

Guernsey Quarterly Inflation Bulletin

30th June 2014 - Issue date 18th July 2014



POLICY COUNCIL
THE STATES OF GUERNSEY

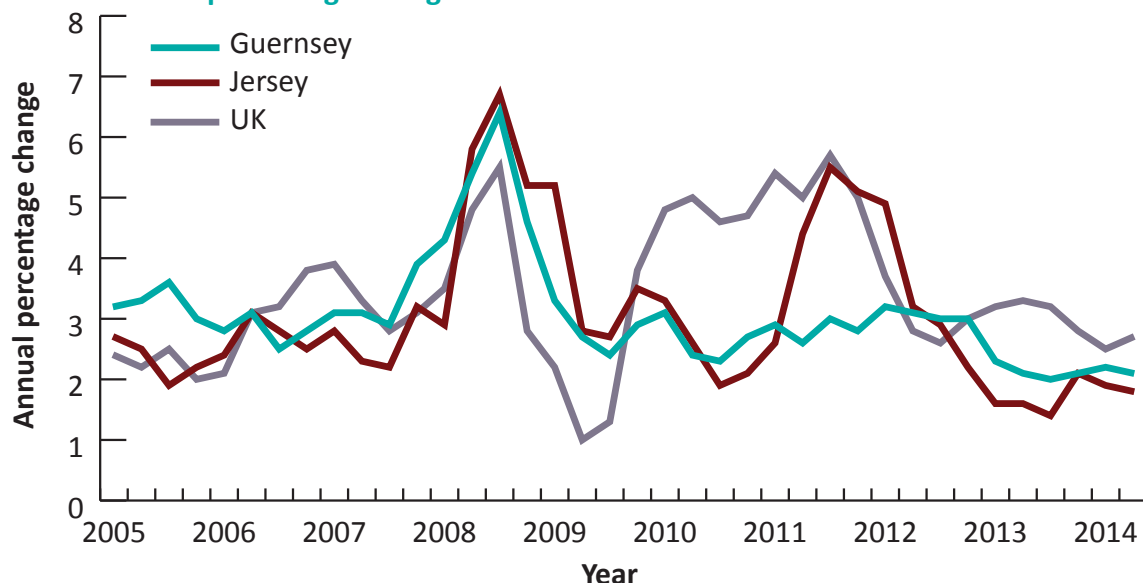
1.1 Introduction

The Guernsey RPIX and RPI are measures of inflation. 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 calculations 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 the RPIX ('core' inflation excluding mortgage interest payments) was 2.1% in June 2014, 0.1 percentage points lower than in March 2014 and the same as in June 2013.
- The equivalent RPIX figure for June 2014 for the UK was 2.7% (see [Figure 1.2.1](#)) and in Jersey was 1.8%.
- The Housing category made the largest contribution to the annual increase in the RPIX in June 2014, contributing 0.8 percentage points.
- The 'all items' RPI annual inflation was 2.6% in June 2014, which is 0.2 percentage points lower than the previous quarter and 0.1 percentage points lower than in June 2013.
- Housing contributed 1.4 percentage points to the annual increase in the RPI.
- The annual change in the UK RPI in June 2014 was 2.6% and in Jersey was 1.6%.

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)
2011	Jun	2.6	0.5	150.4
	Sep	3.0	0.8	151.6
	Dec	2.8	0.2	151.8
2012	Mar	3.2	1.8	154.4
	Jun	3.1	0.3	155.0
	Sep	3.0	0.7	156.0
2013	Dec	3.0	0.2	156.3
	Mar	2.3	1.0	158.0
	Jun	2.1	0.1	158.2
2014	Sep	2.0	0.7	159.2
	Dec	2.1	0.2	159.6
	Mar	2.2	1.1	161.4
	Jun	2.1	0.1	161.5

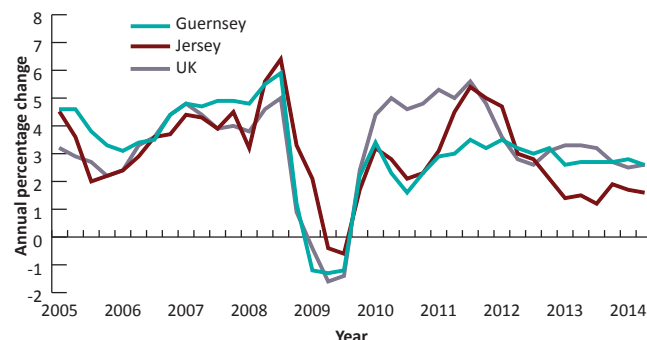
The annual change in the RPIX was 2.1% at the end of June 2014, 0.1 percentage points lower than the previous quarter and the same as in June 2013 (see [Table 2.1.1](#) and [Figure 1.2.1](#)).

The quarterly change in the RPIX was 0.1% during the three month period ending June 2014, the same as the change seen during the same period in 2013. Quarterly changes in the RPIX are subject to seasonal variations in price level and are typically higher in the first and second quarters of each year than in the third and fourth.

The annual change in the UK RPIX was 2.7% at the end of June 2014. The change in the RPIX in Jersey was 1.8%.

2.2 RPI Overview

Figure 2.2.1: Annual changes in RPI



The annual change in the RPI was 2.6% in June 2014, which is 0.2 percentage points lower than the previous quarter and 0.1 percentage points lower than in June 2013 (see [Figure 2.2.1](#) and [Table 2.2.1](#)).

The annual change in the UK RPI in June 2014 was 2.6%. The change in the RPI in Jersey was 1.6%.

The quarterly change in the RPI for the quarter ending June 2014 was 0.2%, which is 0.2 percentage points lower than the change seen during the quarter ending June 2013. Similar to the RPIX, quarterly changes in the RPI are subject to seasonal variation. However, the RPI can be dominated by trends in mortgage interest payments.

Table 2.2.1: RPI overview

		Annual % change	Quarterly % change	Index (1999 base)
2011	Jun	3.0	0.6	147.1
	Sep	3.5	0.9	148.4
	Dec	3.2	0.3	148.8
2012	Mar	3.5	1.7	151.3
	Jun	3.2	0.3	151.8
	Sep	3.0	0.7	152.9
2013	Dec	3.2	0.4	153.6
	Mar	2.6	1.1	155.3
	Jun	2.7	0.4	155.9
2014	Sep	2.7	0.7	157.0
	Dec	2.7	0.5	157.8
	Mar	2.8	1.2	159.6
	Jun	2.6	0.2	159.9

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 the 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 can differ.

In the year ending June 2014, ten of the fourteen groups increased. Within the RPIX, the Household services group saw the largest annual increase at 6.3% and it contributed 0.5 percentage points to the overall RPIX change. Despite experiencing a smaller annual increase (5.1%), the Housing category made a greater contribution (0.8 percentage points) to the annual increase in the RPIX due to its higher weighting.

Housing made the largest contribution to the annual change in the RPI, adding 1.4 percentage points.

Leisure goods, Clothing and footwear, and Fares and other travel experienced a negative annual change (-7.0%, -4.7% and -1.8% respectively) in the year ending June 2014. However, their contribution to the annual change in both the RPI and the RPIX was small (-0.4, -0.2 and 0.0 percentage points respectively).

Figure 3.1.1: Annual percentage change

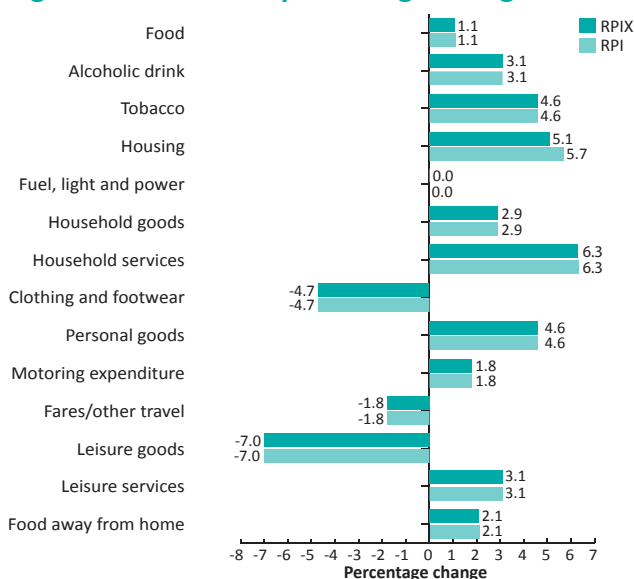
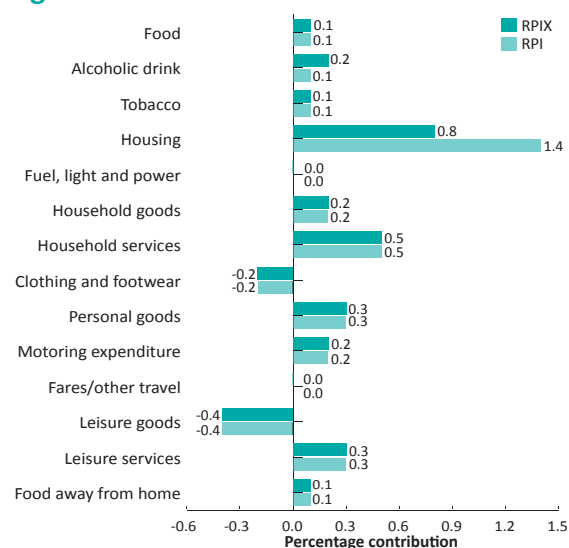


Figure 3.1.2: Annual contribution



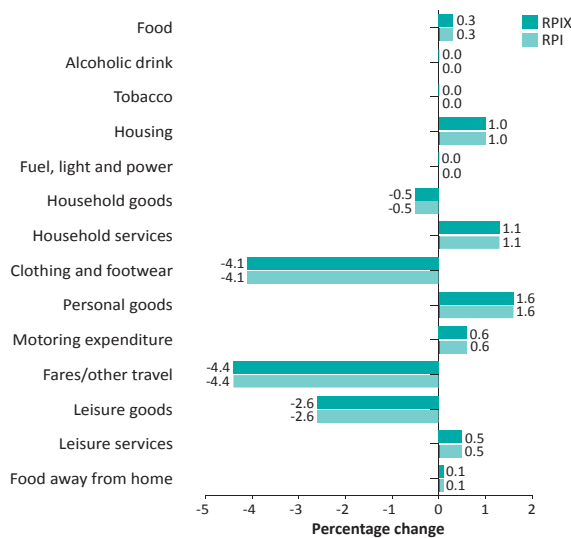
NB: Due to the effects of rounding, any values of less than 0.05 will appear as 0.0.

Table 3.1.1: Group weighting

	Items included	RPIX	RPI
Food	Food and non-alcoholic drink bought for home consumption.	124	107
Alcoholic drink	Wine, beer, spirits and other alcoholic drinks.	48	42
Tobacco	Cigarettes, cigars and other tobacco products.	19	16
Housing	Rents, parish rates and routine household maintenance and servicing costs. In the RPI, this group includes interest paid on mortgages.	147	264
Fuel, light and power	Goods and services for the provision of light, heat and power in the home e.g. gas, oil and electricity.	45	39
Household goods	Non-food items for the household including furniture, domestic appliances, stationery and cleaning materials.	64	55
Household services	Services enlisted for the household such as contents insurance, postal, telecoms and cleaning services.	89	77
Clothing and footwear	Adult's and children's clothing and footwear.	47	41
Personal goods	Goods and services for personal use such as jewellery, cosmetics and toiletries plus medical expenses.	64	55
Motoring	Vehicle purchase, running and maintenance costs.	99	86
Fares/other travel	Air and sea passenger fares and other travel related costs.	26	22
Leisure goods	Goods for sports, hobbies and entertainment including electronic goods, sporting and gardening equipment.	76	66
Leisure services	Services purchased for leisure activities including foreign holidays, cinema tickets and sporting activities.	101	88
Food away from home	Food purchased in restaurants, at work, from takeaways, etc.	51	44

3.2 Group analysis - quarterly

Figure 3.2.1: Quarterly percentage change



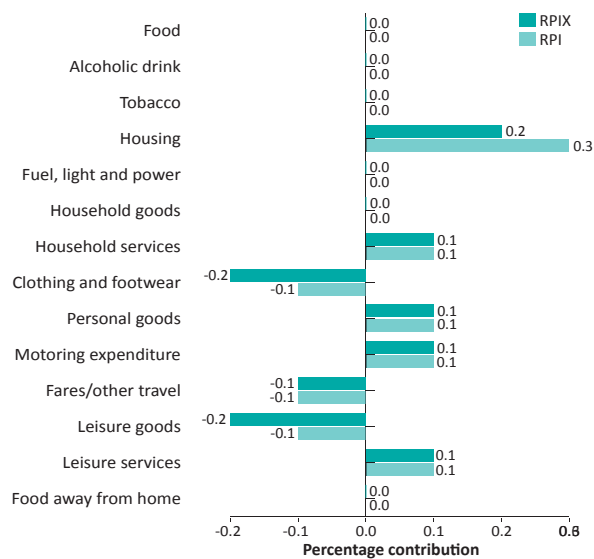
Seven of the fourteen RPIX groups saw an average price increase in the three months ending June 2014 (**Figure 3.2.1**).

The largest percentage change (1.6%) came from the Personal goods group, contributing an increase of 0.1 percentage points to the quarterly change in the RPIX and the RPI (**Figure 3.2.2**).

The largest percentage decrease (-4.4%) came from the Fares and other travel group, making a negative contribution of -0.1 percentage points to the quarterly change in the RPI and the RPIX.

The Housing group, which has the highest weighting in both indices, contributed 0.2 percentage points to the change in the RPIX and 0.3 percentage points to the quarterly change in the RPI.

Figure 3.2.2: Quarterly contribution



NB: Due to the effects of rounding, any values of less than 0.05 will appear as 0.0.

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 (0.3%)

Seasonal decreases in the prices of strawberries and raspberries have been offset by increases on some potato, beef and dairy products.

Alcoholic drinks (0.0%)

Some increases in the prices of red wine bought for consumption at home have been offset by reductions on white wine bought for consumption at home.

Tobacco (0.0%)

There has been no significant change within this category this quarter.

Housing (1.0% RPIX, 1.0% RPI)

Increases in household insurance costs and private rents have been partially offset by decreases in mortgage protection policy payments and some DIY materials, contributing to an overall rise in the RPIX. Mortgage interest (excluded in the RPIX) has been the major contributor to the increase in the RPI this quarter.

Fuel, light and power (0.0%)

The changes within this group have been negligible this quarter.

Household goods (-0.5%)

This decrease has been largely driven by reductions on some furniture items which were partially offset by increases on a number of soap products.

Household services (1.1%)

Higher 'Pay As You Go' mobile phone charges, which were partially offset by lower home phone prices, have driven this increase this quarter.

Clothing and footwear (-4.1%)

Seasonal reductions on women's outerwear, such as jeans and jumpers, have led to this decrease.

Personal goods (1.6%)

This increase has been driven by some higher prices in the medical insurance category.

Motoring (0.6%)

Higher unleaded petrol and motor insurance prices have driven this increase this quarter.

Fares and other travel (-4.4%)

Reductions in air fares, along with some boat fares, have caused this overall drop in price.

Leisure goods (-2.6%)

The decrease in this category has resulted from lower-priced CDs and DVDs, reductions on some garden furniture items and some special offers on books.

Leisure services (0.5%)

Increases in the prices of holidays and of overnight UK accommodation have led to the rise in this category.

Food away from home (0.1%)

This increase is the result of small increases in the prices of some snacks.

4.1 Cumulative changes, reflation factors and indices

Table 4.1.1: RPIX cumulative changes and reflation factors for the period ending 30th June 2014

	Cumulative % change	Reflation factor
3 months	0.1	1.00
6 months	1.2	1.01
9 months	1.4	1.01
12 months	2.1	1.02
15 months	2.3	1.02
18 months	3.3	1.03
2 years	4.2	1.04
3 years	7.4	1.07
4 years	10.2	1.10
5 years	12.8	1.13
10 years	34.1	1.34

Table 4.1.2: RPI cumulative changes and reflation factors for the period ending 30th June 2014

	Cumulative % change	Reflation factor
3 months	0.2	1.00
6 months	1.4	1.01
9 months	1.9	1.02
12 months	2.6	1.03
15 months	3.0	1.03
18 months	4.1	1.04
2 years	5.4	1.05
3 years	8.7	1.09
4 years	12.0	1.12
5 years	14.5	1.15
10 years	35.0	1.35

Table 4.1.3: RPIX Index figures at 30th June 2014

Year of base	Index
1998	161.5
2008	115.9

Table 4.1.4: RPI Index figures at 30th June 2014

Year of base	Index
1949	3,491.0
1965	2,039.1
1974	1,124.7
1978	544.3
1983	342.8
1988	256.6
1994	189.8
1999	159.9
2008	113.0

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) which you can use to calculate the percentage change in the RPI between any two quarters from 1949 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 4.1.1](#) and [4.1.2](#) can be used to inflate old values to approximate current prices.

To convert a price, multiply it by the appropriate reflation factor. For example, using RPIX reflation factors, £100 in June 2004 is equivalent to £100 x 1.34 = £134 in June 2014.

Reflation factors can also be used in the opposite way. To calculate what £100 in 2014 would have been worth in 2004, 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 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 are available on our website (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 Statistics¹ and the States of Jersey Statistics Unit². 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 follows 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 inflation in the UK but had little impact in Guernsey and Jersey.

The higher cost of housing experienced in Guernsey and Jersey compared with 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 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
2009	June	2.7	1.0	2.8
	Sep	2.4	1.3	2.7
	Dec	2.9	3.8	3.5
2010	Mar	3.1	4.8	3.3
	Jun	2.4	5.0	2.6
	Sep	2.3	4.6	1.9
	Dec	2.7	4.7	2.1
2011	Mar	2.9	5.4	2.6
	Jun	2.6	5.0	4.4
	Sep	3.0	5.7	5.5
	Dec	2.8	5.0	5.1
2012	Mar	3.2	3.7	4.9
	June	3.1	2.8	3.2
	Sep	3.0	2.6	2.9
	Dec	3.0	3.0	2.2
2013	Mar	2.3	3.2	1.6
	Jun	2.1	3.3	1.6
	Sep	2.0	3.2	1.4
	Dec	2.1	2.8	2.1
2014	Mar	2.2	2.5	1.9
	Jun	2.1	2.7	1.8

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

		Guernsey	UK	Jersey
2009	Jun	-1.3	-1.6	-0.4
	Sep	-1.2	-1.4	-0.6
	Dec	2.2	2.4	1.7
2010	Mar	3.4	4.4	3.2
	Jun	2.3	5.0	2.8
	Sep	1.6	4.6	2.1
	Dec	2.3	4.8	2.3
2011	Mar	2.9	5.3	3.1
	Jun	3.0	5.0	4.5
	Sep	3.5	5.6	5.4
	Dec	3.2	4.8	5.0
2012	Mar	3.5	3.6	4.7
	Jun	3.2	2.8	3.0
	Sep	3.0	2.6	2.8
	Dec	3.2	3.1	2.1
2013	Mar	2.6	3.3	1.4
	Jun	2.7	3.3	1.5
	Sep	2.7	3.2	1.2
	Dec	2.7	2.7	1.9
2014	Mar	2.8	2.5	1.7
	Jun	2.6	2.6	1.6

¹ www.statistics.gov.uk

² 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 Indices contain a representation of what 'typical' consumers in a Guernsey household spend their money on. They 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. The 2012/13 Household Expenditure Survey was launched in May 2012 and the fieldwork was completed in July 2013. The Policy and Research Unit are in the process of updating the weights and basket. For more information see www.gov.gg/hes.

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.

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.

Please contact the Policy and Research Unit for further information.

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The next inflation bulletin (for September 2014) will be published at 9:30am on Friday 17th October 2014.