

Guernsey Quarterly Inflation Forecast

Quarter 1 2021

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States of
Guernsey

1.1 Introduction

The Inflation Forecast Bulletin provides 12 month forecasts for the primary inflation measures used in Guernsey: RPIX and RPI. Forecasts are based on historical trends, expectations of inflation in the UK, and forecast movements in the price of key commodities. Forecasts are revised and published on a quarterly basis in the month following the publication of the Guernsey Inflation Bulletin.

NB - Forecasts are presented with statistical confidence (or error) bands (the shaded area). These represent the range of possible outcomes with a 30%, 60% and 90% statistical certainty.

1.2 Forecasts

- The annual change in RPIX was 1.6% in December 2020 compared to 2.0% in September 2020, placing it slightly below the central forecast.
- In the current environment the forecasts presented are subject to a significant degree of uncertainty. To date the disruption as a result of COVID-19 has exerted a downward pressure on inflation, mirroring the impact seen on UK indices. This is expected to continue. The current expectation is that the annual change in RPIX will fall a little further in the coming quarters.
- Based on the experience in 2020, the previous high levels of demand in the housing market is expected to resume once current lockdown restrictions allow. This continues to present a risk of increased levels of inflation in the Housing group.
- The Brexit negotiations concluded with an agreement for no tariffs or quota restrictions on the movement of goods between the UK customs area and the EU. However additional friction, such as increased customs requirements and regulatory checks is causing some disruption in the UK in some areas of the supply chain, which may cause upward pressure on prices.
- Lower levels of inflation may be seen if economic conditions for 2021 are weaker than forecast, particularly if this manifests in lower earnings or higher unemployment than currently anticipated.

Figure 1.1: Forecast Guernsey RPIX

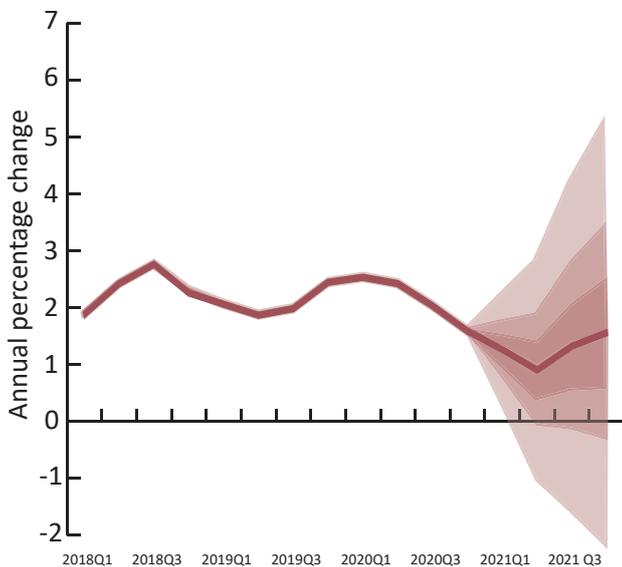
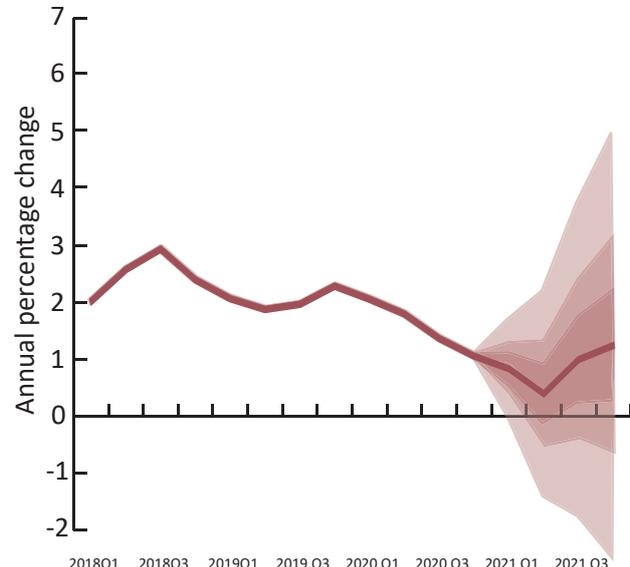


Figure 1.2: Forecast Guernsey RPI



1.3 Forecast assessment

Table 1.1 below presents an overview of the performance of the RPIX forecasts against actual data three, six, nine and twelve months ahead of publication. For example, T+3 months presents a summary of how accurate the forecasts are one quarter before publication of the actual data, detailing how many of the actual observations fall within 30%, 60% and 90% confidence intervals of the forecasts represented by the coloured bands in **Figure 1.1**.

Table 1.1: Summary of RPIX forecast performance

	t +3 months	t +6 months	t +9 months	t +12 months
Total number of observations	22	21	20	20
Within 30% confidence interval	45%	48%	70%	75%
Within 60% confidence interval	64%	76%	85%	85%
Within 90% confidence interval	95%	90%	90%	90%
Outside 90% confidence interval	5%	10%	10%	10%

1.4 Contact Details

For more information on this and other publications issued by the States of Guernsey Strategy and Policy Unit, please contact:

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Routine statistical publications, including quarterly publication of inflation statistics, are issued by the States of Guernsey Data and Analysis Services. These publications are available online at www.gov.gg/data.