were 5.0% and 2.6% respectively for the end of June 2010 (see Figure 1).
- Eleven of the fourteen RPIX groups increased over the year ending June 2010.
- The fuel, light and power and motoring groups made the largest contributions to the annual increase, each contributing an increase of 0.6 percentage points to the annual change in RPIX.
- The clothing and footwear group made the largest negative contribution to the annual change.
- The 'all items' RPI inflation was 2.3% over the year ending June 2010 compared to 3.4% at the end of March 2010 and -1.3% at the end of June 2009.

**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
2010	Mar	3.1	1.2	145.4
	June	2.4	0.8	146.6

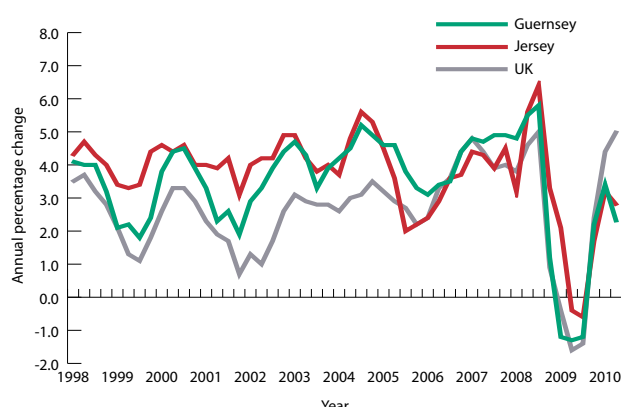
The RPIX annual inflation rate was 2.4% on 30th June 2010, 0.7 percentage points lower than the previous quarter and 0.3 percentage points lower than the previous year (see Table 1).

RPIX in Guernsey was lower than in either the UK or Jersey, which experienced annual RPIX inflation of 5.0% and 2.6% respectively (see Figure 1). This suggests that core inflationary pressures in Guernsey and Jersey were less than in the UK. The restoration of the UK VAT rate to 17.5% in January 2010 will exert an upward pressure on UK annual inflation figures throughout 2010.

The quarterly change in the RPIX was 0.8% on 30th June 2010, compared to 1.2% the previous quarter and 1.5% the previous year; indicating that inflationary pressures in the second quarter of 2010 were less than they were during the same period the preceding year. The reduction in inflationary pressure has been principally driven by a reduction in the upward pressure exerted by oil prices

## RPI Overview

**Figure 2: Annual Rates of Inflation - RPI**



The 'all items' RPI annual inflation was 2.3% over the year ending 30th June 2010, compared to 3.4% the previous quarter and -1.3% the previous year (see Table 2).

Similar to the RPIX picture, annual RPI inflation in the UK (5.0% over the year ending June 2010) was higher than in Guernsey (see Figure 2). In Jersey the annual 'all items' RPI was 2.8%

Over the quarter ending 30th June 2010, the RPI increased by 0.5%, compared to an increase of 0.7% the previous quarter and an increase of 1.6% during the second quarter of 2009. This would indicate that, with the inclusion of the mortgage interest payment item, inflationary pressures in Guernsey remained lower in the second quarter of 2010 than the same period during 2009.

**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
2010	Mar	3.4	0.7	142.1
	June	2.3	0.5	142.8

## Group Analysis

The annual percentage change in each of the RPIX and RPI groups is shown in Figure 3. The contribution of each group to the overall annual changes 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 the RPI and RPIX differs.

The RPIX housing group increased by 2.2% over the year ending June 2010, contributing an increase of 0.3 percentage points to the annual change in RPIX. The RPI housing group showed an increase of 1.8% over the same 12 month period, indicating that the inclusion of the mortgage interest payment item exerted a downward pressure on annual inflation.

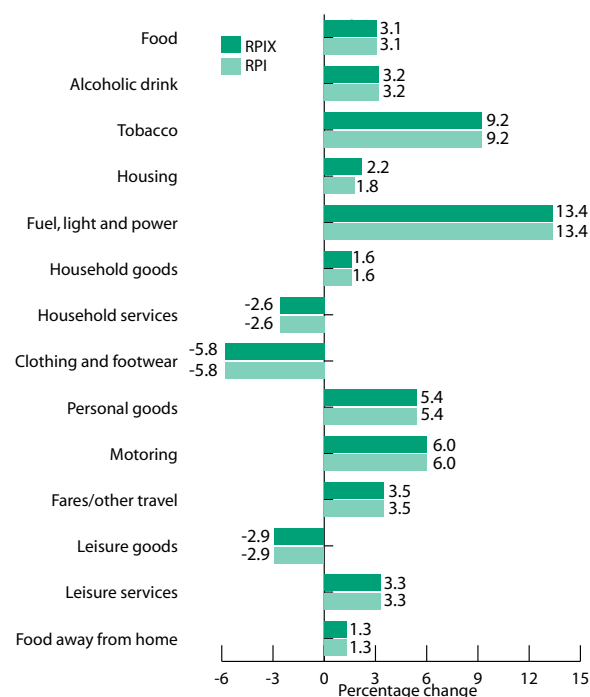
Out of the remaining thirteen groups, ten increased and three decreased over the twelve months ending 30th June 2010. Of these, the fuel, light and power and tobacco groups showed the largest increases (13.4% and 9.2% respectively). However, since motoring expenditure (which increased by 6.0%) has a higher weighting, it made a similar contribution to the annual increase than that made by the fuel, light and power group (0.6 percentage points) and a larger contribution than tobacco (0.2 percentage points).

When compared to both the previous quarter and June the previous year, the upward pressure exerted by oil price is receded. As a result both the fuel, light and power and motoring groups in made a smaller annual contribution in June 2010 than in March 2010.

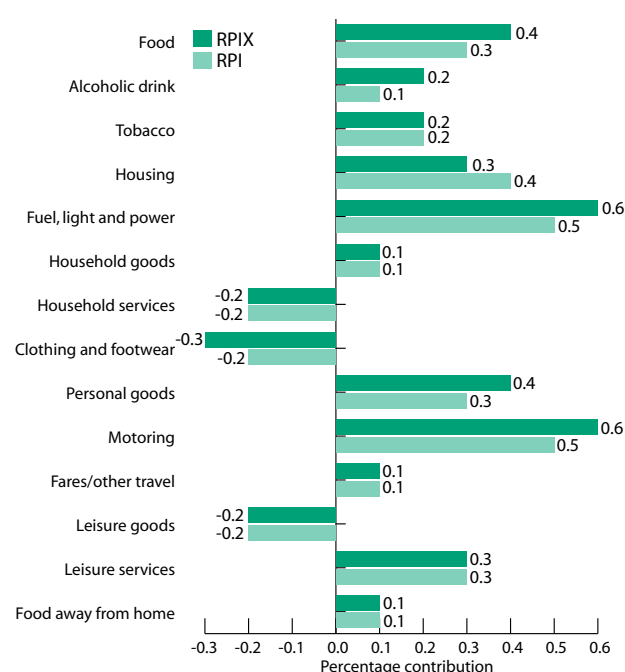
**Table 3: Group Weights**

	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	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**

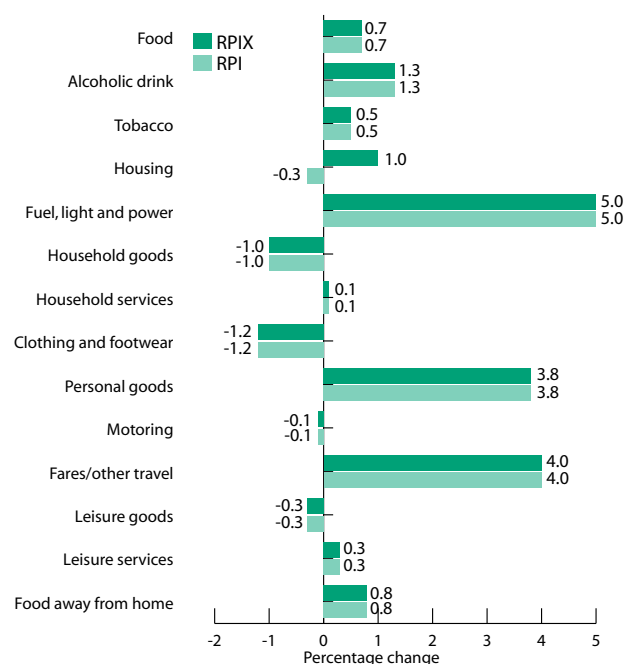


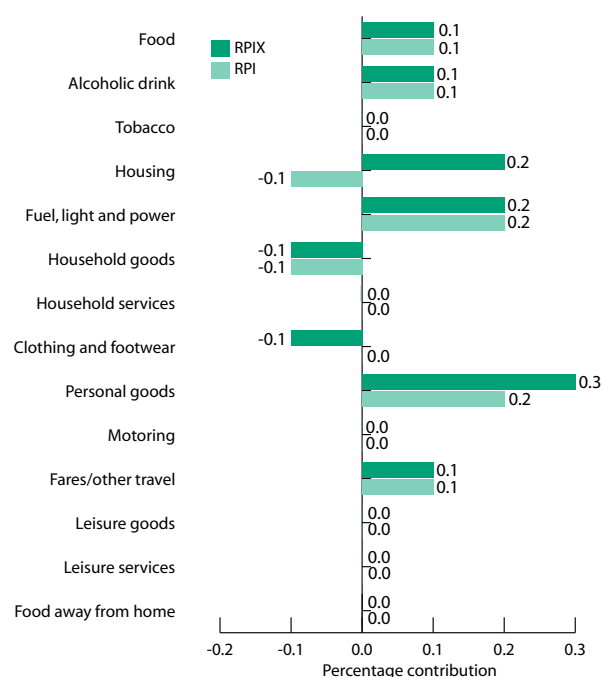
Figure 5 shows the percentage change over the three months ending 30th June 2010 for each of the RPIX and RPI groups. The quarterly contribution of each group is shown in Figure 6.

Of the fourteen RPIX groups, nine showed an increase this quarter. The largest increase occurred in the fuel, light and power group which increased by 5.0% over the second quarter of 2010, contributing 0.2 percentage points to the quarterly change.

Significant increases were also seen in the personal goods and fares and other travel groups, which increased by 3.8% and 4.0% respectively, contributing a total increase of 0.4 percentage points to the quarterly change in RPIX and 0.3 percentage point to the quarterly change in RPI

Negative contributions to the quarterly change in RPIX June 2010 were made by the household goods, clothing and footwear, motoring and leisure goods groups.

**Figure 6: Quarterly Contribution**



Due to a decrease in the interest charged on some new mortgages the housing group made a negative contribution to RPI. When excluded for the calculation of RPIX, the quarterly contribution from the housing group was 0.2 percentage points.

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.

## 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 (0.7%)

As well as seasonal changes in the cost of fruit and vegetables, the largest contribution to the quarterly change in this group came from increases in the cost of some fresh meat products.

### Alcoholic Drinks (1.3%)

Increases in the cost of spirits and liqueurs brought for consumption at home were only partially offset by special offers by pubs introduced during the World Cup.

### Tobacco (0.5%)

There were some increases in the price of cigarettes in this quarter resulting in an increase in this group

### Housing (1.0% RPIX, -0.3% RPI)

The RPIX housing group showed a small increase due to increases in both private and the cost of household maintenance items. However, due to a reduction in the interest payments on some fixed rate mortgages this quarter there was a decrease in this group in the RPI.

### Fuel, Light and Power (5.0%)

Increases in the cost of electricity and oil lead to an increase in this group this quarter.

### Household Goods (-1.0%)

Although partially offset by increases in the cost of some electrical appliances, decreases in the cost of furnishings led to a decrease in this group over the quarter

### Household Services (0.1%)

Increases in the cost of postage and some domestic services led to a modest increase in this group over the quarter

### Clothing and Footwear (-1.2%)

There were a number of reductions observed in this group over the quarter, mainly in women's clothing. These were partially offset by increases in the cost of some men's and children's clothing

### Personal Goods (3.8%)

Increases in the cost of medical insurance was the largest upward pressure in this group.

### Motoring (-0.1%)

There were decreases in the cost of motor fuel and some new cars during this quarter, although this was almost entirely offset by increases in the cost of insurance and servicing. There was a slight decrease in this group over the quarter overall.

### Fares & Other Travel (4.0%)

The cost of both air and sea travel increased over the quarter ending June 2010, leading to a significant increase in this group.

### Leisure Goods (-0.3%)

Decrease in the cost of electrical goods were partially offset by increases in the cost of some gardening items.

### Leisure Services (0.3)

The cost of holidays, the highest weighted item in this group, increased this quarter.

### Food Away from Home (0.8%)

Increases were seen in the cost of both take-away meals and meals out over the quarter.

## Indices and Reflation Factors

**Table 4: RPIX Reflation Factors for the Period Ending 30th June 2010**

	Cumulative % Change	Reflation Factor
3 months	0.8	1.01
6 month	2.1	1.02
9 months	2.0	1.02
12 months	2.4	1.02
15 months	4.0	1.04
18 months	5.0	1.05
2 years	5.2	1.05
3 years	10.9	1.11
4 years	14.3	1.14
5 years	17.8	1.18
10 years	38.7	1.39

**Table 5: RPI Reflation Factors for the Period Ending 30th June 2010**

	Cumulative % Change	Reflation Factor
3 months	0.5	1.01
6 month	1.3	1.01
9 months	1.2	1.01
12 months	2.3	1.02
15 months	3.9	1.04
18 months	3.5	1.04
2 years	0.9	1.01
3 years	6.5	1.08
4 years	11.5	1.12
5 years	15.3	1.15
10 years	39.0	1.39

**Table 6: RPIX Index figures at 30th June 2010**

Year of Base	Index
1998	146.6
2008	105.2

**Table 7: RPI Index figures at 30th June 2010**

Year of Base	Index
1949	3117.7
1965	1821.1
1974	1004.4
1979	486.1
1983	306.1
1988	229.1
1994	169.5
1999	142.8
2008	100.9

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.

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 June 2000 is equivalent to £100 x 1.39 = £139 in 2010.

Reflation 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 reflation factor.

There is an inflation calculator on our website ([www.gov.gg/rpi](http://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 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.

Following each Household Expenditure Survey the index is rebased (i.e. set to 100). Tables 6 and 7 show the index value for the current quarter for each year of base. Full time series for index figures at each base is available on our website ([www.gov.gg/rpi](http://www.gov.gg/rpi)).

## UK and Jersey inflation rates

Table 6 and Table 7 show the comparable RPIX and RPI inflation rates reported by the UK Office of National Statistics<sup>1</sup> and the States of Jersey Statistics Unit<sup>2</sup>. 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 not experienced in either Guernsey or the UK. Similarly the temporary reduction of the UK VAT rate to 15% in 2009 and its 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 6: Annual RPIX inflation rates in Jersey and the UK**

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

**Table 7: Annual RPI inflation rates in Jersey and the UK**

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

<sup>1</sup> [www.statistics.gov.uk](http://www.statistics.gov.uk)

<sup>2</sup> [www.gov.je/statistics](http://www.gov.je/statistics)



## 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 are 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 indices than others, for example, an increase in the price of petrol will have more effect 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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