

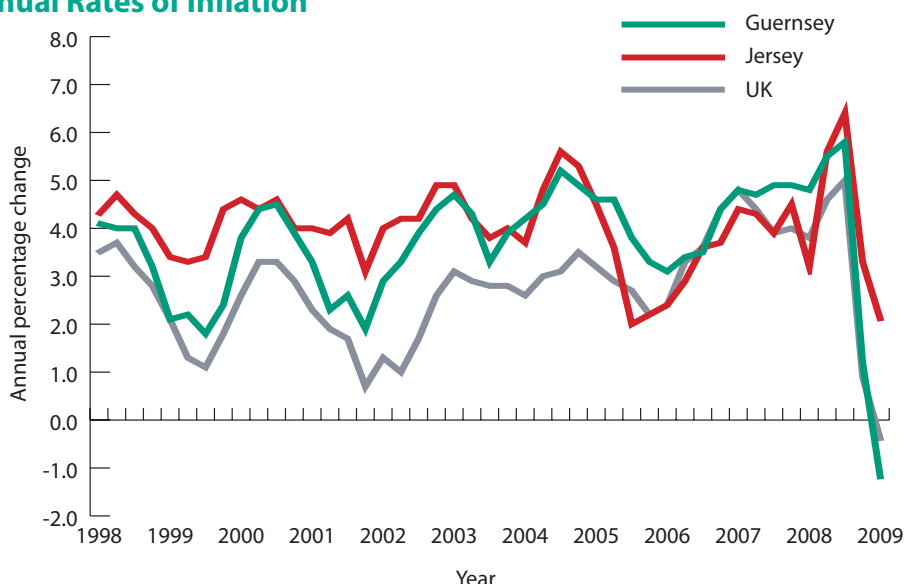
## Introduction

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 2009 Guernsey's annual headline rate of inflation was -1.2%, compared to 1.2% at the end of December and 4.8% at the end of March 2008.
- In the UK and Jersey the equivalent figures for the end of March 2009 were -0.4% and 2.1% respectively (see *Figure 1*).
- Guernsey's RPIX ("core" inflation excluding mortgage interest payments) was 3.3% this quarter, compared to 4.6% at the end of December and 4.3% at the end of March 2008.
- The Housing group contributed a decrease of -3.2 percentage points to the headline annual rate of inflation as a result of unprecedented reductions in the Bank of England base rates (from 5.25% to 0.5%) over the last 12 months, leading to significant decreases in the mortgage interest component.
- The Fuel Light & Power and Leisure Goods groups also decreased during the year.
- However, the remaining eleven of the fourteen RPI groups increased or remained stable over the year ending March 31st 2009: the Food, Alcohol, Household Services and Leisure Services groups contributed the largest increases.
- The Index stood at 137.4 (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			

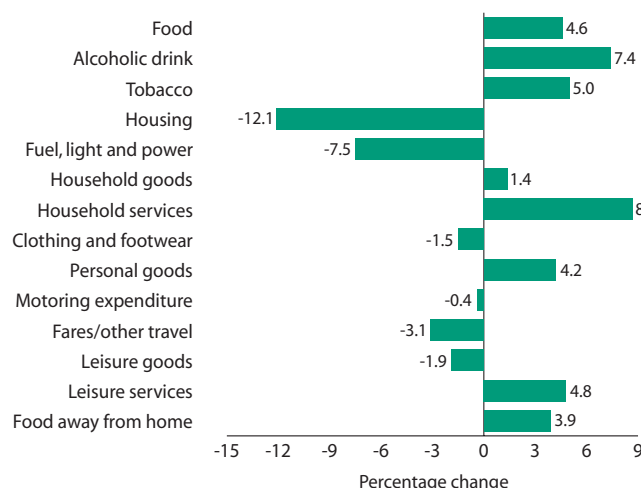
### Overview of the annual and quarterly change

The Guernsey RPI changed by -1.2% for the twelve months ending 31st March 2009.

The change over the three months ending 31st March 2009 was -0.4%, compared to -3.4% during the previous quarter and 0.9% the quarter before.

## RPI Analysis

**Figure 2: Annual Percentage Change**



### 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, eight increased and six decreased over the twelve months ending 31st March 2009. Decreases in the Housing group (-12.1% over the year) were only partially offset by the increases in other groups (see *Figure 2*).

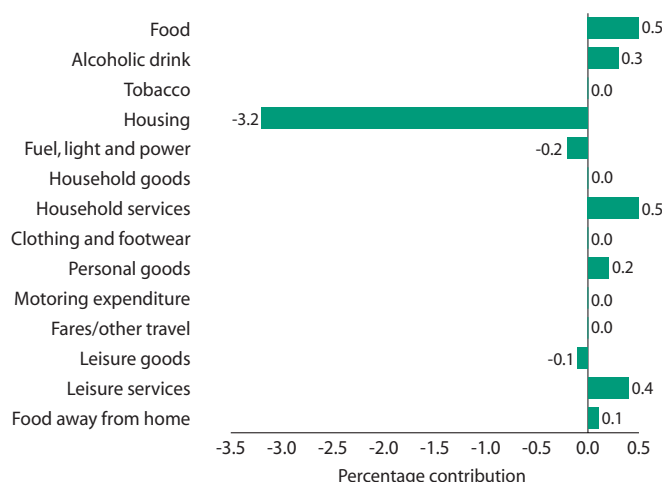
The Bank of England decreased the interest rate from 2% to 0.5% during the quarter, resulting in further reductions in the average cost of mortgage repayments, which is the highest weighted item within the Guernsey RPI. This item alone (in a basket of thousands of items) holds 14% of the total weight, reflecting the average proportion of Guernsey household's expenditure, which is spent on mortgage repayments. As a result of this, changes in this item have a large impact on the headline figure.

The Fuel, Light and Power and Leisure Goods groups also decreased during the year.

The Alcoholic drinks and Household Services groups increased by the largest amounts over the year (7.4% and 8.7% respectively), followed by Tobacco and Leisure Services.

The Food group also increased by 4.6%, which with its higher weighting, means that it contributed approximately the same amount as Household Services (0.5%) to the annual change.

**Figure 3: Annual Contribution to RPI**



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

# RPI Analysis

## Main contributions to the quarterly change

Figure 4 shows the percentage change over the three months ending March 31st 2009 for each of the RPI groups. The quarterly contribution of each group is shown in Figure 5.

Eleven of the fourteen groups increased this quarter (see Figure 4). However, the Housing group, which has the highest weight within the Guernsey RPI decreased by -4.4%. The clothing and Footwear and Leisure Services groups also decreased (by -0.6% and -0.5% respectively).

The largest increases were seen in the Alcoholic Drinks and Food Away from Home groups, which increased by 3.4% and 3.0% respectively.

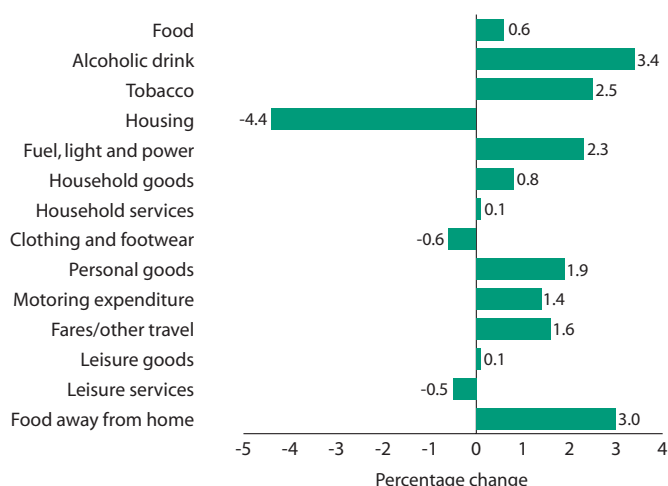
Figure 5 shows that the large downward contribution from the Housing group was in contrast to the small increases or relative stability throughout the other groups.

The changes are described in more detail on Page 4 of this handout.

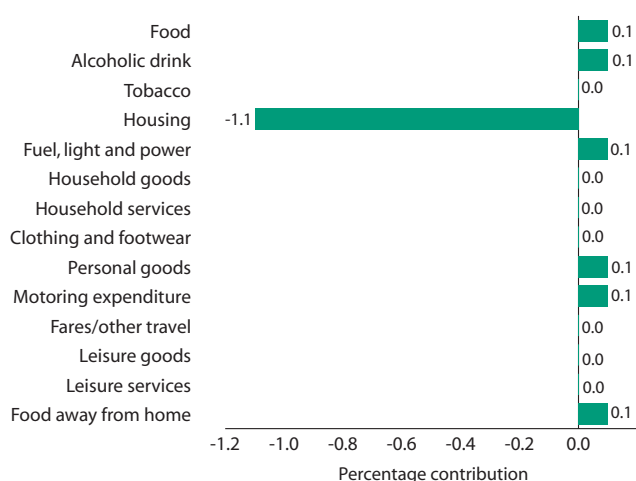
## Group Indices

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

## RPI Group Analysis

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

### **Food (0.6%)**

Decreases in the prices of fresh fish and fresh vegetables were off set by increases in tinned foods and soft drinks. The prices of bread, milk, rice and pasta remained stable.

### **Alcoholic Drinks (3.4%)**

The rates of excise duty on alcoholic drinks were increased on 1st January. The largest price increases were seen in drinks brought for consumption at home.

### **Tobacco (2.5%)**

The price of cigarettes, tobacco and cigars all increased slightly this quarter (again, there were duty increases on items in this group, which came into effect 1st January).

### **Housing (-4.4%)**

The official Bank of England interest was reduced again this quarter from 2% to 0.5%. This resulted in further reductions in the cost of mortgage repayments during this quarter. The cost of renting from a private landlord remained relatively stable; however there was an increase in the cost of renting State's owned accommodation.

### **Fuel, Light and Power (2.3%)**

The cost of electricity, gas and coal remained stable over the quarter but there was an increase in the cost of oil.

### **Household Goods (0.8%)**

Discounts in the price of hard furniture and pet expenses were offset by increases in the cost of kitchen goods and some appliances.

### **Household Services (0.1%)**

Prices in this category remained relatively stable. Increases in funeral expenses were offset by a slight reduction in the average cost of telephone call charges.

### **Clothing and Footwear (-0.6%)**

The cost of men's clothes remained relatively stable in price this quarter and there was a general decrease in the cost of women's clothes. The cost of children's clothes and women's shoes increased.

### **Personal Goods (1.9%)**

There were increases in the cost of toiletries, medicines, prescription charges, dental services and medical insurance. The cost of cosmetics fell.

### **Motoring (1.4%)**

The increase in this category is largely due to an increase in fuel prices which have a high weighting. The cost of repairing and servicing vehicles has also increased. The price of new cars has remained fairly stable but the price of used cars has fallen.

### **Fares & Other Travel (1.6%)**

There was an increase in the cost of air fares during this quarter. Sea fare prices have remained stable.

### **Leisure Goods (0.1%)**

There was an increase in the cost of books, DVDs and videos which was off set by a reduction in the cost of home computers and software.

### **Leisure Services (-0.5%)**

The cost of foreign holidays, which has the highest weighting in this category, increased slightly this quarter, however, there were reductions in the cost of some TV subscriptions and hotel accommodation in the UK. The price of other items in this category remained stable.

### **Food Away from Home (3.0%)**

The cost of meals in restaurants and cafes increased during this quarter.

# 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 -1.2%, from 137.9 to 137.4 over the year ending 31st March 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](http://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			

**Table 4: Percentage Change at Mar 2009**

Period	Percentage change
3 months	-0.4
6 month	-3.8
9 months	-2.9
12 months	-1.2
18 month	1.9
2 years	3.6
3 years	8.6
4 years	11.9
5 years	17.1
10 years	41.0

**Table 5: Index Figures at Mar 2009**

Year of rebase (Index = 100)	Index Figures
1999	137.4
1994	163.1
1988	220.5
1983	294.6
1978	467.8

**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

RPI was 2.1% in Jersey and -0.4% in the UK, compared to -1.2% in Guernsey.

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

In Jersey, the Food, Alcoholic Drinks, Household Services and Leisure Services groups contributed 2.7% to the 2.1% increase. In common with Guernsey, there were decreases the Housing group, which contributed -1.8% to the annual change. A Goods and Services Tax was introduced in Jersey in May 2008, which is probably now being reflected in their RPI.

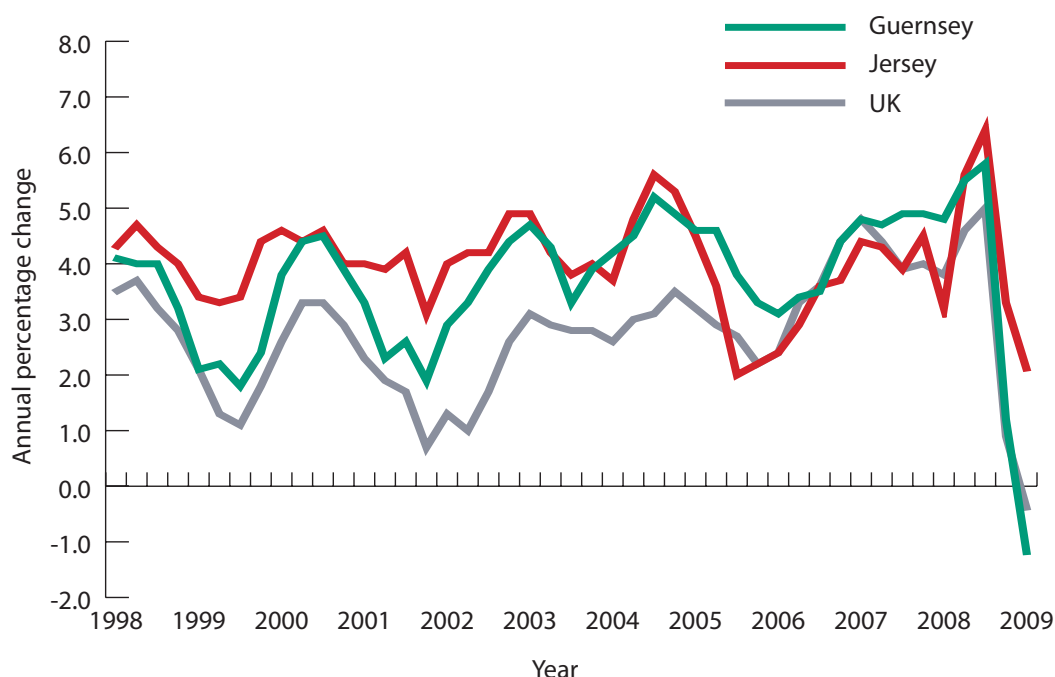
In the UK, there were increases in games, toys, clothing and footwear and reductions in food, non-alcoholic drinks, gas, oil and transport along with mortgage costs.

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](http://www.statistics.gov.uk)  
 Jersey RPI: [www.gov.je/ChiefMinister/Statistics](http://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.

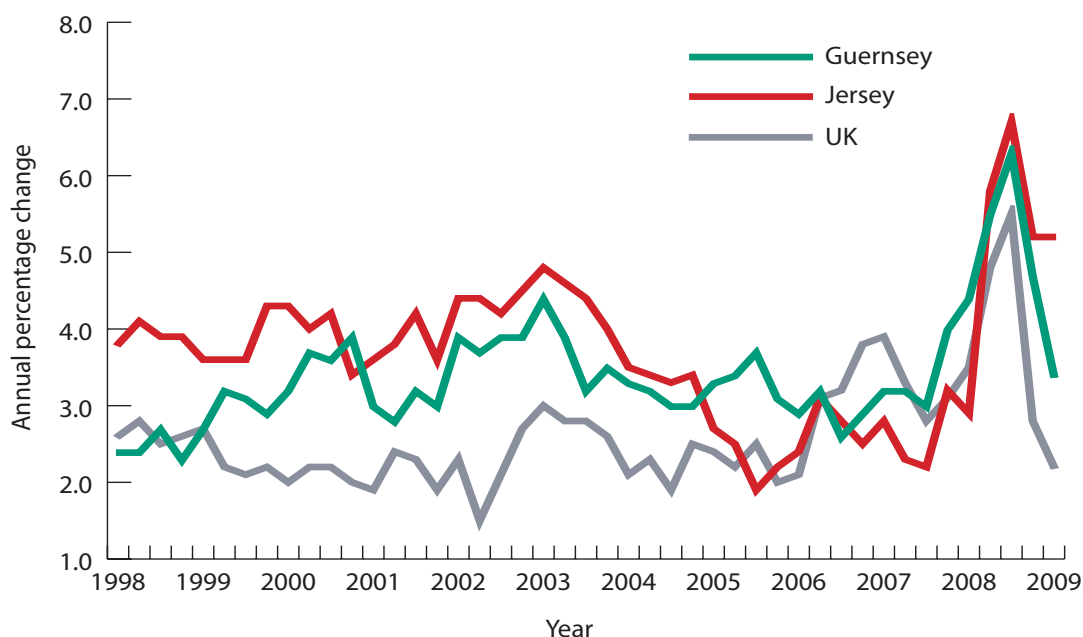
The Guernsey RPIX was 3.3%, compared to 4.6% last quarter and 4.3% the previous year. This implies that core inflationary pressures were greater in the year ending March 31st 2008 than in the year ending March 31st 2009.

Guernsey's RPIX remained higher than that of the UK (2.2%) and lower than that of Jersey (5.2%) this quarter. This indicates that core inflationary pressures in Guernsey were higher than in the UK, but lower than in Jersey (where a GST was introduced) over the twelve months ending 31st March 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

**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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