

Guernsey Quarterly Inflation Bulletin

31st December 2014 - Issue date 16th January 2014



POLICY COUNCIL
THE STATES OF GUERNSEY

1.1 Introduction

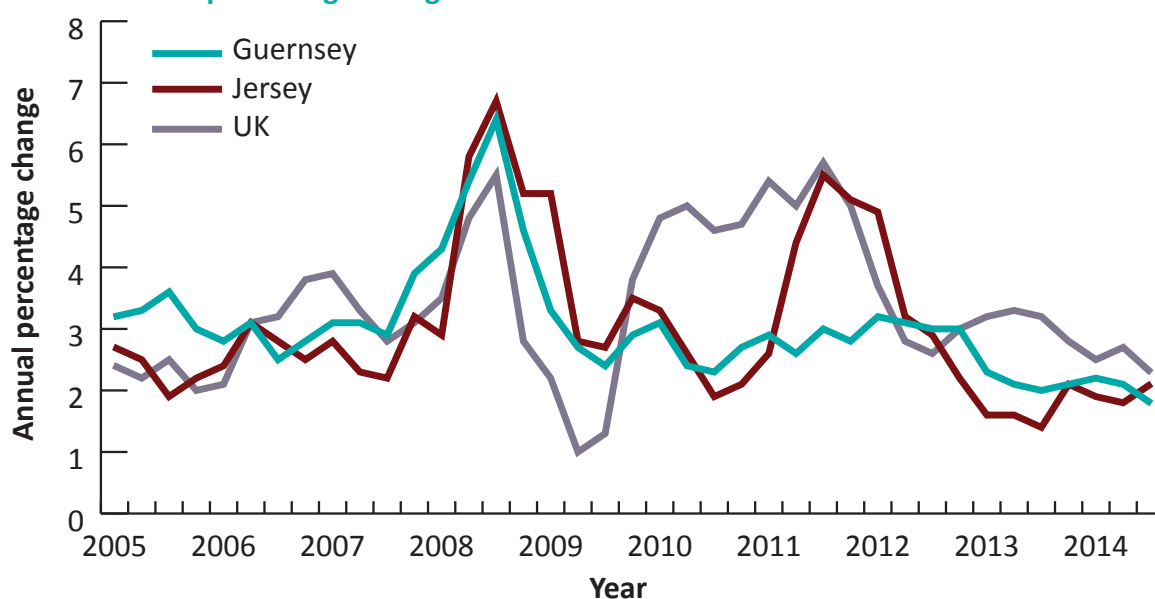
The Guernsey RPIX and RPI are measures of inflation. They measure the change in the prices of goods and services bought for the purpose of consumption or use by households in Guernsey. The indices are published quarterly by the States of Guernsey Policy and Research Unit. The calculations of the RPIX 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.

This Bulletin is the first to present Guernsey inflation figures calculated using the updated shopping basket and weights, which resulted from the 2012-13 Household Expenditure Survey.

1.2 Headlines

- Guernsey's annual inflation as measured by the RPIX ('core' inflation excluding mortgage interest payments) was 0.6% in December 2014, following deflation of -0.9% during the three months from September to December 2014. This is 1.2 percentage points lower than in September 2014 and 1.5 percentage points lower than in December 2013.
- The equivalent RPIX figure for December 2014 for the UK was 1.7% (see [Figure 1.2.1](#)). The RPIX figure for Jersey was 1.5%.
- The Housing category made the largest contribution to the RPIX annual increase ending in December 2014, contributing 0.6 percentage points. Six of the fourteen groups contributed decreases to the overall change (compared to three over the year ending September 2014).
- The 'all items' RPI annual inflation was 1.2% in December 2014, which is 1.3 percentage points lower than the previous quarter and 1.5 percentage points lower than in December 2013.
- The annual change in the UK RPI in December 2014 was 1.6%. The RPI figure for Jersey was 1.3%.

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)
	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
	Dec	3.0	0.2	156.3
2013	Mar	2.3	1.0	158.0
	Jun	2.1	0.1	158.2
	Sep	2.0	0.7	159.2
	Dec	2.1	0.2	159.6
2014	Mar	2.2	1.1	161.4
	Jun	2.1	0.1	161.5
	Sep	1.8	0.4	162.1
	Dec	0.6	-0.9	160.6

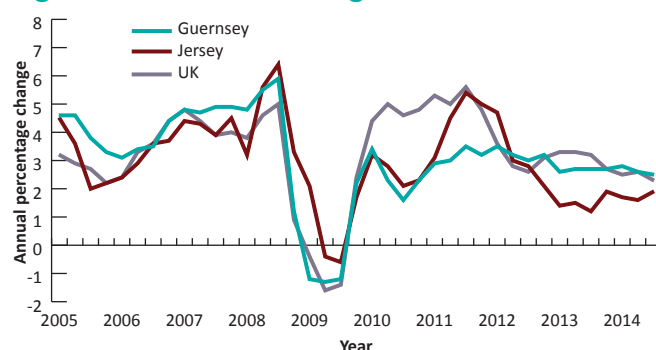
The annual change in the RPIX was 0.6% at the end of December 2014, 1.2 percentage points lower than the previous quarter and 1.5 percentage points lower than December 2013 (see [Table 2.1.1](#) and [Figure 1.2.1](#)).

The quarterly change in the RPIX was -0.9% during the three month period ending December 2014, 1.3 percentage points lower than during the same period in 2013 and the first negative change in the RPIX since 2009. Quarterly changes in the RPIX are subject to seasonal variations in price level and are typically higher in the first and third quarters of each year than in the second and fourth quarters.

The annual change in the UK RPIX was 1.7% at the end of December 2014. The change in the RPIX in Jersey was 1.5%.

2.2 RPI Overview

Figure 2.2.1: Annual changes in RPI



The annual change in the RPI was 1.2% in December 2014, which is 1.3 percentage points lower than the previous quarter and 1.5 percentage points lower than in December 2013 (see [Figure 2.2.1](#) and [Table 2.2.1](#)).

The annual change in the UK RPI in December 2014 was 1.6%. The change in the RPI in Jersey was 1.3%.

The quarterly change in the RPI for the quarter ending December 2014 was -0.8%, which is 1.3 percentage points lower than the change seen during the quarter ending December 2013 and the first negative change in the RPI since 2009. 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)
	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
	Dec	3.2	0.4	153.6
2013	Mar	2.6	1.1	155.3
	Jun	2.7	0.4	155.9
	Sep	2.7	0.7	157.0
	Dec	2.7	0.5	157.8
2014	Mar	2.8	1.2	159.6
	Jun	2.6	0.2	159.9
	Sep	2.5	0.6	160.9
	Dec	1.2	-0.8	159.6

3.1 Group analysis - annual

As part of the routine periodic review of the inflation indices, the basket and weights used in the RPI and RPIX calculations have been updated using the results of the 2012-13 Household Expenditure Survey. Additionally, the presentation of the more detailed information shown over the next three pages has been altered to align with the international standard framework. See [Table 3.1.1](#) for a summary of the contents of each of the fourteen groups as they now stand and the weights now applied to each.

More information (including details of where to find the Household Expenditure Survey Report) is provided in [Section 6.1](#) of this Bulletin.

[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. 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 weightings the contribution made by each group to the RPI and RPIX can differ.

In the year ending December 2014, eight of the fourteen groups increased and six decreased. The Household services group saw the largest annual increase at 6.3% and it contributed 0.5 percentage points to the overall RPIX change. The Fuel and light group showed the largest decrease at -6.6%, contributing -0.3 percentage points overall.

Figure 3.1.1: Annual percentage change

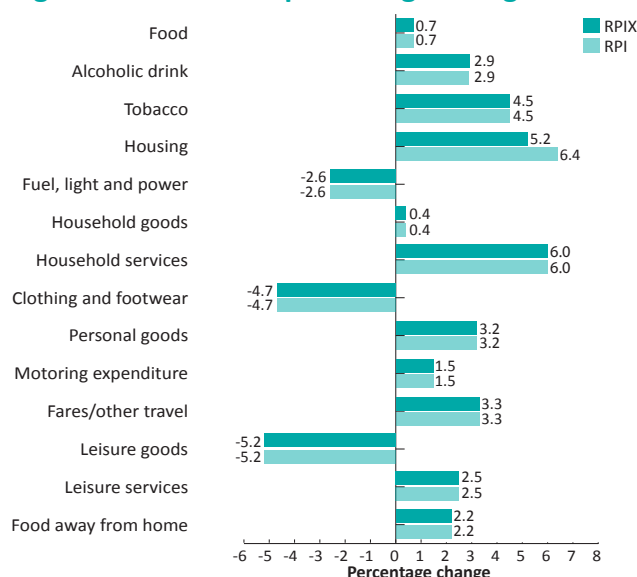


Figure 3.1.2: Annual contribution

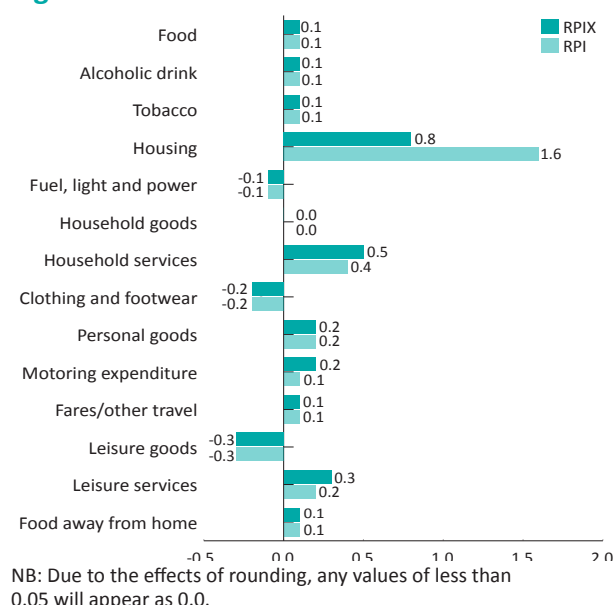
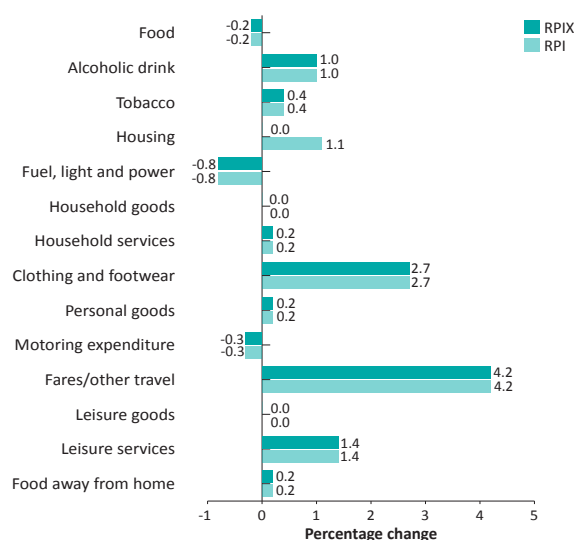


Table 3.1.1: Group weighting

Items included		RPIX	RPI
Food	Food and non-alcoholic drink bought for home consumption.	12%	11%
Catering	Food purchased in restaurants, at work, from takeaways, etc.	4%	4%
Alcoholic drink	Wine, beer, spirits and other alcoholic drinks.	4%	4%
Tobacco	Cigarettes, cigars and other tobacco products.	1%	1%
Housing	Interest paid on mortgages (for RPI only), rents, parish rates and routine household maintenance and servicing costs.	18%	22%
Fuel & light	Goods and services for the provision of light, heat and power in the home e.g. gas, oil and electricity.	5%	5%
Household goods	Non-food items for the household including house and garden furniture, carpets, curtains and bedding.	7%	6%
Household services	Services enlisted for the household such as contents insurance, domestic appliances, postal and telecoms.	11%	10%
Clothing & footwear	Adults' and children's clothing and footwear.	3%	3%
Personal goods & services	Goods and services for personal use such as jewellery, cosmetics and toiletries plus medical expenses.	8%	7%
Motoring expenditure	Vehicle purchase, running and maintenance costs, including motor fuel.	8%	8%
Fares & other travel costs	Air and sea passenger fares and other travel related costs.	5%	5%
Leisure goods	Goods for sports, hobbies and entertainment including electronic goods, sporting and gardening equipment.	4%	4%
Leisure services	Services purchased for leisure activities including foreign holidays, cinema tickets and sporting activities.	11%	10%

3.2 Group analysis - quarterly

Figure 3.2.1: Quarterly percentage change

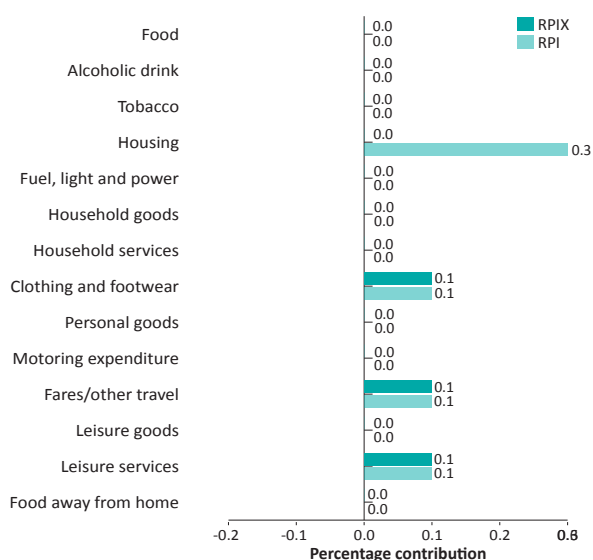


Five of the fourteen RPIX groups saw an average price increase in the three months ending December 2014 (**Figure 3.2.1**).

The largest percentage increase (4.1%) came from the Tobacco group, albeit making a negligible contribution to the quarterly changes in the RPI and the RPIX. (**Figure 3.2.2**).

The largest percentage decrease (-6.6%) came from the Fares and other travel costs group, contributing -0.3 percentage points to the quarterly changes in the RPI and the RPIX. This was followed by the Fuel and light group (-5.4%) which also contributed -0.3 percentage points to the overall quarterly change, due to its higher weighting.

Figure 3.2.2: Quarterly contribution



The Housing group, which has the highest weighting in both indices, made a negligible contribution to the change in the RPIX and a positive contribution of 0.1 percentage points to the quarterly change in the RPI.

As reflected by the overall negative changes in the RPIX and RPI in the three months ending December 2014, price movements in the fourteen RPIX groups were mainly static or negative this quarter. This is the first time that the overall quarterly changes in the RPIX and RPI have been negative since 2009.

Section 3.2 on the opposite page provides further details of the changes by group over the quarter.

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%)

Increased strawberry, grape and minced beef prices were some of the items which contributed to the overall increase in food prices this quarter. This was partially offset by decreases in the prices of some soft drinks and frozen chicken products.

Catering (-0.1%)

Decreases in the prices of some soft drinks consumed at cafes, restaurants and bars, caused a slight decrease in this group this quarter.

Alcoholic drink (-1.6%)

Duty increases introduced during this quarter were offset by seasonal decreases in the prices of some bottled red wine and whisky products.

Tobacco (4.1%)

Increased duty on tobacco products was the major contributor to the increase in this group this quarter.

Housing (0.0% RPIX, 0.5% RPI)

The price increase in the RPI this quarter was driven by increased mortgage interest payments. Increased home insurance premiums and private rents were offset by some lower power tool and paint prices.

Fuel and light (-5.4%)

Price drops in domestic heating oil and butane gas caused an overall price decrease this quarter. This was partially offset by increased coal prices.

Household goods (-1.8%)

Seasonal reductions on some bedroom and living room furniture were the major contributors to the overall price reduction this quarter.

Household services (0.2%)

Increase gardeners' fees were partially offset by decreased house conveyancing fees and pet insurance premiums.

Clothing and footwear (0.1%)

The decrease in some shoe prices was not enough to offset the increase in some suit coat and jacket prices.

Personal goods and services (0.1%)

Some higher toiletry prices drove the overall increase this quarter. This was partially offset by some reductions in watch prices.

Motoring expenditure (-2.9%)

Price drops in petrol, diesel and some second hand car prices caused the overall decrease this quarter.

Fares and other travel goods (-6.6%)

Small increases in some car hire prices were not enough to offset the reduction in some air fares.

Leisure goods (0.0%)

There was no overall significant change in this category this quarter.

Leisure services (-0.1%)

Seasonal offers on some digital TV subscription services drove the overall decrease in price this quarter.

4.1 Cumulative changes, reflation factors and indices

Table 4.1.1: RPIX cumulative changes and reflation factors for the period ending 31st December 2014

	Cumulative % change	Reflation factor
3 months	-0.9	0.99
6 months	-0.6	0.99
9 months	-0.5	1.00
12 months	0.6	1.01
15 months	0.9	1.01
18 months	1.5	1.02
2 years	2.7	1.03
3 years	5.8	1.06
4 years	8.8	1.09
5 years	11.8	1.12
10 years	32.5	1.33

Table 4.1.2: RPI cumulative changes and reflation factors for the period ending 31st December 2014

	Cumulative % change	Reflation factor
3 months	-0.8	0.99
6 months	-0.2	1.00
9 months	0.0	1.00
12 months	1.2	1.01
15 months	1.7	1.02
18 months	2.4	1.02
2 years	3.9	1.04
3 years	7.3	1.07
4 years	10.7	1.11
5 years	13.2	1.13
10 years	32.6	1.33

Table 4.1.3: RPIX Index figures at 31st December 2014

Year of base	Index
1998	160.6
2008	115.2
2014	99.1

Table 4.1.4: RPI Index figures at 31st December 2014

Year of base	Index
1949	3,484.6
1965	2,035.4
1974	1,122.6
1978	543.3
1983	342.2
1988	256.1
1994	189.5
1999	159.6
2008	112.8
2014	99.2

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 December 2004 is equivalent to £100 x 1.33 = £133 in December 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, including the new index, revised to 100 in September 2014. 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
	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
	Sep	1.8	2.3	2.1
	Dec	0.6	1.7	1.5

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

		Guernsey	UK	Jersey
	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
	Sep	2.5	2.3	1.9
	Dec	1.2	1.6	1.3

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 1,700 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. This quarter, the results of the latest review have been incorporated. The Guide to the Guernsey Inflation Indices, which is available online at www.gov.gg/rpi, provides more detail on the recent changes along with information regarding the methodology, calculation and uses of the inflation indices.

The main source of information for the periodic review is the Household Expenditure Survey. The results of the 2012-13 Survey are now available from www.gov.gg/hes. The Survey is due to be repeated in 2017.

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.

Policy and Research Unit
Sir Charles Frossard House
La Charroterie
St Peter Port
Guernsey
GY1 1FH

Tel: (01481) 717292

Fax: (01481) 713787

e-mail: policy.research@gov.gg

web: www.gov.gg/rpi

The next inflation bulletin (for March 2015) will be published at 9:30am on Friday 17th April 2015.