

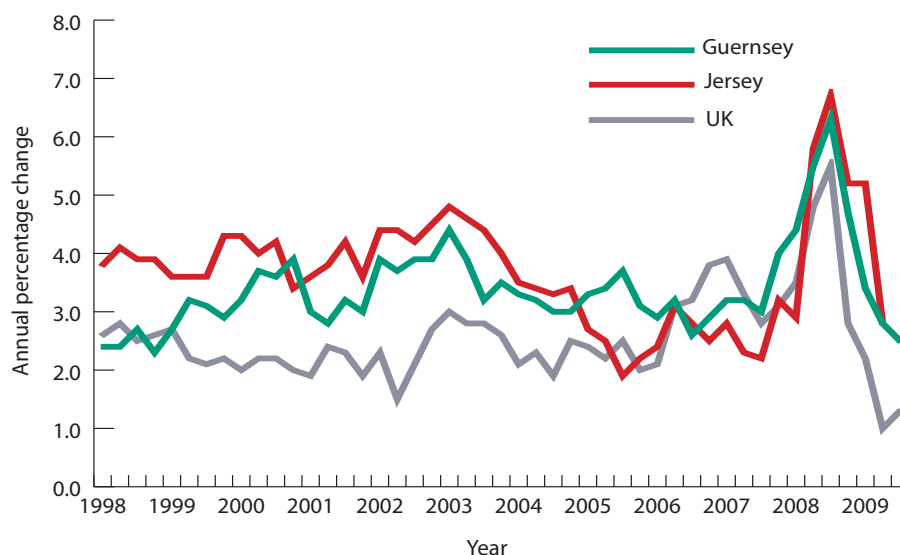
Introduction

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

- Guernsey's RPIX ("core" inflation excluding mortgage interest payments), was 2.4% this quarter, compared to 2.7% at the end of June 2009 and 6.2% at the end of September 2008.
- At the end of September 2009 Guernsey's RPI was -1.2%, compared to -1.3% at the end of June 2009 and 5.9% at the end of September 2008.
- In the UK the equivalent RPI X figures for the end of September 2009 was 1.3% (see *Figure 1*). Similarly the UK rate of RPI at the end of the third quarter was -1.4%.
- The Housing group contributed a decrease of -2.5 percentage points to the annual RPI as a result of the decreases in mortgage interest rates over the first two quarters of the year ending 30th September 2009
- The Clothing, Fares and Other Travel and Leisure Goods groups also contributed a decrease to the annual change.
- However, the remaining eleven of the fourteen RPI groups increased or remained stable over the year ending 30th September 2009: the Household Services and Alcohol groups contributed the largest increases.
- The Index stood at 141.1 (1999 base).

Figure 1: Annual Rates of Inflation - RPI X



Overview

Table 1: Annual Rates of Inflation

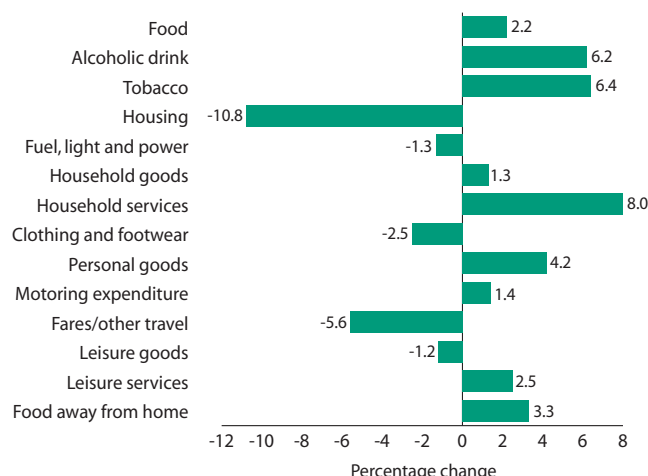
Year	March	June	September	December
2004	4.2	4.5	5.2	4.9
2005	4.6	4.6	3.8	3.3
2006	3.1	3.4	3.5	4.4
2007	4.8	4.7	4.9	4.9
2008	4.8	5.5	5.8	1.2
2009	-1.2	-1.3	-1.2	

The Guernsey RPI changed by -1.2% for the twelve months ending 30th September 2009.

The change over the three months ending 30th September 2009 was 1.1%, compared to 1.6% during the previous quarter and -0.4% the quarter before.

RPI Group Analysis

Figure 2: Annual Percentage 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, nine increased and five decreased over the twelve months ending 30th September 2009. The Housing group decreased by the largest amount (-10.8%) over the year (see *Figure 2*).

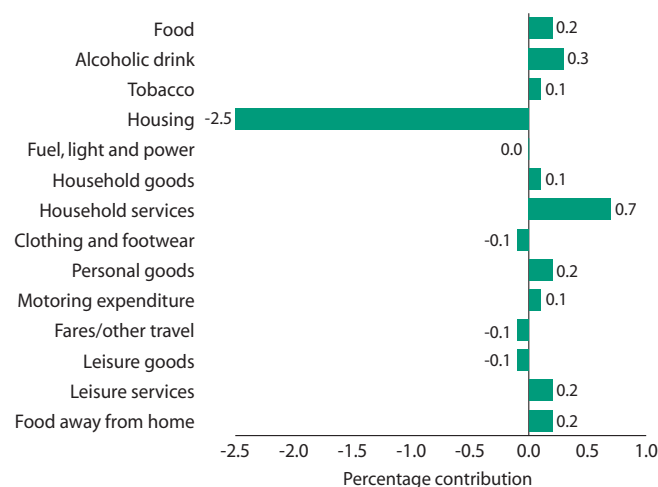
The Bank of England has reduced the interest rate from 5% to 0.5% over the past twelve months, resulting in reductions in the average cost of mortgage repayments. This item has the highest weighting (14%) in the Guernsey RPI basket of goods, reflecting the average proportion of Guernsey households' expenditure, which is spent on mortgage repayments. As a result of this, changes in this item have a large impact on the RPI figure (see *Figure 3*). For the year ending September 2009, the Housing group contributed -2.5 percentage points to the overall annual change.

Clothing, Fares and Leisure Goods groups also made negative contributions to RPI over the year.

The negative contributions were offset to some extent by increases in other groups. The largest annual percentage increase occurred in the Household Services group, which increased by 8.0% since 30th September 2008. This was followed by increases in the Alcohol and Tobacco groups (6.2% and 6.4% respectively).

Household Services and Alcoholic Drinks made the largest positive contributions (0.7 and 0.3 percentage points respectively) to the overall 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 Group Analysis

Figure 4 shows the percentage change over the three months ending 30th September 2009 for each of the RPI groups. The quarterly contribution of each group is shown in *Figure 5*.

Ten of the fourteen groups increased this quarter (see *Figure 4*). The Housing group showed the largest increase (3.1%) and the largest contribution (0.7 percentage points) to the overall quarterly change (see *Figure 5*).

The largest decrease was seen in the Leisure Goods group, which fell by 1.7% over the three months ending 30th September 2009, contributing -0.1 percentage points to the overall quarterly change

Individual group indices for December 2007 to September 2009 are presented 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

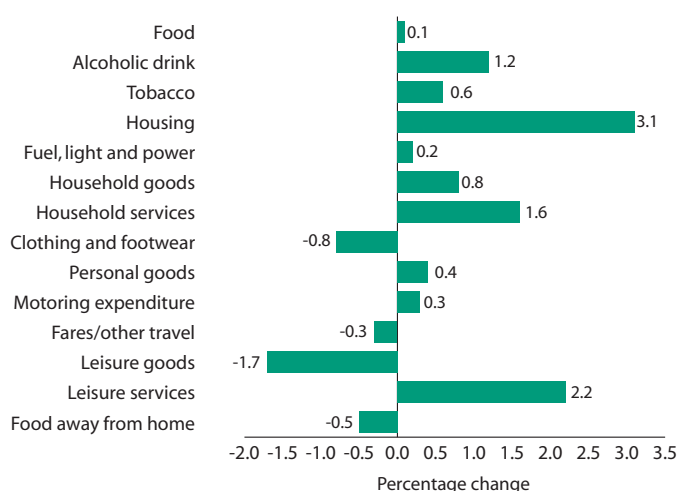
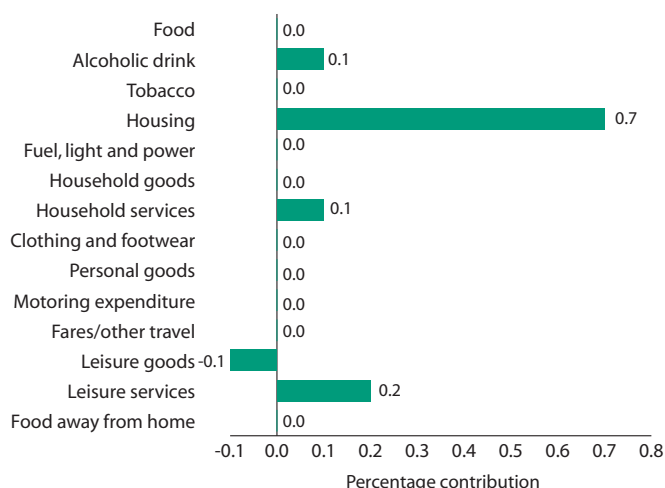


Figure 5: Quarterly Percentage Contribution



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	2009 Jun	2009 Sept
Food	107	131.3	133.8	137.4	138.6	139.1	140.0	141.5	141.6
Alcoholic Drink	42	170.0	180.4	186.3	187.1	187.5	193.9	196.4	198.8
Tobacco	16	281.8	291.0	290.9	291.4	298.0	305.6	308.2	310.1
Housing	264	213.0	212.9	216.3	219.8	195.7	187.0	190.2	196.0
Fuel, Light and Power	39	180.1	192.7	203.2	197.9	174.2	178.2	194.9	195.3
Household Goods	55	129.6	133.6	133.9	134.9	134.3	135.4	135.4	136.6
Household Services	77	158.0	159.7	161.9	164.0	173.4	173.7	174.3	177.2
Clothing & Footwear	41	98.5	92.5	91.8	93.3	91.7	91.1	91.7	91.0
Personal Goods	55	163.0	165.8	167.6	168.2	169.4	172.7	174.7	175.4
Motoring Expenditure	86	144.9	149.7	155.3	154.5	147.0	149.1	156.2	156.7
Fares/Other Travel	22	177.4	190.4	194.2	194.3	181.6	184.5	183.9	183.3
Leisure Goods	66	103.3	103.5	102.9	101.5	101.5	101.6	102.1	100.3
Leisure Services	88	166.2	168.6	170.9	177.7	177.5	176.6	178.3	182.1
Food Away from Home	44	153.6	163.4	162.5	164.3	164.8	169.7	170.7	169.8

RPI Group Analysis (Quarterly Percentage Changes)

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

Food (0.1%)

Overall there was very little change in the food group this quarter. Decreases in fresh fruit and bread products were offset by increases in fresh meat and seafood.

Alcoholic Drinks (1.2%)

Increases in the cost of wines and spirits this quarter resulted in an increase in this group although this was partially offset by a modest decrease in the cost of beer and cider brought for home consumption.

Tobacco (0.6%)

There was a slight increase in the cost of cigarettes this quarter, but the cost of cigars and tobacco showed a modest reduction.

Housing (3.1%)

The Bank of England made no changes to the base rate again this quarter, which remained at its historic low of 0.5%, compared to 5.0% at the end of September 2008. However, a continued increase in house prices and an increase in private rents, resulted in an increase in the housing group this quarter.

Fuel, Light and Power (0.2%)

There was an increase in the cost of coal this quarter which was partially offset by a small reduction in the cost of oil.

Household Goods (0.8%)

There was a general increase in the price of items in this group including increases in the cost of household appliances and furniture.

Household Services (1.6%)

Increases in the cost of licences, official documents and child care, which carry high weights within the group, lead to an overall increase in this group.

Clothing and Footwear (-0.8%)

Decreases in item groups such as children's clothing and women's outerwear was offset by increases in more seasonal items such as hats, coats and scarves.

Personal Goods (0.4%)

There were minor decreases in the cost of toiletries and over the counter medicines were offset by increases in cosmetics and jewellery.

Motoring (0.3%)

The price of fuel fell this quarter but there were increases in the cost of purchasing and servicing vehicles.

Fares & Other Travel (-0.3%)

The cost of fares fell this quarter, but increases in the cost of sea travel and car hire resulted in a decrease in this group.

Leisure Goods (-1.7%)

There were decreases in the cost of gardening equipment and furniture and some electrical goods which were only partially offset by increases in the costs of music and home computer purchase.

Leisure Services (2.2%)

An increase in the cost of educational fees and private tuition has led to an increase in this group this quarter.

Food Away from Home (-0.5%)

A moderate decrease in the cost of meals out has led to a decrease in this group.

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 142.8 to 141.1 over the year ending 30th September 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), 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	139.6	141.1	

Table 4: Percentage Changes- September 2009

Period	Percentage change
3 months	1.1
6 month	2.7
9 months	2.3
12 months	-1.2
18 month	1.5
2 years	4.6
3 years	9.7
4 years	13.6
5 years	17.9
10 years	42.6

Table 5: Index Figures- September 2009

Year of rebase (Index = 100)	Index Figures
1999	141.1
1994	167.5
1988	226.4
1983	302.5
1978	480.2

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: 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
	June	-1.3	1.6	-1.6	1.0	-0.4	0.9
	Sept	-1.2	1.1	-1.4	0.9		

The annual change in RPI was -1.4% in the UK, compared to -1.2% in Guernsey. Jersey RPI and RPIX statistics are due to be released on 23rd October 2009.

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

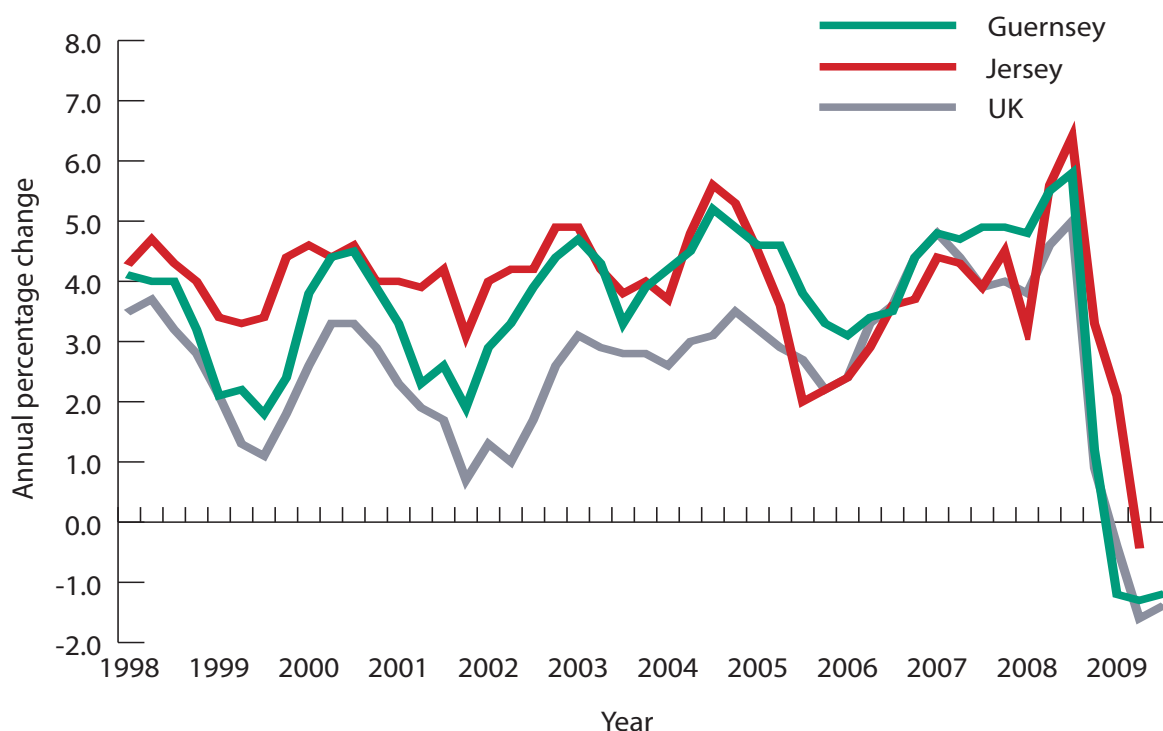
In the UK, the Housing group again showed the largest decrease, (-11.2%). Fuel and Light also decreased (-7.9%). The largest increases were in the Leisure Services and Household Goods groups which rose by 4.8% and 4.5% respectively.

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
 Jersey RPI: www.gov.je/ChiefMinister/Statistics

Figure 7: 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 2.4%, compared to 2.7% last quarter and 6.2% the previous year. This implies that core inflationary pressures in the year ending 30th September 2009 were less than those in the year ending 30th September 2008.

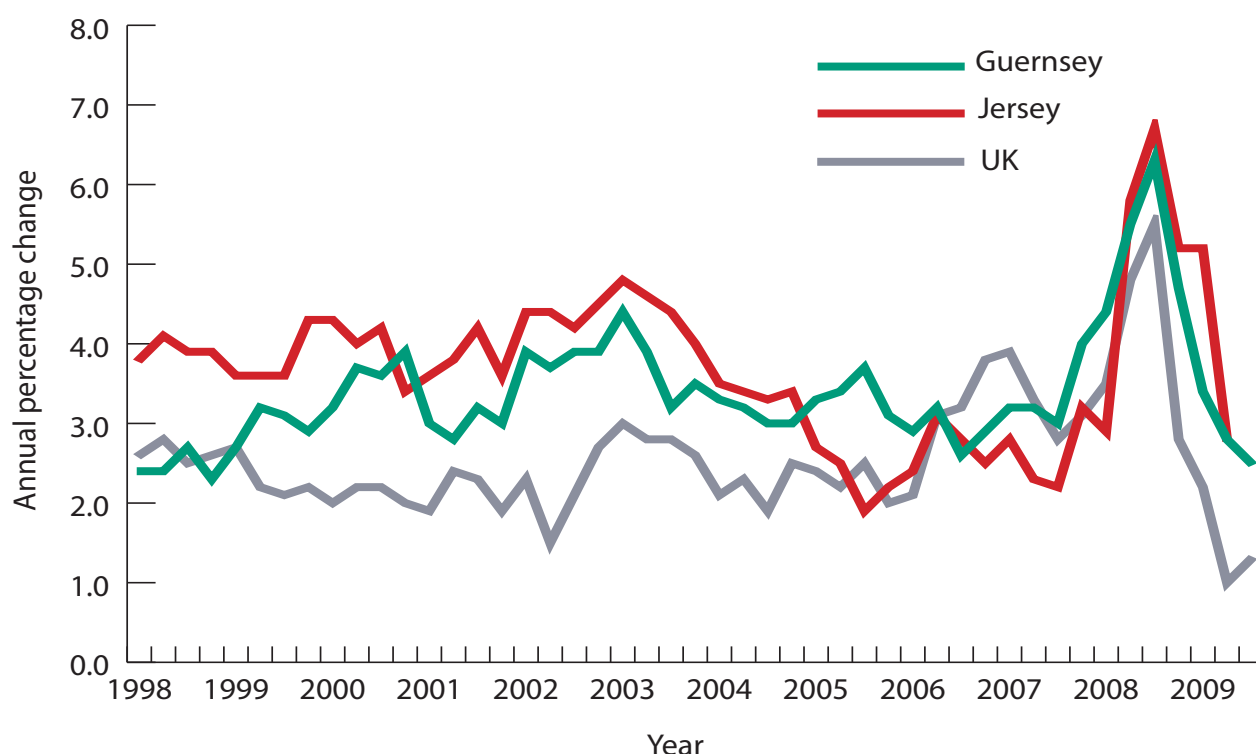
Guernsey's RPIX remained higher than that of the UK (1.3%) this quarter. This indicates that core inflationary pressures in Guernsey were higher than in the UK during the year ending 30th September 2009.

Jersey RPIX is due to be released on 23rd October 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
	Jun	2.7	1.0	2.8
	Sept	2.4	1.3	

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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