

# Guernsey Inflation

## Quarter 1 - 31st March 2010

Issue Date - 23rd April 2010

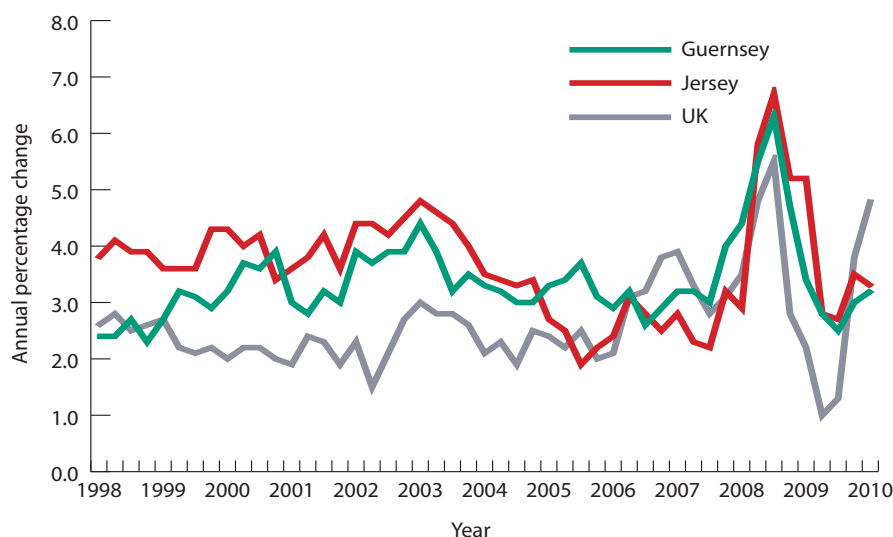
### Introduction

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 represents 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 ("core" inflation excluding mortgage interest payments) was 3.1% this quarter, compared to 2.9% at the end of December 2009 and 3.3% at the end of March 2009.
- In the UK and Jersey the equivalent RPIX figures for the end of March 2010 were 4.8% and 3.3% respectively (see Figure 1).
- Ten of the fourteen RPIX groups increased over the year ending March 2010.
- The Fuel, light and power and Motoring groups made the largest contributions to the annual increase, contributing increases of 0.7 and 1.1 percentage points respectively to the annual change in inflation.
- The annual RPI inflation rate was 3.4% compared to 2.2% at the end of December 2009 and -1.2% at the end of March 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

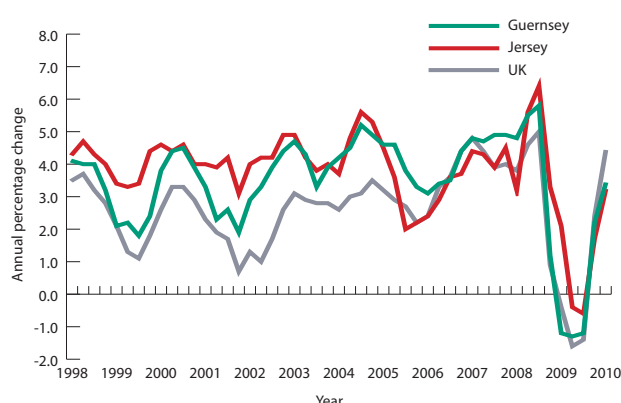
The RPIX annual inflation was 3.1% on 31st March 2010, 0.2 percentage points higher than the previous quarter and 0.2 percentage points lower than in March 2009 (see *Table 1*).

RPIX in the UK and Jersey for the year ending March 2010 increased by 4.8% and 3.3% respectively (see *Figure 1*), indicating that core inflationary pressures in Guernsey were similar to those in Jersey and less than those in the UK.

The quarterly rate of change of RPIX was 1.2% on 31st March 2010, compared to an decrease of 0.1% the previous quarter an increase of 1.0% on 31st March 2009.

## RPI Overview

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



The RPI annual inflation was 3.4% over the year ending 31st March, compared to 2.2% in December 2009 and -1.2% in March 2009 (see *Table 2*).

Following the full implementation of the Bank of England Base rate reductions, the index dipped in March 2009. The annual RPI for this quarter represents a comparison between this low point and the current index which has now recovered to a similar level to those experienced in mid 2008.

The annual changes in RPI in UK and Jersey showed similar trends to that seen in Guernsey, increasing to 4.4% and 3.2% respectively (see *Figure 2*).

**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

Over the quarter ending 31st March 2010 the RPI increased by 0.7%, compared to no change in the previous quarter and a decrease of 0.4% during the same period in 2009.

## Group Analysis

The annual inflation rate of each of the RPIX and RPI groups is shown in *Figure 3* and the contribution of each group to the overall annual rates are 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 RPI and RPIX differs.

The RPIX Housing group increased by 2.3% over the year ending March 2010, contributing an increase of 0.3 percentage points to the annual change in RPIX. The RPI Housing group showed an increase of 3.8% over the 12 month period and made a contribution of 0.9 percentage points to the annual change in RPI, indicating that the inclusion of the mortgage interest payment item exerted an upward pressure on annual inflation.

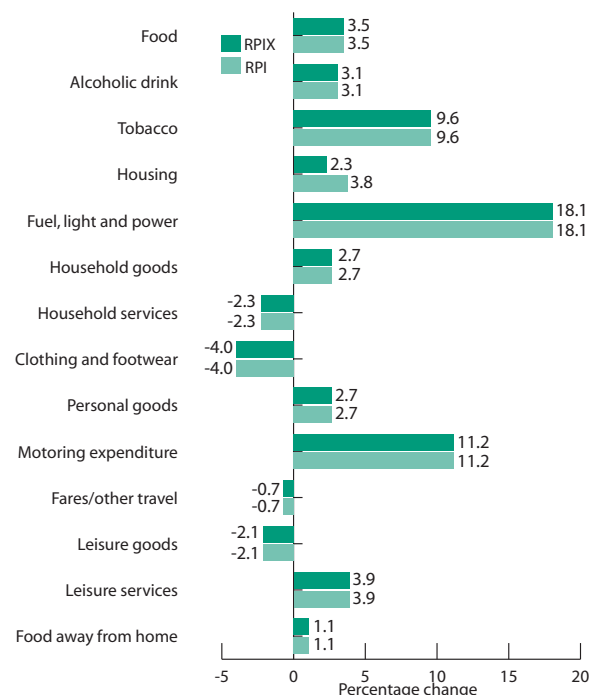
Out of the remaining thirteen groups, nine increased and four decreased over the twelve months ending 31st March 2010. Of these, the Fuel, light and power and Motoring groups showed the largest increases (18.1%, and 11.2% respectively) making a combined positive contribution of 1.8 percentage points to the annual change in RPIX.

The Household services, Clothing and footwear and Fares and travel and Leisure goods groups each showed a decrease over the year ending 31st March 2010. Clothing and footwear showed the largest annual decrease (-4.0%) making a downward contribution of 0.2 percentage points to RPIX.

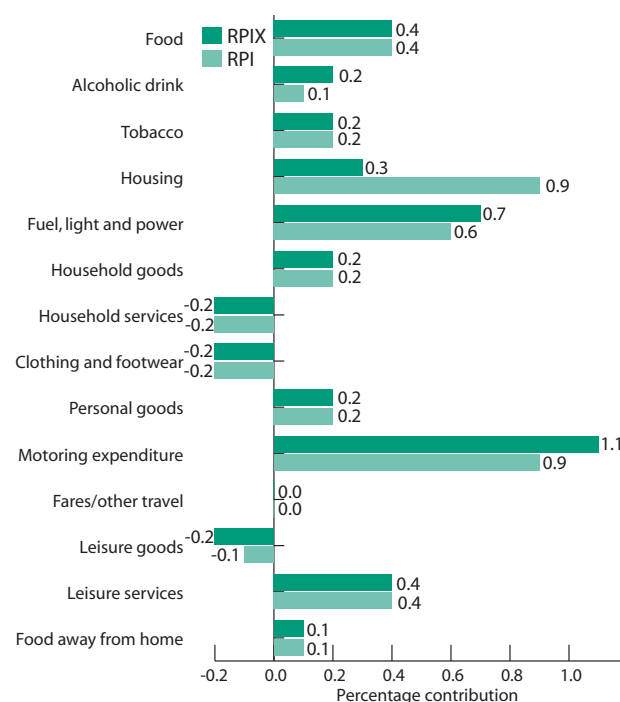
**Table 3: Group Weights**

	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 expenditure	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**

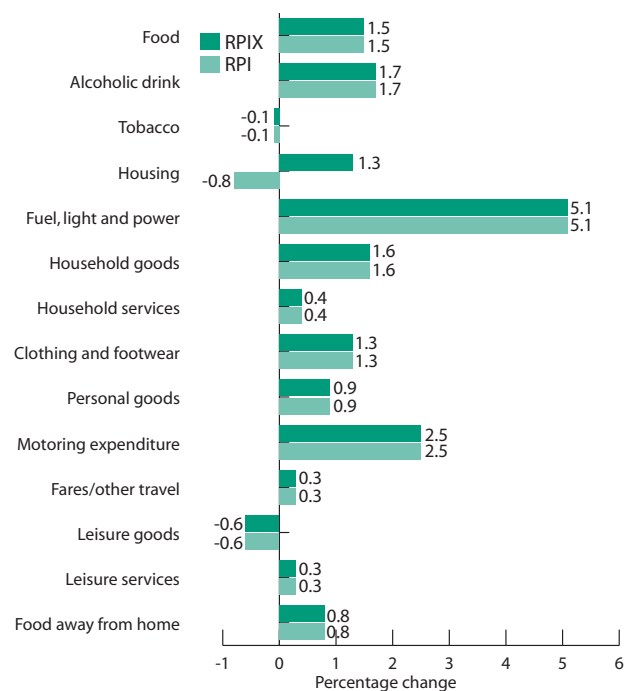


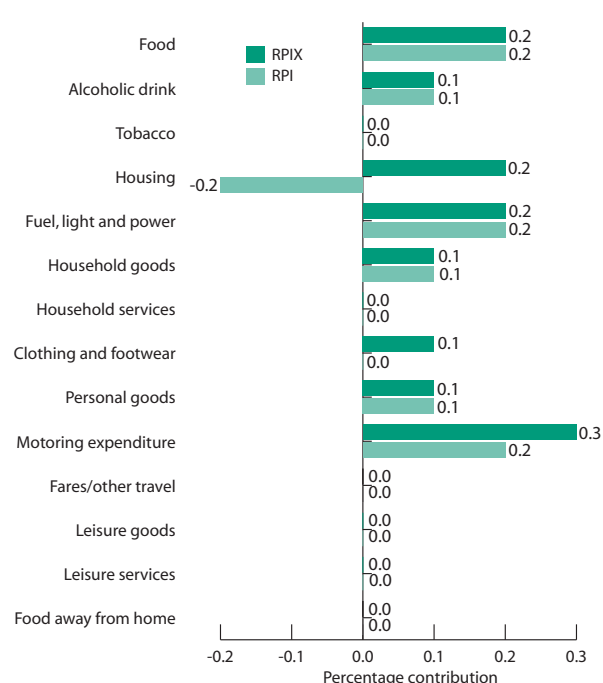
Figure 5 shows the percentage change over the three months ending 31st March 2010 for each of the RPIX and RPI groups. The quarterly contribution of each group is shown in Figure 6.

Of the fourteen RPIX groups, twelve showed an increase this quarter. The largest increase occurred in the Fuel light and power group which increased by 5.1% over the three month period ending 31st March 2010 contributing 0.2 percentage point to the quarterly change.

The Food and Housing groups, both of which have a high weighting in the RPIX, each also made a 0.2 percentage point contribution to the quarterly increase.

The Motoring group also showed a significant increase (2.5%) over the quarter. Due to its larger weighting the Motoring group made the largest positive contribution (0.3 percentage points) to the quarterly RPIX rate.

**Figure 6: Quarterly Contribution**



The only significant negative contribution made this quarter was the RPI housing group which contributed a 0.2 percentage point decrease to the quarterly change in RPI.

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 (1.5%)**

This quarter saw a general increase in the price of fresh fruit and vegetables, meat, fish and dairy products.

### **Alcoholic Drinks (1.7%)**

There was an almost universal increase in this group over the quarter largely due to the cessation of the special offers on alcohol over the Christmas and New Year period.

### **Tobacco (-0.1%)**

There was little change in the prices in this group during this quarter

### **Housing (1.3% RPIX, -0.8% RPI)**

There was a decrease in this group in the RPI this quarter thanks to a reduction in the interest payments on some fixed rate mortgages. In the RPIX, which excludes this component, the Housing group showed a small increase due to increases in both private and States rents and the cost of household maintenance items.

### **Fuel, Light and Power (5.1%)**

Increases in the cost of both oil and gas lead to a significant increase in this group this quarter.

### **Household Goods (1.6%)**

Increases in the price of furniture and household textiles were partially offset by decreases in stationary and pet expenses.

### **Household Services (0.4%)**

Increases in the cost of domestic services this quarter were only partially offset by decreases in the cost of mobile phone services resulting in a small increase in this group.

### **Clothing and Footwear (1.3%)**

General increases in the cost of clothing items for both men and women following the seasonal sales lead to an increase in this group this quarter.

### **Personal Goods (0.9%)**

Although the cost of medicines and medical expenses remained fairly constant this quarter, an increase in the cost of toiletries, which have the highest weighting in this group resulted in an increase over the quarter.

### **Motoring (2.5%)**

Due to increasing global oil prices, petrol and diesel prices increased resulting in an increase in this group this quarter.

### **Fares & Other Travel (0.3%)**

A general increase in the cost of air and train fares this quarter was partially offset by a decrease in sea fares.

### **Leisure Goods (-0.6%)**

The cost of pre-recorded materials, such as CDs and DVDs, increased this quarter but was offset by decreases in the cost of some electrical and photographic goods.

### **Leisure Services (0.3)**

The cost of foreign holidays, the highest weighted item in this group, increased this quarter and although most other items were stable in price, this resulted in an increase in this group this quarter.

### **Food Away from Home (0.8%)**

The cost of both meals out and takeaway food increased slightly this quarter.

## Indices and Reflation Factors

**Table 4: RPIX Reflation Factors for the Period Ending 31st March 2010**

	Cumulative % Change	Reflation Factor
3 months	1.2	1.01
6 month	1.2	1.01
9 months	1.6	1.02
12 months	3.1	1.03
15 months	4.2	1.04
18 months	3.6	1.04
2 years	6.5	1.06
3 years	11.1	1.11
4 years	14.5	1.15
5 years	17.7	1.18
10 years	39.8	1.40

**Table 5: RPI Reflation Factors for the Period Ending 31st March 2010**

	Cumulative % Change	Reflation Factor
3 months	0.7	1.00
6 month	0.7	1.01
9 months	1.8	1.03
12 months	3.4	1.02
15 months	3.0	0.99
18 months	-0.5	1.00
2 years	2.2	1.03
3 years	7.1	1.08
4 years	12.2	1.13
5 years	15.7	1.17
10 years	40.4	1.41

**Table 6: RPIX Index figures at 31st March 2010**

Year of Base	Index
1998	145.4
2008	104.3

**Table 7: RPI Index figures at 31st March 2010**

Year of Base	Index
1949	3101.6
1965	1811.7
1974	999.2
1979	483.6
1983	304.6
1988	227.9
1994	168.7
1999	142.1
2008	100.4

## Reflation Factors and index Figures

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 December 1999 is equivalent to £100 x 1.41 = £141 in 2009.

Reflation factors can also be used in the opposite way. To calculate what £100 in 2009 would have been worth in 1999 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 quarter 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 web-site ([www.gov.gg/rpi](http://www.gov.gg/rpi)).

# Methodology

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## **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 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 Liz Laine (Research and Information Officer) for further information.

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