

Guernsey Quarterly Inflation Forecast

Quarter 4 2016

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Policy & Resources
Committee

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

- Headline changes in both RPIX and RPI increased in the third quarter of 2016, although these were at the lower end of the forecast range.
- While the depreciation of sterling appears to be taking longer to impact prices than anticipated, it is still expected that this will continue to exert an upward pressure on prices over the coming months. However this may be partially offset by the ongoing impact of uncertainty in UK.
- Similar to official inflation forecasts in the UK, local inflation figures are expected to continue to rise in the last quarter of 2016 and into 2017.
- **Key factors include:**
 - An upward pressure on the price of fuel imports following the depreciation of sterling which reached domestic fuel supplies early in the fourth quarter of 2016.
 - A continuing price adjustment to the depreciation of sterling in other areas.
 - An ongoing but reduced downward pressure from the real price contraction in the local housing market. The reduction in the Bank of England base rate may exert further downward pressure on RPI in the short term.

Figure 1.1: Forecast Guernsey RPIX

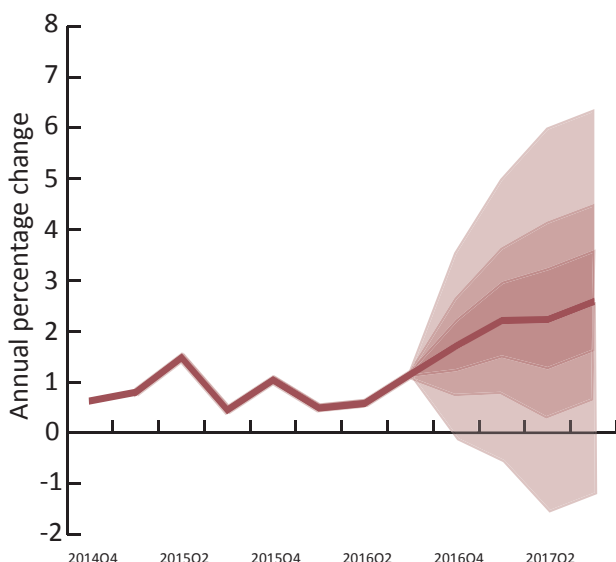
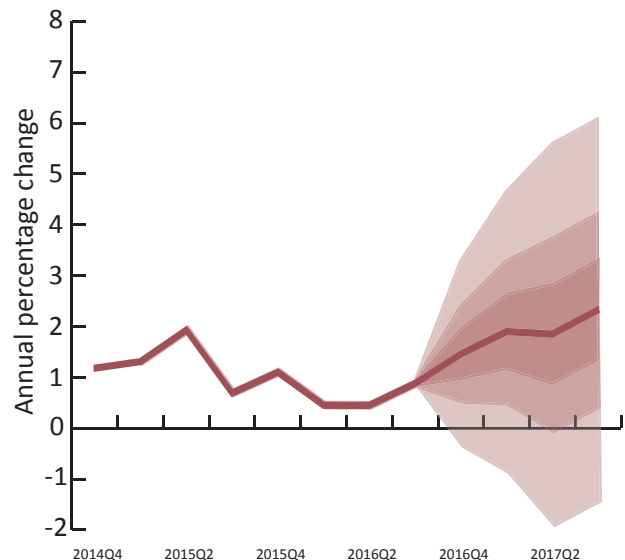


Figure 1.2: Forecast Guernsey RPI



1.3 Contact Details

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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.