

# Guernsey Inflation

## Quarter 3 - 30th September 2010

Issue Date - 22nd October 2010

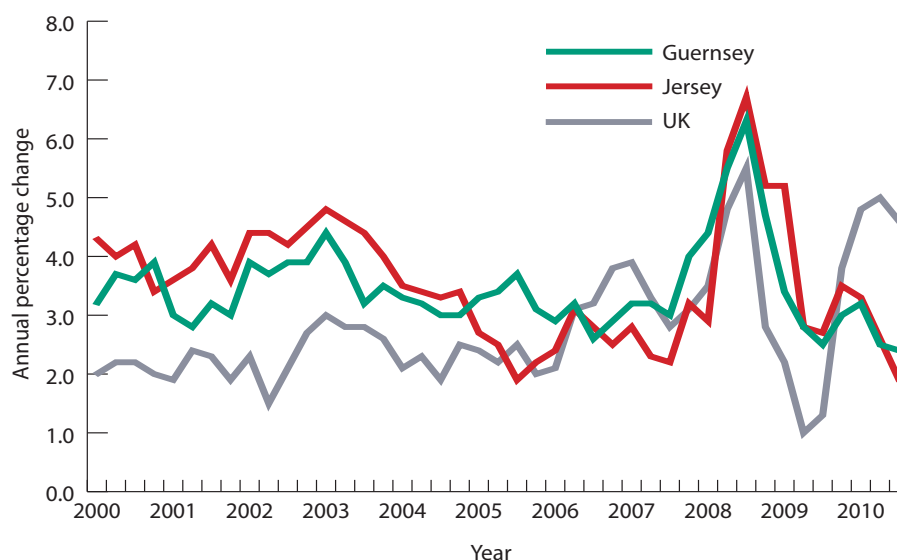
### Introduction

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 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.

### Headlines

- Guernsey's annual inflation as measured by RPIX ("core" inflation excluding mortgage interest payments) was 2.3% in the year ending September 2010, compared to 2.4% in the years ending June 2010 and September 2009.
- In the UK and Jersey the equivalent RPIX figures for the year ending September 2010 were 4.6% and 1.9% respectively (see Figure 1).
- Eleven of the fourteen RPIX groups increased in the year ending September 2010.
- For the fourth successive quarter the fuel, light and power and motoring groups were the largest contributors to the annual increase in RPIX. However reductions in oil product prices during the third quarter of this year resulted in a reduce upward contribution compared to last quarter.
- The household services group made the largest negative contribution (-0.5 percentage points) to the annual change.
- The 'all items' RPI inflation rate was 1.6% in the year ending September 2010, compared to 2.3% in the year ending June 2010 and -1.2% in the year ending September 2009.

Figure 1: Annual changes in RPIX



# RPIX Overview

**Table 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

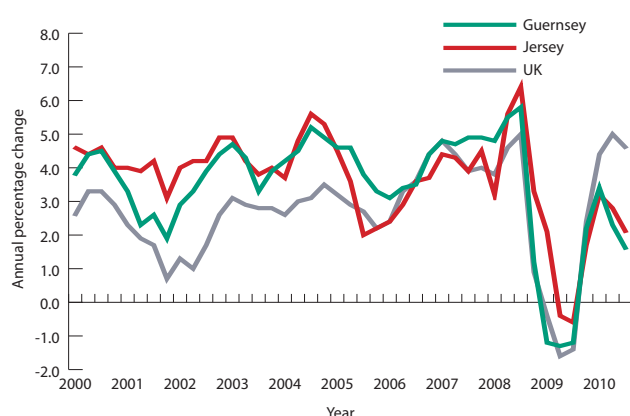
Annual inflation as measured by the change in RPIX was 2.3% in the year ending September 2010 (see *Table 2*). This was 0.1 percentage points lower than in the year ending September 2009, suggesting that core inflationary pressures were similar to the same period the previous year.

RPIX in the UK and Jersey in the year ending September 2010 was 4.6% and 1.9% respectively. The reinstatement of the UK's rate of VAT to 17.5% in January 2010 continues to exert an upwards pressure on inflation in the UK.

The quarterly change in the RPIX was 0.3% in the three months ending September 2010, 0.5 percentage points lower than in the three month period ending June 2010 and 0.1 percentage points lower than the third quarter 2010.

## RPI Overview

**Figure 2: Annual changes in RPI**



In the year ending September 2010 the 'all items' RPI increased by 1.6%, compared to a decrease of 1.2% in the year ending September 2009 (see *Table 2*).

The 'all items' RPI in the UK increased by 4.6%, and in Jersey increased by 2.1% (see *Figure 2*). Again the higher inflation in the UK can be largely attributed to increases in VAT.

In the quarter ending 31st September 2010 the Guernsey 'all items' RPI increased by 0.4%, 0.1 percentage points more than RPIX. The difference is caused by the contribution of the mortgage interest payment item to the "all-items" RPI.

More details of the groups which contributed to the changes in RPIX and RPI are given over the next pages.

**Table 2: 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

## Group Analysis

The annual percentage change in each of the RPIX and RPI groups is shown in **Figure 3**. The contribution of each group to the overall annual changes is 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 the RPI and RPIX differs.

The fuel, light and power group showed the largest increase (11.1%) in the year ending September 2010, contributing 0.5 percentage points to the annual change in RPIX. The motoring group, which has a higher weighting, also contributed an increase of 0.5 percentage points.

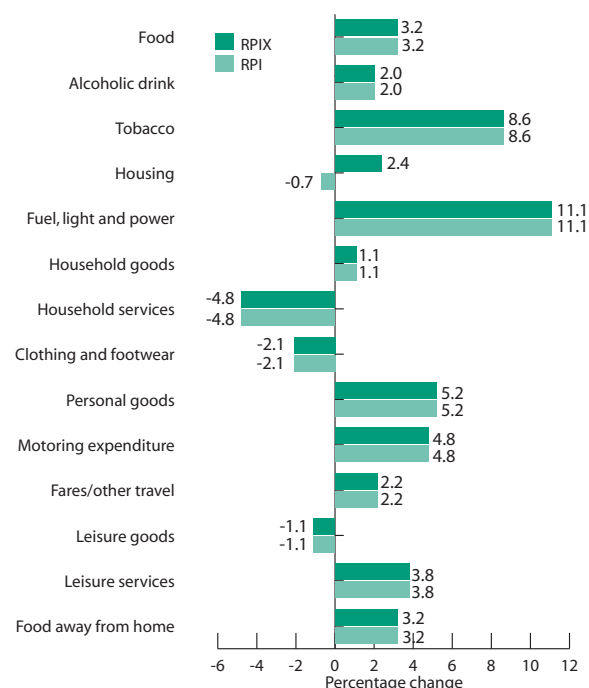
Household services, which decreased by 4.8% over the year ending September 2010, made the largest negative contribution (-0.5 percentage points) to the annual change in RPIX.

The housing group made a positive contribution of 0.4 percentage points to RPIX. However, with the inclusion of the mortgage interest payment item, the group made a negative contribution of 0.2 percentage points to the “all-items” RPI. This indicates that mortgage payment were lower than in September 2010, than in September 2009.

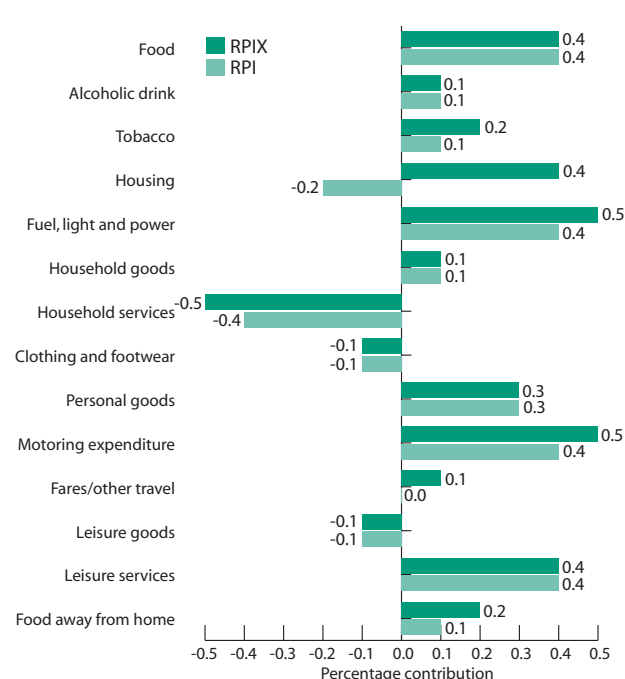
**Table 3: Group weights**

	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	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**

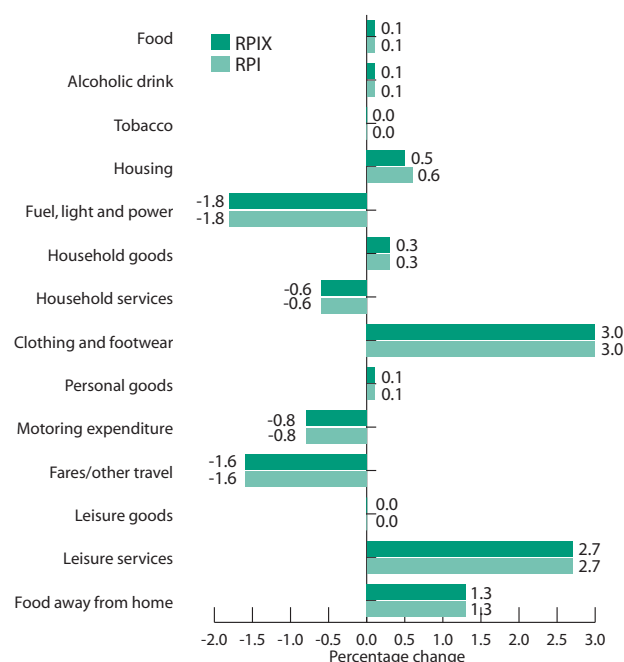


Figure 5 shows the percentage change in the three months ending 30th September 2010 for each of the RPIX and RPI groups. The quarterly contribution of each group is shown in Figure 6. As with the annual changes, only the housing group shows a different percentage change between the RPIX and RPI, as a 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 the RPI and RPIX differs.

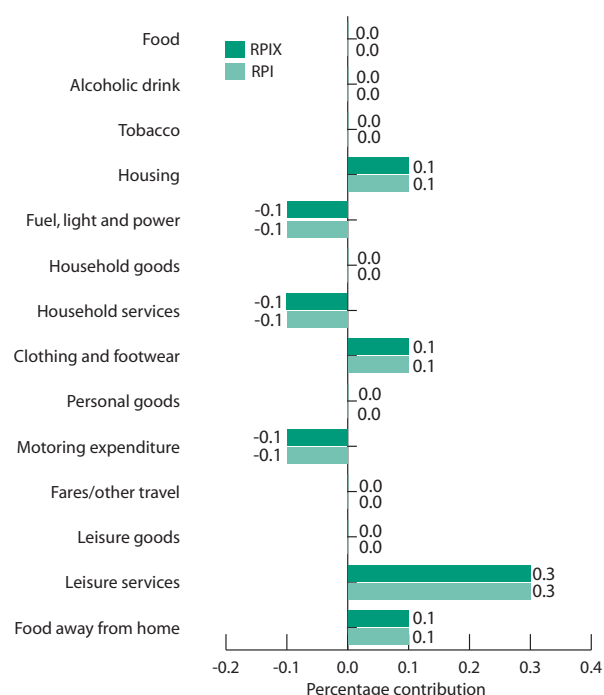
Of the fourteen RPIX groups, eight showed an increase over the quarter ending September 2010, four decreased and two showed no change.

The largest increases were in clothing and footwear and leisure services, which increased by 3.0% and 2.7% respectively. Leisure services, which has the higher weighting, made the largest contribution (0.3 percentage points) to the overall change in RPIX over the quarter.

The largest decreases were in fuel, light and power (-1.8%) and fares and other travel (-1.6%), each contributing a decrease of 0.1 percentage points to the quarterly change. Motoring, which has a higher weighting than either of the above groups also contributed a decrease of 0.1 percentage points.

The index figures for the fourteen RPIX and RPI groups are available from the Policy and Research Unit on request.

**Figure 6: Quarterly contribution**



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

## Group Analysis

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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%)**

Overall there was little change in this group over the quarter with price increases in some items, including dairy products, being off set being offset by a decrease in the price of other item.

### **Alcoholic drinks (0.1%)**

There was an increase in the price of wines brought for home consumption, resulting in a small increase in this group this quarter.

### **Tobacco (0.0%)**

There was no change in the prices in this group during this quarter.

### **Housing (0.5% RPIX, 0.6% RPI)**

This quarter saw increases in the cost of private rentals and the price of some DIY items. The cost of mortgages interest payments, which is excluded from the RPIX, also showed a small increase this quarter.

### **Fuel, light and power (-1.8%)**

A decrease in the price of oil led to an overall decrease in this group over the quarter ending September 2010.

### **Household goods (0.3%)**

Increases in the price of household linens and soft furnishings resulted in an increase in this group this quarter.

### **Household services (-0.6%)**

Decreases in the cost of telephone call charges were partially offset by increase in the cost of some domestic services.

### **Clothing and footwear (3.0%)**

Increases in the cost of women's outerwear led to an increase in this group over the quarter.

### **Personal goods (0.1%)**

Increases were seen in the cost of some items, such as vitamins, but these were offset by a reduction in the price of items such as jewellery and travel accessories.

### **Motoring (-0.8%)**

Petrol and diesel prices both decreased over the quarter resulting in an overall decrease in this group.

### **Fares & other travel (-1.6%)**

The increases in bus and taxi fares partially offset reductions in the cost of air and sea fares.

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

Decreases in the price of some electronic goods and software was balanced by increases in some pre-recorded materials and photographic goods.

### **Leisure services (2.7%)**

Increases in private education fee and television subscriptions and liscensing resulted in an increase in this group over the quarter.

### **Food away from home (1.3%)**

The cost of meals out increased this quarter.

## Indices and Reflation Factors

**Table 4: RPIX reflation factors for the period ending 31st September 2010**

	Cumulative % change	Reflation factor
3 months	0.3	1.00
6 month	1.2	1.01
9 months	2.4	1.02
12 months	2.3	1.02
15 months	2.8	1.03
18 months	4.3	1.04
2 years	4.8	1.05
3 years	11.5	1.12
4 years	14.8	1.15
5 years	17.6	1.18
10 years	38.3	1.38

**Table 5: RPI reflation factors for the period ending 31st September 2010**

	Cumulative % change	Reflation factor
3 months	0.4	1.00
6 month	0.9	1.01
9 months	1.7	1.02
12 months	1.6	1.02
15 months	2.7	1.03
18 months	4.3	1.04
2 years	0.4	1.00
3 years	6.3	1.06
4 years	11.5	1.12
5 years	15.5	1.16
10 years	38.8	1.39

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

Year of base	Index
1998	147.1
2008	105.5

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

Year of base	Index
1949	3129.9
1965	1828.2
1974	1008.3
1979	488.0
1983	307.3
1988	230.0
1994	170.2
1999	143.4
2008	101.3

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* 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 reflation 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 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 September 2000 is equivalent to £100 x 1.39 = £139 in September 2010.

Reflation factors can also be used in the opposite way. To calculate what £100 in 2010 would have been worth in 2000, divide by the relevant reflation 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 6 and 7* 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)).

## UK and Jersey inflation rates

Table 8 and Table 9 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 and its subsequent return to 17.5% in 2010 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 Island's, 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 8: Annual change in RPIX in Jersey and the UK**

		Guernsey	Jersey	UK
2007	Mar	3.1	2.8	3.9
	June	3.1	2.3	3.3
	Sept	2.9	2.2	2.8
	Dec	3.9	3.2	3.1
2008	Mar	4.3	2.9	3.5
	June	5.4	5.8	4.8
	Sept	6.2	6.7	5.5
	Dec	4.6	5.2	2.8
2009	Mar	3.3	5.2	2.2
	June	2.7	2.8	1.0
	Sept	2.4	2.7	1.3
	Dec	2.9	3.5	3.8
2010	Mar	3.1	3.3	4.8
	June	2.4	2.6	5.0
	Sept	2.3	1.9	4.6

**Table 9: Annual change in RPI in Jersey and the UK**

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

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

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



# Methodology

## 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 are 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 indices than others, for example, an increase in the price of petrol will have more effect 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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