

Guernsey Quarterly Inflation Forecast Bulletin

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POLICY COUNCIL
THE 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 Policy Council's 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 (in this case) a 30%, 60% and 90% statistical certainty.

1.2 Forecasts

- In line with previous forecasts, the annual change in RPIX increased slightly in December 2015 to 1.0%.
- The annual change in the RPIX is expected to remain at a similar level through the first and second quarters of 2016, increasing in the third quarter as the effects of the fall in global oil prices, which were seen in the third quarter of 2015, drop out of the calculation of annual changes.
- **Key factors include:**
 - Continuing low energy prices through the first quarter with the possibility of a further fall in global oil prices in early 2016 projected by the International Monetary Fund. Oil prices are then expected to increase gradually through the second and third quarters. Oil prices feed directly into energy and transport prices, but also indirectly affect prices in other areas by reducing production and shipping costs.
 - An ongoing downward pressure from the local housing market in the first and second quarters as a result of weak sales and real terms price contraction. As well as impacting the mortgage interest item (RPI only) this downward pressure may exert a downward influence on private rental prices.
 - Expectations of an increase in the Bank of England base rate falling back to late 2016 or beyond.

Figure 1.1: Forecast Guernsey RPIX

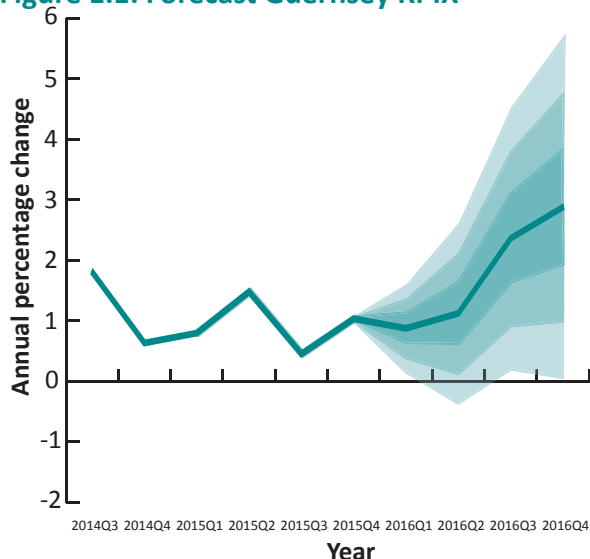
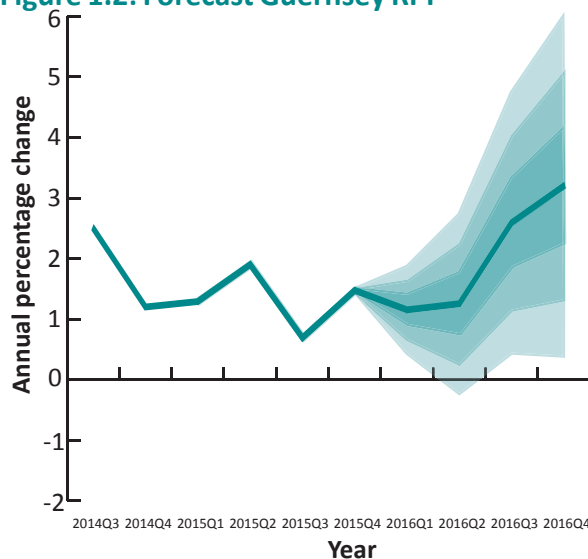


Figure 1.2: Forecast Guernsey RPI



2.1 Contact details and further information

Please contact Elizabeth Laine at the Policy Council for further information.

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

Tel: (01481) 717168

Fax: (01481) 713787

e-mail: policy.research@gov.gg

web: www.gov.gg