

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 March 2007 Guernsey's annual rate of inflation was **4.8%**. This is higher than the figure at the end of December 2006, which was 4.4%. The equivalent figure for the UK was also 4.8%. The Jersey figure was 4.4%.
- Guernsey's RPIX (inflation excluding mortgage interest payments), increased from 2.8% last quarter to **3.1%** at the end of March.
- The **Housing** group, which has the largest weight within the Index, contributed **2.8%**. This is also an increase from 2.4% in December 2006.
- The Index increased to **132.7** (1999 base).

Overview

The Guernsey RPI increased by 4.8% for all items ending 31st March 2007.

The Housing group continued to be the largest contributor to the RPI at 2.8% out of the 4.8% 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 interest rates and average house prices.

Food was the next highest contributor at 0.5%. This was followed by Alcohol, which contributed 0.4% as a result of a duty increase and price rises following Christmas special offers. The next highest contributors were the Motoring and Leisure Services groups, which contributed 0.2% each.

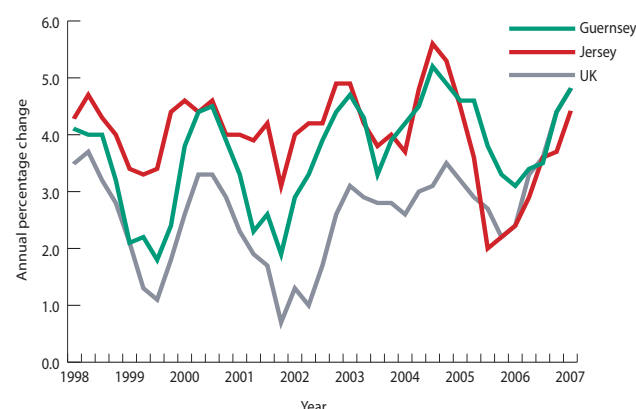
The Clothing and Footwear group had a downward effect on the Index at -0.2%.

The RPI has continued to rise from its 5 year low of 3.1% in March 2006. The RPI this quarter is 0.4% greater than in December 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			

Figure 1: Annual Rates of Inflation



RPI Analysis

Figure 2: Annual Contribution to RPI

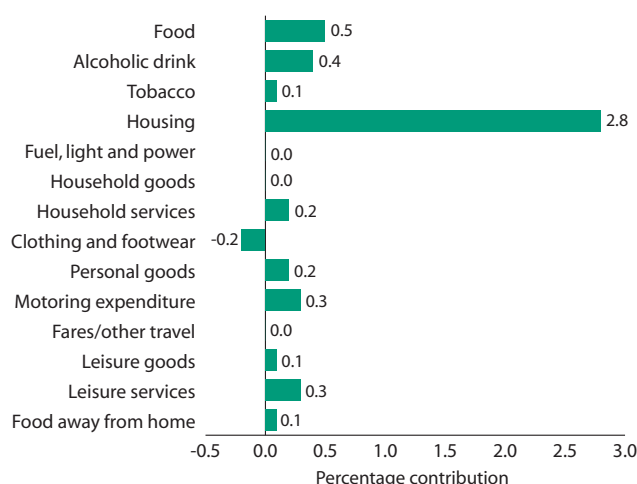


Figure 3: Annual Percentage Change

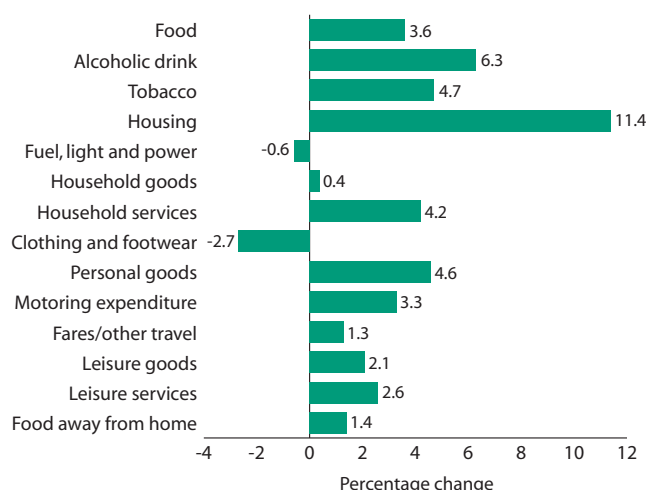
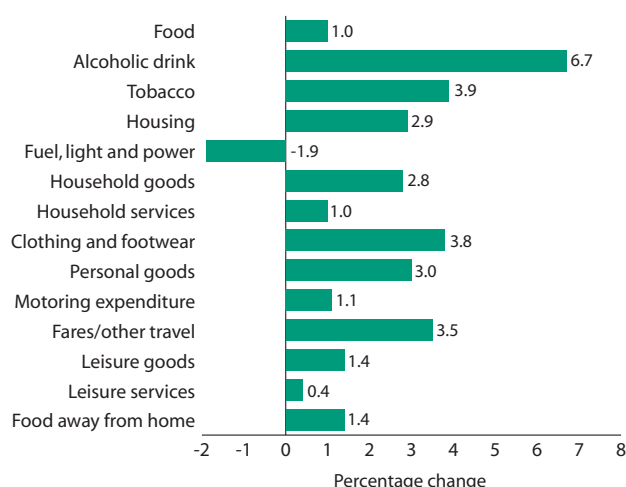


Figure 4: Quarterly Percentage Change



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 11.4% (*Figure 3*), the largest percentage increase of all the groups. This group remains the largest contributor (2.8% out of 4.8%).

The Food group increased 3.6% over the year and since it holds the second highest weight in the RPI, it contributed 0.5% to the overall annual RPI rate.

Alcoholic drink, which has a relatively low weight, increased by 6.3% since last March. This resulted in a overall RPI contribution of 0.4%.

Motoring Expenditure and Leisure Services, both have relatively high weights and with increases of 3.3% and 2.6% respectively, both contributed 0.3% to the overall RPI.

Clothing and Footwear and Fuel, Light and Power both showed percentage decreases.

Main contributions to the quarterly percentage change

Figure 4 shows percentage changes since the end of December 2006. The Alcoholic Drink group represented the largest quarterly percentage increase at 6.7%. Tobacco, Personal Goods and Fares/Other Travel also showed large quarterly increases.

Housing, which often shows the highest increase, rose by 2.9%.

Despite the Clothing and Footwear group increasing by 3.8% since the seasonal sales at the end of the last quarter, as mentioned above the annual change was a decrease.

Further group 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 (0.5%)

Annually there were increases in items such as flour, fresh vegetables, potato products, frozen vegetables and white bread. However, the index also saw decreases in several items including fresh fish, poultry and potatoes.

Alcohol (0.4%)

There were increases in the costs of all alcoholic drinks spirits bought away from home and for consumption at home.

RPI Analysis

Tobacco (0.1%)

The cost of cigarettes, cigars and tobacco increased by nearly 5% in comparison to the end of March 2006.

Housing Group (2.8%)

Housing represents 22% of the total weighting of the Index. 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% three times during the twelve month period ending March 2007; in August, November and January. The effect of this increase, combined with an increase in the seven-year moving average in house prices were the main contributing factors.

Other significant price rises influencing the Housing group over the 12 month period included increases in major household improvements including kitchens and an increase in private rents. In addition the cost of sewage emptying has increased this quarter. Power tools and heating maintenance and repairs fell in price within the group, but all other materials, tools and labour increased.

Fuel, Light and Power (0.0%)

Electricity, which has the highest weight within the group and bottled gas prices did not change over the last quarter but have increased over the year. The cost of coal decreased following a rise in price over the winter months, but is still higher than March 2006. Heating oil prices continue to follow a general downwards trend following highs in 2005. Mains gas prices have remained stable over the last 12 months.

Household Goods (0.0%)

There were some increases in the group, including dishwashers and spare parts for electrical goods. These were balanced out by decreases in other household goods.

Household Services (0.2%)

Most services have remained stable this quarter, but annual increases in telephone, fax and internet line rental, postage expenses and legal fees are apparent.

Clothing and Footwear (-0.2%)

This group has had the largest downward effect on the RPI. Increases in prices are predominantly in men's clothing, but this was more than counteracted by decreases in prices of women's clothing, which have a higher weighting.

Personal Goods (0.2%)

Increases in doctors and other medical fees in addition to further increases in medical insurance this quarter contributed to an overall increase.

Motoring (0.3%)

Further increases in the price of new cars and petrol this quarter, in addition to increases in car parts over the 12 month period, resulted in an overall increase in the Motoring group despite a reduction in the price of diesel this quarter.

Fares & Other Travel (0.0%)

Inter-Island sea travel and air travel to the UK have increased this quarter, but sea travel to the UK and continent have decreased. Over the year there have also been increases in bus and taxi fares, car hire and some air and sea travel.

Leisure Goods (0.1%)

Increases in prices of CDs and blank software combined with decreases in the cost of home computers, TVs and mobile phones were seen this quarter and over the 12 month period.

Leisure Services (0.3%)

This increase was a result of rises in the cost of entertainment this quarter along with increases in fees for private tuition and educational courses and holidays, which were seen earlier in the period.

Food Away from Home (0.1%)

The cost of take-aways, snacks and meals out increased.

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			

Table 3: Percentage Change at March 2007

Period	Percentage change
3 months	2.1
6 month	3.2
9 months	3.6
12 months	4.8
18 month	6.9
2 years	8.1
3 years	13.1
4 years	17.9
5 years	23.4
10 years	44.8

Table 4: Index Figures at March 2007

Year of rebase (Index = 100)	Index Figures
1999	132.7
1994	157.5
1988	212.9
1983	284.5
1978	451.7

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 4.8% to 132.7 on 31st March 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 Mar	2006 Jun	2006 Sept	2006 Dec	2007 Mar	Annual % change	Quarterly % change
Food	127	121.0	122.9	122.6	124.2	125.4	3.6	1.0
Alcoholic Drink	52	157.4	156.9	156.9	156.8	167.3	6.3	6.7
Tobacco	19	262.0	263.7	263.8	264.1	274.4	4.7	3.8
Housing	216	181.8	185.8	190.8	197.0	202.6	11.4	2.9
Fuel, Light and Power	41	165.5	167.1	163.9	167.7	164.5	-0.6	-1.9
Household Goods	79	128.7	127.3	127.5	125.7	129.1	0.4	2.8
Household Services	33	147.1	151.1	151.8	151.8	153.3	4.2	1.0
Clothing & Footwear	56	101.5	101.2	101.7	95.1	98.7	-2.7	3.8
Personal Goods	49	151.1	152.7	152.4	153.4	158.0	4.6	3.0
Motoring Expenditure	85	139.9	142.4	140.0	142.9	144.5	3.3	1.1
Fares/Other Travel	33	184.9	187.0	183.4	180.9	187.2	1.3	3.5
Leisure Goods	63	102.4	103.3	102.9	103.1	104.5	2.1	1.4
Leisure Services	92	160.7	161.8	162.8	164.2	164.8	2.6	0.4
Food Away from Home	55	149.3	149.6	149.8	149.2	151.3	1.4	1.4

Individual group indices are presented for March 2006 to March 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)

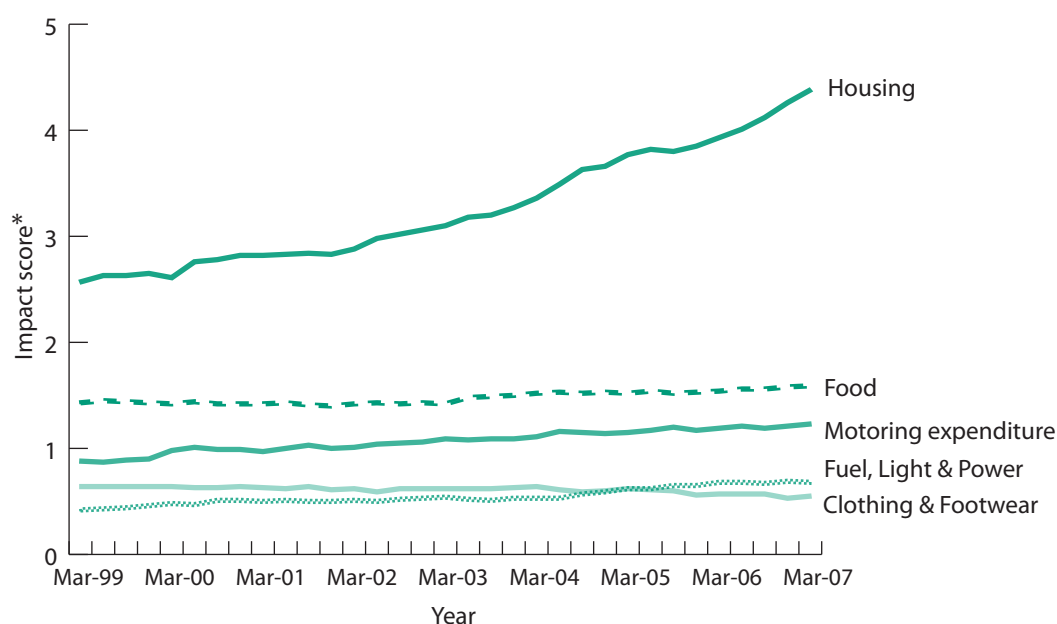
It is possible to use the group indices to track the impact of each group on the RPI over time. This is done by multiplying the index value by the group weight. The results of the most salient groups are presented graphically in *Figure 5*.

The Housing group has experienced the greatest increase since December 1999 and more markedly since the beginning of 2003.

The effect of an increase in global oil prices is evident in the increases in the Motoring and Fuel, Light & Power groups, which have increased at a consistent rate. The food group has also experienced a slight increase.

The Clothing and Footwear group has a downward effect on the Index, where, on average, prices are now less than they were in December 1999.

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
2000	Mar	3.8	1.2	2.6	0.3	4.6	1.3
	June	4.4	1.6	3.3	1.6	4.4	1.0
	Sept	4.5	0.7	3.3	0.4	4.6	1.1
	Dec	3.9	0.5	2.9	0.3	4.0	0.5
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

In both Guernsey and the UK, inflation increased to 4.8% at the end of March 2007. In Jersey, inflation rose to 4.4%.

The mortgage interest component again caused increases in the Housing Groups, which continued to be the main constituent of the rise in the overall annual rate.

The UK noted large upward contributions from food and non-alcoholic beverages, furniture, household equipment, routine maintenance, housing costs and recreation and culture. Transport was also a contributor due to rises in petrol prices.

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.

In Guernsey, both mortgage interest rates and house prices are rising, leading to a large increase in the mortgage interest component. It is also the item within the index with the largest weight, so that changes to this figure tend to have a large effect on the RPI.

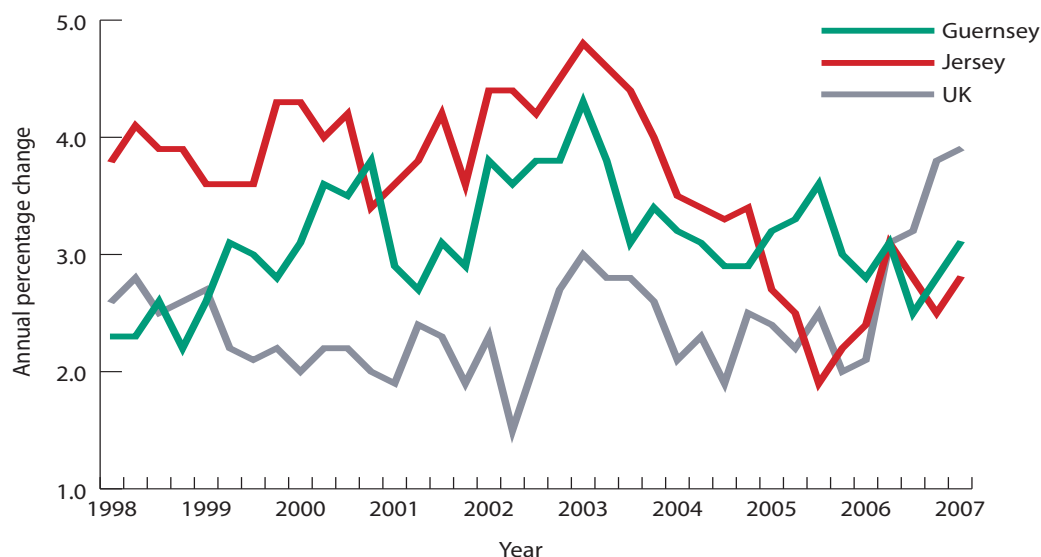
The Guernsey RPIX rose to 3.1% in March from 2.8% in December 2006.

Guernsey's RPIX continues to be lower than that of the UK (3.9%), indicating that core inflationary pressures are less in Guernsey than is currently the case in the UK.

Table 8: RPIX - Guernsey, Jersey and UK

		Guernsey	UK	Jersey
2000	Mar	3.1	2.0	4.3
	June	3.6	2.2	4.0
	Sept	3.5	2.2	4.2
	Dec	3.8	2.0	3.4
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

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

Please contact Helen Walton (Research & Information Analyst) for further information.

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