

# Guernsey Quarterly Inflation Bulletin

31st March 2011 - Issue date 20th April 2011



## POLICY COUNCIL

THE STATES OF GUERNSEY

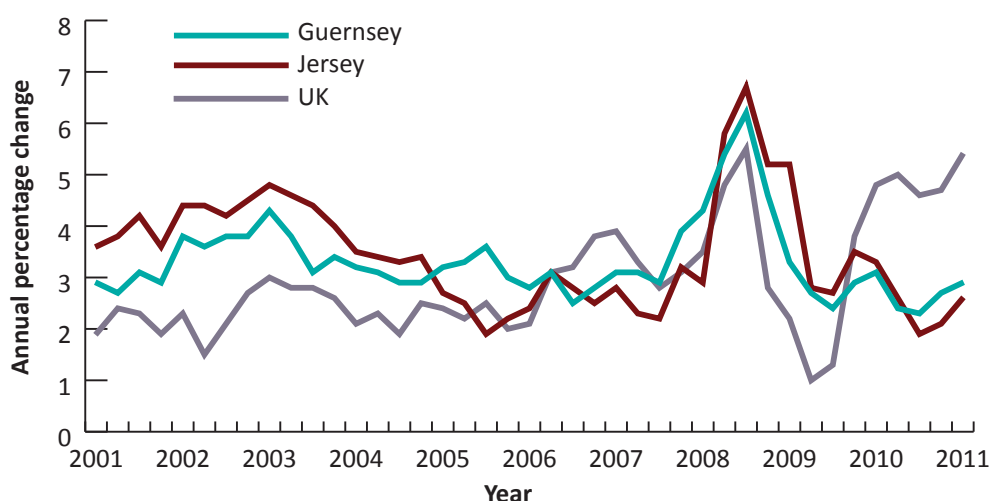
### 1.1 Introduction

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.

### 1.2 Headlines

- Guernsey's annual inflation as measured by RPIX ('core' inflation excluding mortgage interest payments) was 2.9% in the year ending March 2011, compared to 2.7% in the year ending December 2010 and 3.1% in the year ending March 2010.
- In the UK and Jersey the equivalent RPIX figures for the year ending March 2011 were 5.4% and 2.6% respectively (see [Figure 1.2.1](#)).
- Twelve of the fourteen RPIX groups increased in the year ending March 2011.
- For the sixth successive quarter the fuel, light and power group made the largest contribution (0.7 percentage points) to the annual change in RPIX, having increased by 15.3% in the year ending 31st March 2011.
- The 'all items' RPI inflation rate was also 2.9% in the year ending March 2011, compared to 2.3% in the year ending December 2010 and 3.4% in the year ending March 2010.

**Figure 1.2.1: Annual percentage change in RPIX**



## 2.1 RPIX overview

**Table 2.1.1: RPIX overview**

		Annual % change	Quarterly % change	Index (1998 base)
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
	Sept	2.3	0.3	147.1
	Dec	2.7	0.3	147.6
2011	Mar	2.9	1.4	149.6

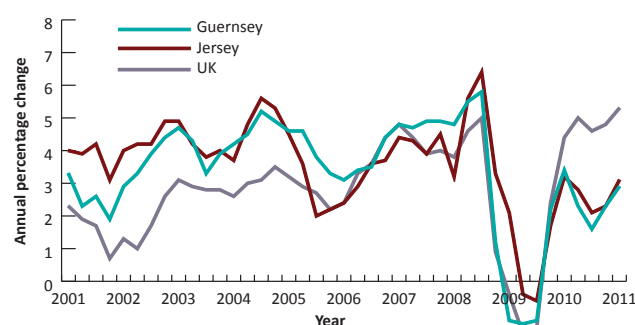
The annual change in the RPIX was 2.9% at the end of March 2011, 0.2 percentage points higher than December 2010 and 0.2 percentage points lower than March 2010 ([Table 2.1.1](#) and [Figure 1.1.1](#)).

In the quarter ending March 2011 RPIX increased by 1.4%, 0.2 percentage points more than during the same period in 2010. Quarterly changes in RPIX are subject to seasonal variations in price level and tend to be higher in the first and second quarters of each year than in the third and fourth.

Annual changes in the RPIX in the UK and Jersey were 5.4% and 2.6% respectively.

## 2.2 RPI Overview

**Figure 2.2.1: Annual changes in RPI**



The annual change in the RPI was 2.9% in March 2011, 0.6 percentage points higher than in December 2010 and 0.5 percentage points lower than in March 2010 ([Figure 2.2.1](#) and [Table 2.1.1](#)).

The annual changes in RPI in the UK and Jersey were 5.3% and 3.1% respectively.

In line with methodological revisions made to the UK RPI in February 2010, revisions were made to the calculation of the mortgage interest payment item this quarter. Please see the methodology section ([page 8](#)) for further details.

**Table 2.2.1: RPI overview**

		Annual % change	Quarterly % change	Index (1999 base)
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
	Sept	1.6	0.4	143.4
	Dec	2.3	0.6	144.2
2011	Mar	2.9	1.4	146.2

## 3.1 Group analysis - annual

**Figure 3.1.1** shows the annual percentage change in each of the fourteen RPI and RPIX groups. **Figure 3.1.2** shows the number of percentage points contributed to the annual change in the indices by each group.

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 3.1.1**) the contribution made by each group to the RPI and RPIX differs.

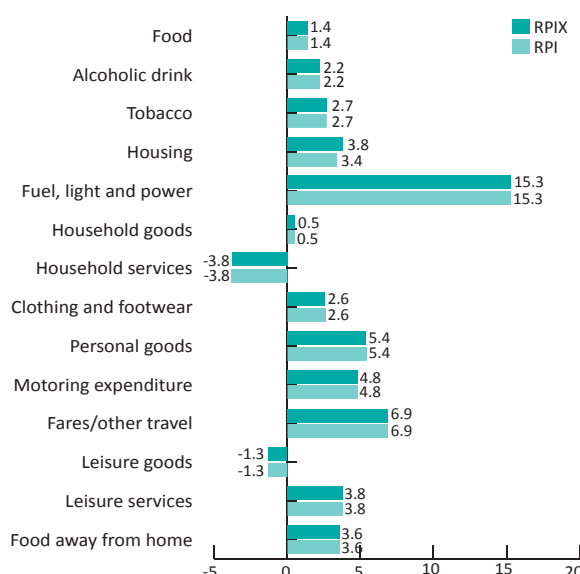
In the year ending March 2011 twelve of the fourteen groups increased. The fuel light and power group experienced the largest annual percentage change, increasing by 15.3% and contributing 0.7 percentage points to the annual change in RPIX. This increase was principally due to an overall increase in global oil prices.

The motoring group, which can also be heavily affected by oil prices, increased by 4.8%, contributing 0.5 percentage points to the annual increase in RPIX.

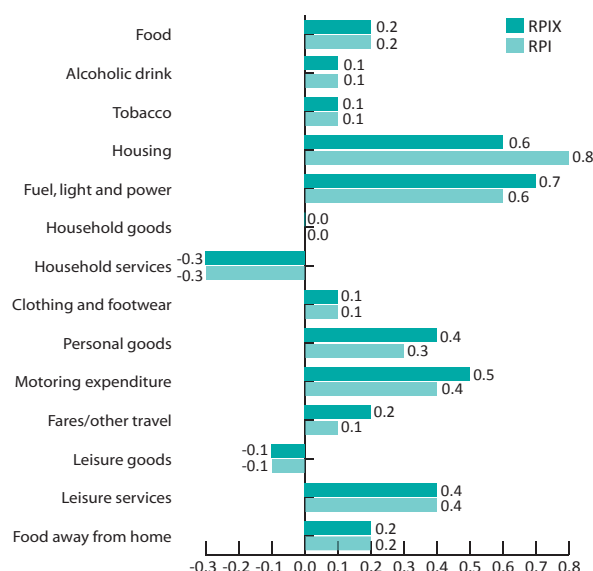
Housing, which has the highest weighting in both RPIX and RPI, contributed 0.6 percentage points to RPIX in the year ending March 2011. There were increases in rents and water charges, resulting in an increase of 3.8% in the RPIX housing group over the year ending March 2011.

The mortgage interest payment item, which is included in the RPI, also increased, but by a lesser amount resulting in an annual increase of 3.4% in this group in the RPI. However, due to the higher weighting of the housing group in the RPI, the contribution was greater (0.8 percentage points) than in RPIX.

**Figure 3.1.1: Annual percentage change**



**Figure 3.1.2: Annual contribution**

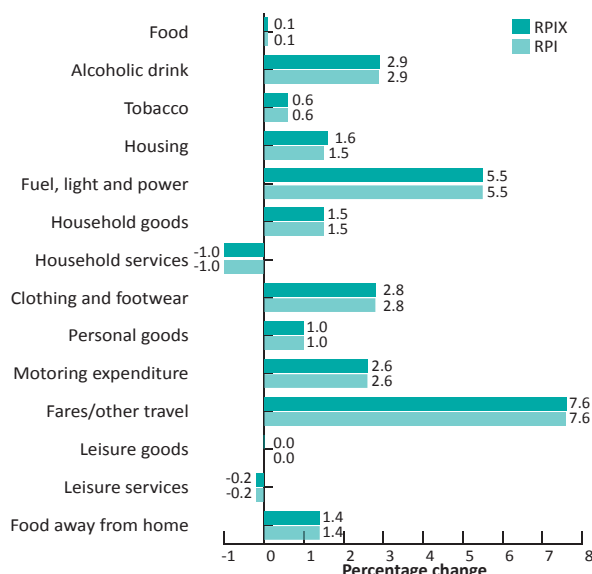


**Table 3.1.1: Group weighting**

	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

## 3.2 Group analysis - quarterly

**Figure 3.2.1: Quarterly percentage change**



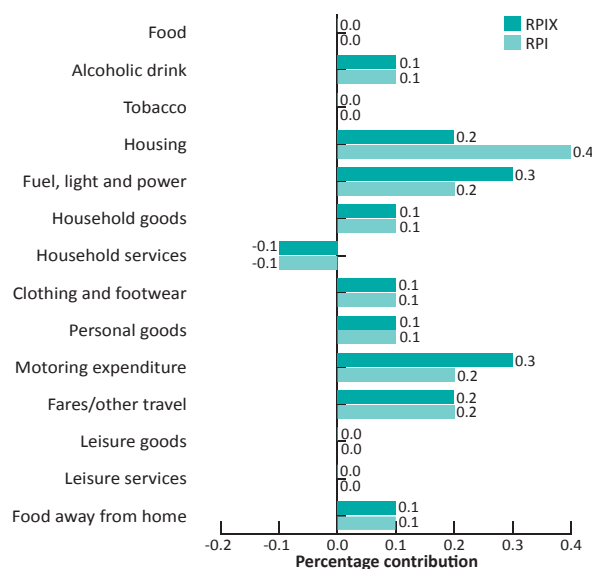
The average price level increased in eleven of the fourteen groups in the quarter ending 31st March 2011 (**Figure 3.2.1**).

The fares and other travel group showed the largest percentage increase (7.6%) contributing an increase of 0.2 percentage points to the quarterly change in RPIX (**Figure 3.2.2**).

The fuel, light and power group showed the second largest quarterly increase (5.5%) and, because it has a higher weight than the fares and other travel group, made the larger positive contribution (0.3 percentage points) to the quarterly change in RPIX.

The largest contribution to the RPI (0.4 percentage points) was made by the housing group, which is the highest weighted group.

**Figure 3.2.2: Quarterly contribution**



Household services were the only group to make a significant negative contribution to RPIX in the first quarter of 2011 contributing a decrease of 0.1 percentage points to the quarterly change.

It should be noted that seasonal price changes can have a significant impact on quarterly change in some RPIX and RPI groups.

## 3.2 Group analysis - quarterly

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 (0.1%)**

Together with seasonal changes in the cost of some food items there were increases in some staple items such as flour, rice and cereals which led to a small increase in the food group this quarter.

### **Alcoholic drinks (2.9%)**

The cessation of the Christmas season special offers on alcoholic drinks brought for home consumption and increases in the price of alcohol brought for consumption away from home led to an increase in this group.

### **Tobacco (0.6%)**

There were moderate increases in the price of cigarettes and cigars this quarter.

### **Housing (1.6% RPIX, 1.5% RPI)**

Increases in TRP, water charges and both private and states rentals this quarter resulted in an increase in this group. The increase in the mortgage interest payment item was lower than the average increase for the other items in the group, resulting in a slightly lower increase in the RPI group than in the RPIX group this quarter.

### **Fuel, light and power (5.5%)**

Continued increases in global oil and fuel prices led to increases in the cost of heating oil and gas this quarter.

### **Household goods (1.5%)**

Increases in the cost of some furnishings were partially offset by decreases in the cost of some household appliances and pet expenses in the quarter ending March 2011.

### **Household services (-1.0%)**

Decreases in the cost of some telecoms and bank charges were partially offset by increases in subscription charges and legal fees.

### **Clothing and footwear (2.8%)**

Increases in the cost of footwear and cotton goods resulted in an increase in this group.

### **Personal goods (1.0%)**

Increases in medical expenses made the largest contribution to the increase in this group in this quarter.

### **Motoring (2.6%)**

The increase in this group over the quarter was primarily a result of increased fuel prices.

### **Fares & other travel (7.6%)**

There was an increase in the cost of both air and sea fares this quarter.

### **Leisure goods (0.0%)**

Decreases in the cost of electrical goods were offset by increases in prerecorded material and some national newspapers. As a result there was no overall change in this group.

### **Leisure services (-0.2%)**

Decreases in the cost of some accommodation services was offset by increases in the cost of foreign holidays.

### **Food away from home (1.4%)**

The cost of eating out increased this quarter.

## 4.1 Cumulative changes, refation factors and indices

**Table 4.1.1: RPIX cumulative changes and refation factors for the period ending 31st March 2011**

	Cumulative % change	Refation factor
3 months	1.4	1.01
6 month	1.7	1.02
9 months	2.0	1.02
12 months	2.9	1.03
15 months	4.1	1.04
18 months	4.1	1.04
2 years	6.1	1.06
3 years	9.5	1.10
4 years	14.3	1.14
5 years	17.8	1.18
10 years	39.7	1.40

**Table 4.1.2: RPI cumulative changes and refation factors for the period ending 31st March 2011**

	Cumulative % change	Refation factor
3 months	1.4	1.01
6 month	1.9	1.02
9 months	2.3	1.02
12 months	2.9	1.03
15 months	3.6	1.04
18 months	3.6	1.04
2 years	6.4	1.06
3 years	5.1	1.05
4 years	10.1	1.10
5 years	15.5	1.15
10 years	39.9	1.40

**Table 4.1.3: RPIX Index figures at 31st March 2011**

Year of base	Index
1998	149.6
2008	107.3

**Table 4.1.4: RPI Index figures at 31st March 2011**

Year of base	Index
1949	3190.9
1965	1863.8
1974	1028.0
1979	497.5
1983	313.3
1988	234.5
1994	173.5
1999	146.2
2008	103.3

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.

There is an [inflation calculator](http://www.gov.gg/rpi) 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 refated value of a monetary sum (e.g. a rental payment) over the specified period.

The effect of inflation is to erode the purchasing power of currency. The refation factors in [Tables 4.1.1](#) and [4.1.2](#) can be used to inflate old values to approximate current prices.

To convert a price, multiply it by the appropriate refation factor. For example, using RPIX refation factors, £100 in March 2001 is equivalent to £100 x 1.40 = £140 in March 2011.

Refation factors can also be used in the opposite way. To calculate what £100 in 2011 would have been worth in 2001, divide by the relevant refation factor.

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 4.1.3](#) and [4.1.4](#) show the index value for the current quarter for each year of base. Full time series of index figures for each base is available on our website ([www.gov.gg/rpi](http://www.gov.gg/rpi)).

## 5.1 UK and Jersey inflation rates

**Table 5.1.1** and **Table 5.1.2** 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 which was not experienced in either Guernsey or the UK. Similarly the temporary reduction of the UK VAT rate to 15% in 2009, its return to 17.5% in 2010 and the subsequent increase to 20% in 2011 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 Islands, 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 5.1.1: Annual change in RPIX in Guernsey, the UK and Jersey**

		Guernsey	UK	Jersey
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
	June	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
	June	2.7	1.0	2.8
	Sept	2.4	1.3	2.7
	Dec	2.9	3.8	3.5
2010	Mar	3.1	4.8	3.3
	June	2.4	5.0	2.6
	Sept	2.3	4.6	1.9
	Dec	2.7	4.7	2.1
2011	Mar	2.9	5.4	2.6

**Table 5.1.2: Annual change in RPI in Guernsey, the UK and Jersey**

		Guernsey	UK	Jersey
2007	Mar	4.8	4.8	4.4
	June	4.7	4.4	4.3
	Sept	4.9	3.9	3.9
	Dec	4.9	4.0	4.5
2008	Mar	4.8	3.8	3.2
	June	5.5	4.6	5.6
	Sept	5.9	5.0	6.4
	Dec	1.2	0.9	3.3
2009	Mar	-1.2	-0.4	2.1
	June	-1.3	-1.6	-0.4
	Sept	-1.2	-1.4	-0.6
	Dec	2.2	2.4	1.7
2010	Mar	3.4	4.4	3.2
	June	2.3	5.0	2.8
	Sept	1.6	4.6	2.1
	Dec	2.3	4.8	2.3
2011	Mar	2.9	5.3	3.1

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

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

## 6.1 Methodology

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 consistent 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. In line with methodological revisions made to the UK RPI in February 2010, revisions were made to the calculation of the mortgage interest payment item this quarter. The changes, primarily the replacement of the existing interest rate measure with an Average Effective Rate make the measurement of mortgage interest payments more representative of the average household expenditure.

The P&RU would like to thank the participating local mortgage lenders for the voluntary provision of data which has made these improvements possible.

More details are provided in the technical note which is available on our website.

Further information regarding the methodology, calculation and uses of the inflation indices can be found in the Guide to the Guernsey Inflation Indices which is available online at [www.gov.gg/rpi](http://www.gov.gg/rpi)

## 7.1 Contact details and further information

For more information on how the RPIX and RPI are calculated please see the Guide to the Guernsey Retail Prices Indices, which, along with the Inflation Calculator, is available via [www.gov.gg/rpi](http://www.gov.gg/rpi).

Please contact Liz Laine (Research and Information Officer) for further information.

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The next inflation bulletin (for June 2011) will be published at 9:30am on Friday 22nd July.