

Guernsey Quarterly Inflation Bulletin

31st December 2013 - Issue date 17th January 2014



POLICY COUNCIL
THE STATES OF GUERNSEY

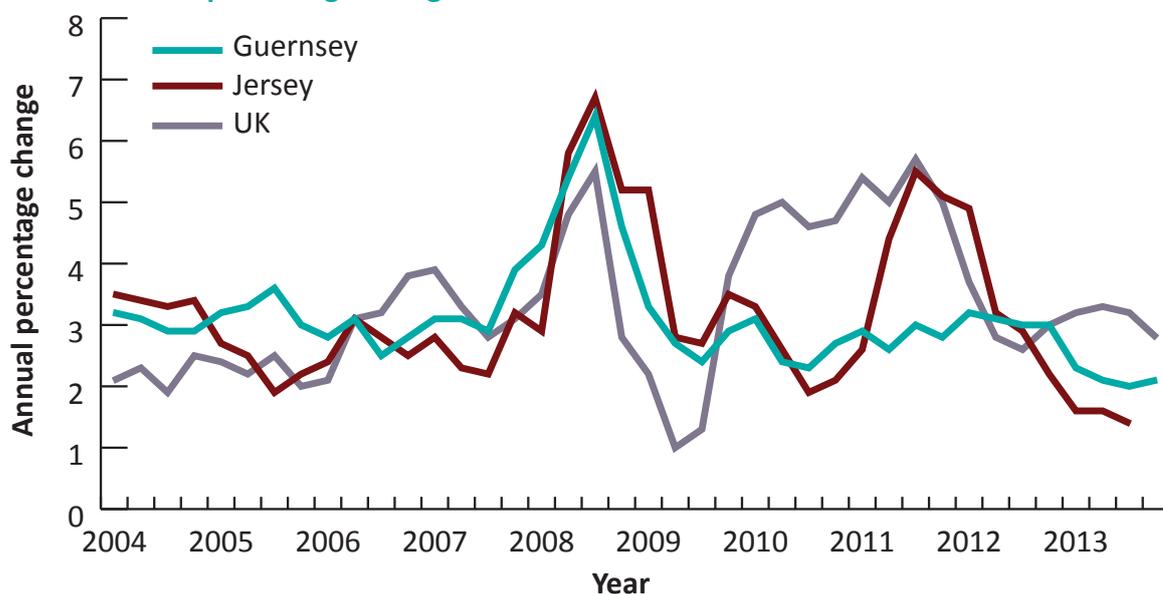
1.1 Introduction

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. 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 December 2013, 0.1 percentage points higher than in September 2013 and 0.9 percentage points lower than in December 2012.
- In the UK the equivalent RPIX figure for December 2013 was 2.8% (see [Figure 1.2.1](#)) and in Jersey was 2.1%.
- The Housing category made the largest contribution to the annual increase in the RPIX in December 2013, contributing 0.4 percentage points.
- The 'all items' RPI annual inflation was 2.7% in December 2013, which is the same as the previous two quarters and 0.5 percentage points lower than in December 2012.
- Housing contributed 1.2 percentage points to the annual increase in the RPI.
- The annual change in the UK RPI in December 2013 was 2.7% and in Jersey was 1.9%.

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	2.7	0.3	147.6
2011	Mar	2.9	1.4	149.6
	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
	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

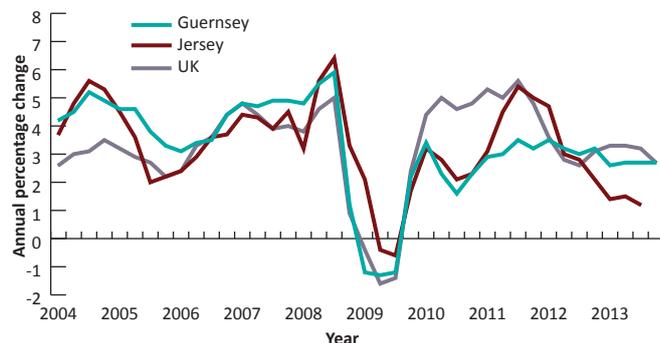
The annual change in the RPIX was 2.1% at the end of December 2013, 0.1 percentage points higher than the previous quarter and 0.9 percentage points lower than December 2012 (see [Table 2.1.1](#) and [Figure 1.2.1](#)).

During the three month period ending December 2013, the RPIX increased by 0.2%, which is the same change as seen during the same period in 2012. 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 2.8% at the end of December 2013. The increase in the RPIX in Jersey was 2.1%.

2.2 RPI Overview

Figure 2.2.1: Annual changes in RPI



The annual change in the RPI was 2.7% in December 2013, which is the same as the previous two quarters and 0.5 percentage points lower than in December 2012 (see [Figure 2.2.1](#) and [Table 2.2.1](#)).

The annual change in the UK RPI in December 2013 was 2.7%. The RPI increase for Jersey was 1.9%.

The quarterly change in the RPI for the quarter ending December 2013 was 0.5%, which is 0.1 percentage points higher than the change seen during the quarter ending December 2012. 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	2.3	0.6	144.2
2011	Mar	2.9	1.4	146.2
	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
	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

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 December 2013, twelve of the fourteen groups increased. The Tobacco group saw the largest annual increase at 6.6%, although it only contributed 0.1 percentage points to the change in the RPIX. Despite experiencing a smaller annual increase (2.9%), the Food category made a greater contribution (0.4 percentage points) to the annual increase in RPIX due to its higher weighting.

Housing made the largest contribution to the annual change in the RPI, adding 1.2 percentage points. It contributed 0.4 percentage points to the change in the RPIX.

Leisure goods and Clothing and footwear both experienced a negative annual change (-0.9% and -0.5% respectively) in the year ending December 2013, but the contribution of both to the change in the RPI was negligible. Leisure goods added -0.1 percentage points to the change in the RPIX.

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

Figure 3.1.1: Annual percentage change

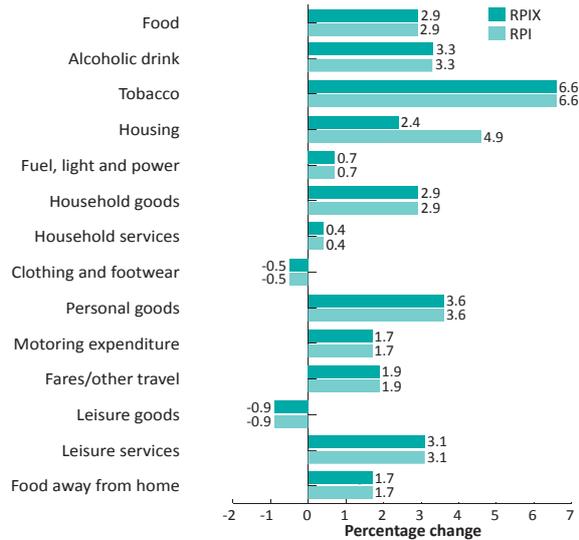
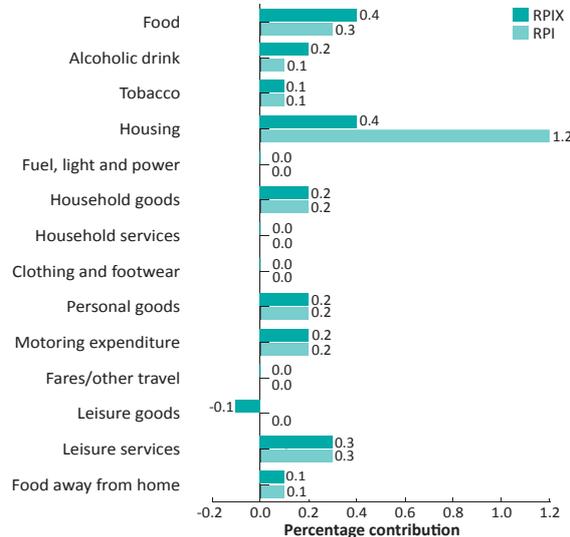


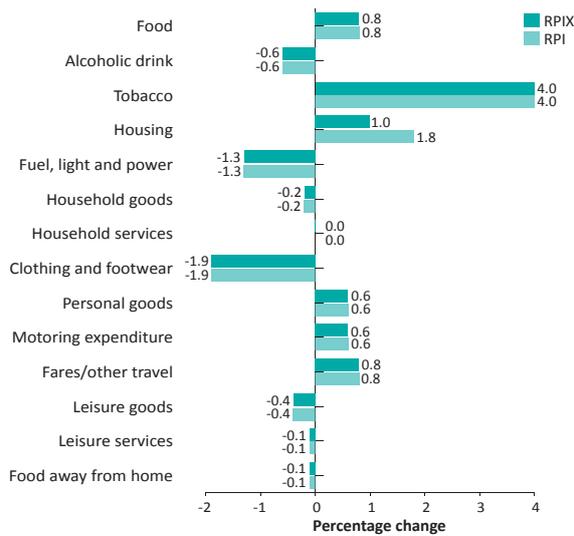
Figure 3.1.2: Annual contribution



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

3.2 Group analysis - quarterly

Figure 3.2.1: Quarterly percentage change



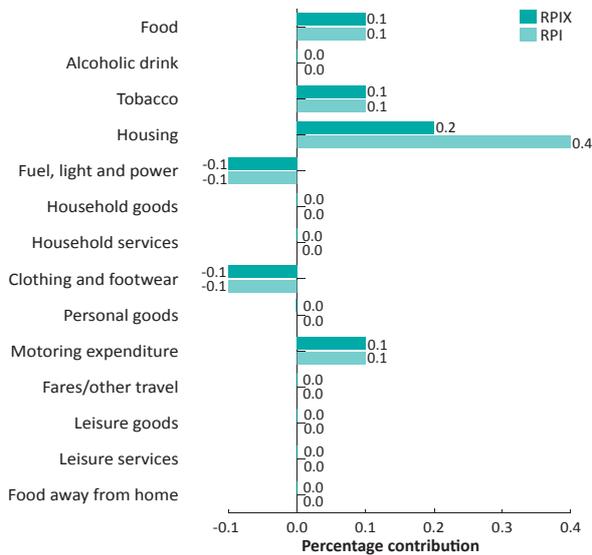
Just six of the fourteen RPIX groups saw an average price increase in the three months ending December 2013 (*Figure 3.2.1*).

The largest percentage change (4.0%) came from the Tobacco group, contributing an increase of 0.1 percentage points to the quarterly changes in the RPI and RPIX (*Figure 3.2.2*).

The largest percentage decrease (-1.9%) came from the Clothing and footwear group, making a negative contribution of -0.1 percentage points to the quarterly change in RPI and RPIX.

The Housing group, which has the highest weighting in both indices, contributed 0.2 percentage points to the change in RPIX and 0.4 percentage points to the quarterly change in 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 (0.8%)

Seasonal fluctuations in the prices of fruit and vegetables, such as increased prices of strawberries and tomatoes and lower prices of apples and potatoes, have contributed to an overall increase from this group.

Alcoholic drinks (-0.6%)

Duty increases from November 2013 have been offset by seasonal special offers on some wines and spirits bought for consumption at home.

Tobacco (4.0%)

Duty increases from November 2013 have increased prices in the Tobacco group.

Housing (1.0% RPIX, 1.8% RPI)

Increases in some hourly rates for home maintenance and repairs, along with some insurance costs and private rents have contributed to the increase in the RPIX. An increase in the mortgage interest payment item (excluded in the RPIX) has been the major contributor to the upward pressure on RPI this quarter.

Fuel, light and power (-1.3%)

A reduction in oil prices has driven the decrease in this group. Electricity and gas prices have remained stable.

Household goods (-0.2%)

A reduction in a number of furniture prices has been only partially offset by increases in the prices of some stationery products along with the end of some special offers on cleaning products.

Household services (0.0%)

There have been no significant changes in this group.

Clothing and footwear (-1.9%)

Some increases in children's clothing prices have been offset by seasonal reductions in the prices of women's outerwear, such as coats, trousers and jumpers, leading to a negative change overall for this group.

Personal goods (0.6%)

The increase in this group has been driven by a number of higher prices within the hairdressing, toiletries and subscriptions to medical insurance categories.

Motoring (0.6%)

Higher fuel prices, following duty increases in November 2013, have led to this increase.

Fares and other travel (0.8%)

An increase in air fares has resulted in a rise in this group this quarter.

Leisure goods (-0.4%)

Higher prices of local newspapers and of some toys and pre-recorded material have been offset by several reductions in prices of electrical and sports goods, plus cut flowers.

Leisure services (-0.1%)

This decrease is driven by a reduction in the cost of overnight UK accommodation.

Food away from home (-0.1%)

Lower prices of some takeaways have led to this decrease.

4.1 Cumulative changes, refutation factors and indices

Table 4.1.1: RPIX cumulative changes and refutation factors for the period ending 31st December 2013

	Cumulative % change	Refutation factor
3 months	0.2	1.00
6 months	0.9	1.01
9 months	1.0	1.01
12 months	2.1	1.02
15 months	2.3	1.02
18 months	3.0	1.03
2 years	5.1	1.05
3 years	8.1	1.08
4 years	11.1	1.11
5 years	14.3	1.14
10 years	35.5	1.35

Table 4.1.2: RPI cumulative changes and refutation factors for the period ending 31st December 2013

	Cumulative % change	Refutation factor
3 months	0.5	1.01
6 months	1.2	1.01
9 months	1.6	1.02
12 months	2.7	1.03
15 months	3.2	1.03
18 months	4.0	1.04
2 years	6.0	1.06
3 years	9.4	1.09
4 years	11.9	1.12
5 years	14.4	1.14
10 years	37.4	1.37

Table 4.1.3: RPIX Index figures at 31st December 2013

Year of base	Index
1998	159.6
2008	114.5

Table 4.1.4: RPI Index figures at 31st December 2013

Year of base	Index
1949	3,444.1
1965	2,011.7
1974	1,109.6
1978	537.0
1983	338.2
1988	253.1
1994	187.3
1999	157.8
2008	111.5

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), which you can use to calculate the percentage change in RPI between any two quarters from 1949 onwards. The inflation calculator can also calculate the refuted 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 refutation 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 refutation factor. For example, using RPIX refutation factors, £100 in December 2003 is equivalent to $£100 \times 1.35 = £135$ in December 2013.

Refutation factors can also be used in the opposite way. To calculate what £100 in 2013 would have been worth in 2003, divide by the relevant refutation 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 is 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 to 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	4.6	2.8	5.2
2009	Mar	3.3	2.2	5.2
	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

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

		Guernsey	UK	Jersey
	Dec	1.2	0.9	3.3
2009	Mar	-1.2	-0.4	2.1
	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

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 field work was completed in July 2013. Once all the data has been checked and anonymised, the Policy and Research Unit will begin the analysis in order to update 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 March 2014) will be published at 9:30am on Thursday 17th April 2014.