

Guernsey Economic Overview

Issue date: 19 May 2017

The Guernsey Economic Overview brings together the most recent official Guernsey statistics and provides an overview of economic conditions in Guernsey and the outlook for the near future.



States of Guernsey
Strategy and Policy

1.1 Introduction

The Economic Overview is compiled by the Strategy and Policy Unit and brings together statistics published by the Data and Analysis Unit (www.gov.gg/data). The intention is to combine the available data to provide a more detailed overview of current economic conditions in Guernsey and, where appropriate, offer thoughts on the short term outlook.

The bulletin covers both macroeconomic measures such as GDP, inflation and employment as well as sector specific indicators and, where available, economic forecasts.

1.2 Headlines

- Economic conditions as at the close of 2016 continued to be relatively strong with employment and real earnings growth continuing to the end of the year, although the rate in both had slowed since the middle of the year.
- Statistics available for the first quarter of 2017 show a slight decrease in unemployment, which suggest a continuation of generally positive conditions.
- Inflation measures have increased in the first quarter with RPIX increasing to 2.9% in March 2017. This mirrors the pattern in the UK and primarily reflects the depreciation of sterling since June 2016.
- In the residential property market, conditions seem to be stabilising. Local market transaction numbers were trending upwards at in the first quarter of 2017 and local market property prices were almost stable in real terms (that is after adjusting for inflation).
- The Finance sector continued a steady rate of employment and real earnings growth to the close of 2016, although the growth in investment and fiduciary activities masks a continuing contraction in the banking sub-sector.
- More domestically focussed sectors continue to lag behind growth in the Finance and other sectors more focused on the export of services. Construction employment in particular continues a sustained downward trend.
- Visitor statistics for 2016 show a 3.3% decline in the number of visitors (excluding cruise ships). Underlying numbers show an increase in visitors travelling by air and a decrease in those arriving by sea.

2. Macroeconomic indicators

2.1 Gross domestic product (2015)

The first estimates of Guernsey GDP for 2015 reported a modest real annual growth of 0.4% to £2.4bn (**figure 2.1.1**). This reflects a subdued labour market through 2013, 2014 and 2015. First estimates of growth for 2016 are scheduled for publication in August. Guernsey does not currently publish forecasts of GDP, however earnings, and employment data for 2016 is now complete, making it possible to draw some more informative inferences of GDP growth in 2016 and tentative expectations for 2017.

Total employment (see **section 2.4**) increased rapidly in early 2016 and the expansion continued at a more typical pace in the latter half of the year. Median earnings have also shown a steady real increase through 2016 and combined, these factors suggest more positive GDP growth levels for 2016.

Figure 2.1.1 Gross Domestic Product

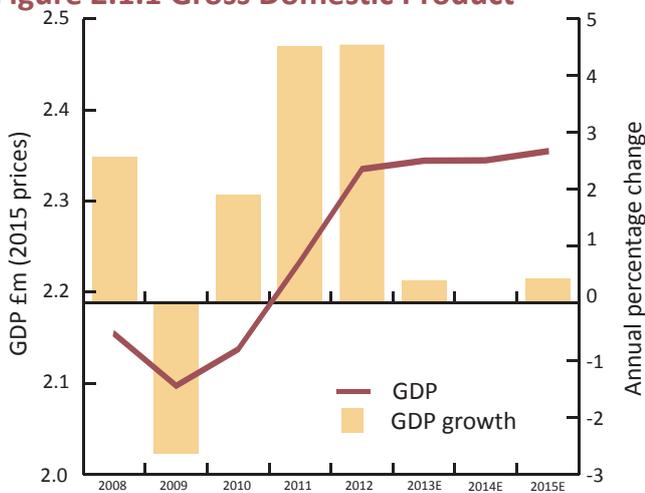
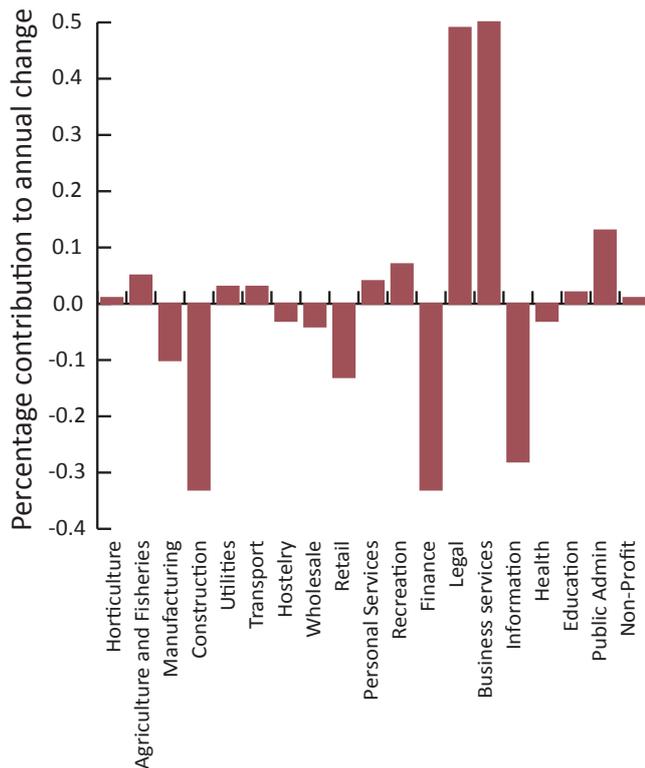


Figure 2.1.2 Contribution of economic sectors to annual growth in GDP (2015)



The limited data available for the first quarter 2017 are also generally positive. Property transactions have increased year on year and unemployment continues a slow downward trend. The above improvements have been reflected in Government revenues, and have improved the expected financial position for 2016. The 2016 States Accounts (published June 2017) are expected to show a surplus for the first time since 2008. While both economic and fiscal challenges still remain, current conditions appear to have improved.

Looking to the near future, the UK's strong growth at the end of 2016 appears to have lost momentum during the first quarter of 2017. Growth in consumer spending and services slowed in the first quarter of 2017, which is believed in part to be a reaction to higher levels of inflation. These slower rates of UK growth may be reflected in Guernsey but overall Guernsey's short term outlook is positive.

However, the downside risks remain largely unchanged. The continuing uncertainty surrounding Brexit, while less significant in Guernsey than in the UK, is likely to continue to subdue investment. The international community continues to push for greater transparency on tax matters and Guernsey will need to work hard to maintain and defend its reputation as a transparent and co-operative jurisdiction.

2. Macroeconomic indicators

2.2 Inflation

Headline price inflation measures in Guernsey rose sharply in the first quarter of 2017, with the annual change in RPIX increasing to 2.9% (figure 2.2.1). The increase, while at the upper end of the forecast range, was not unanticipated - a return to more typical levels of inflation having been forecast for some time.

The increase reflects a continuing transmission of the depreciation of sterling into domestic prices and the year on year increase in the cost of crude oil from its low point in February 2016. Higher employment levels and earnings in sectors providing domestic goods and services may also have contributed to higher levels of inflation in Guernsey. The increase is mirrored by similar increases in the UK and Jersey inflation figures (figure 2.2.2). Counter to the long term historic trend, RPIX in Guernsey continues to be slightly lower than the equivalent measure in the UK.

Looking forwards, with the Guernsey economy operating in sterling, local inflation is influenced by UK monetary policy. CPI in the UK has now exceeded the Bank of England target rate of 2%. However, the Bank of England indicated in its February report that, given the exceptional circumstances, it would take a slower path to reducing inflation than might otherwise have been the case. Neither did they rule out further expansionary policy should the economy show signs of contraction.

Given the above, the Bank of England forecasts for UK CPI and the immediate general outlook for the domestic economy, it is anticipated that rates of inflation will continue to increase over the next 12 months (figure 2.2.3).

Figure 2.2.1 Contributions to RPIX

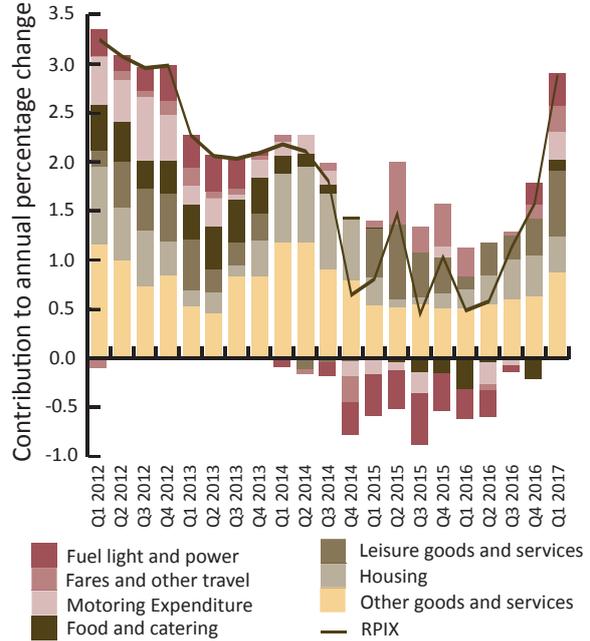


Figure 2.2.2 RPIX in Guernsey Jersey and UK

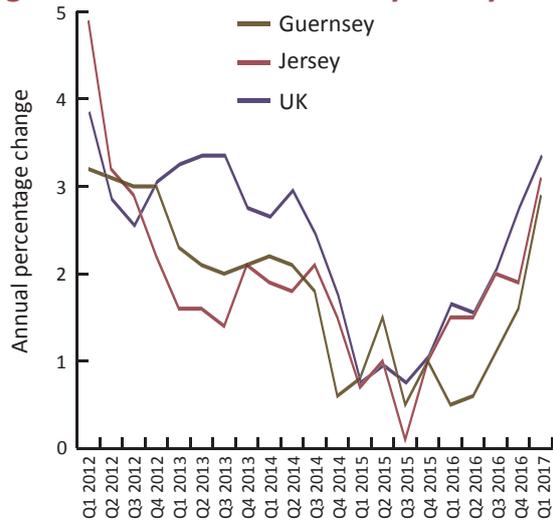
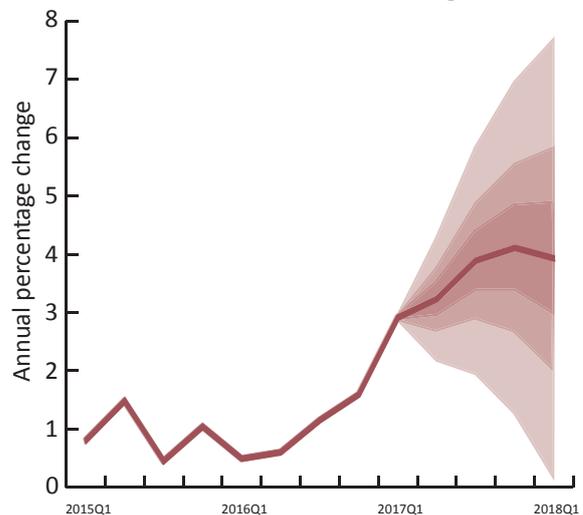


Figure 2.2.3 Forecast annual change in RPIX



2. Macroeconomic indicators

Figure 2.3.1 Annual migration

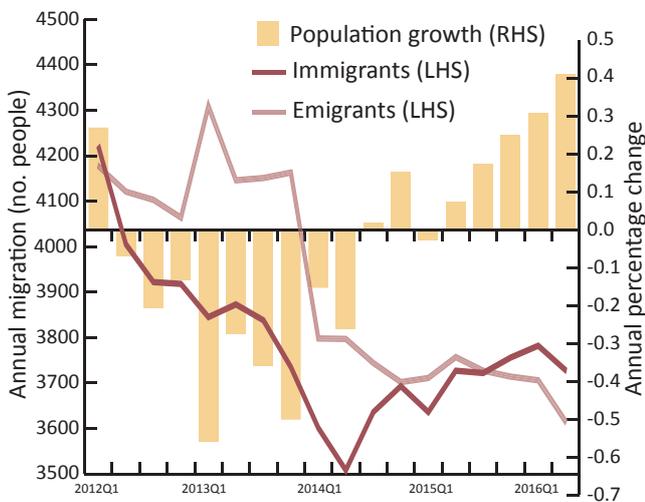
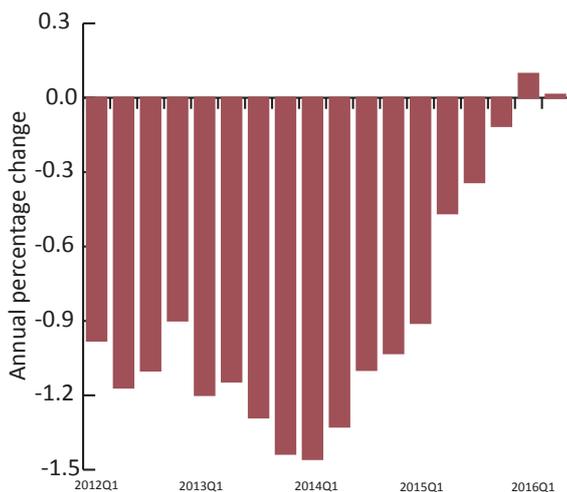


Figure 2.3.2 Working age population



2.3 Population

As at the end of June 2016 (the latest available data) Guernsey population was experiencing an increasing rate of population growth and more definite return to a position of net inward migration (**figure 2.3.1**). The current data is consistent with expectations formed on the basis of the strengthening labour market over the same period (see **section 2.4**). Allowing for seasonal variation, Guernsey population (63,026) has recovered to about 0.5% below its peak in 2011.

Although many people choose to retire early or continue working past pension age, the working age population is a useful proxy for the total amount of labour available in Guernsey. Declines in the working age population suggests a contraction in the capacity of the workforce and the economy as a whole. The current level of net migration (113 people over the year ending June 2016) is just sufficient to maintain the size of the working age population against the downward pressures of the aging population (**figure 2.3.2**).

GDP data suggests that the decline in the workforce has been balanced by productivity gains between 2013 and 2015. However a long term decline in the workforce would make economic and fiscal sustainability very challenging. From an economic stand point, a return to stability is therefore to be welcomed.

2. Macroeconomic indicators

2.4 Workforce and earnings

Year on year, total employment in Guernsey continued to grow throughout 2016 (figure 2.4.1). The rate of growth, which was unusually high in early 2016, had slowed to more typical levels by the end of the year and total employment in December 2016 was 0.9% higher than the previous year.

The correlation between growth in employment and net migration remains strong suggesting that net immigration is likely to have continued through 2016, although the level may have reduced towards the close of the year.

Female self employment continues to be the strongest growth area (figure 2.4.2), with 60% of this growth occurring in Professional, business, scientific and technical services. However, Guernsey still has more than three times as many self employed men as self-employed women. In part, this reflects the high level of self-employment in the construction sector and the extent to which male employment and self employment still predominate in this sector.

Headline rates of unemployment in Guernsey remain at a level which would elsewhere be considered “full” employment (figure 2.4.3), having been relatively stable in a range between 1.1% and 1.5% for 5 years. The stability of unemployment rates in Guernsey, despite the changes in levels of total employment, again suggests migration has an important role to play as a mechanism for adjusting the workforce capacity to economic conditions in Guernsey.

Unemployment in March 2017 stood at 1.3% and, adjusted for seasonal factors, has been trending gently downward since early 2016.

Youth unemployment (available quarterly from March 2015) in most jurisdictions trends at a higher level than headline unemployment. However in Guernsey the variance is currently relatively small, although it has increased in 2016. There is too little data available at this time to suggest whether this is typical in Guernsey or why the variance has increased.

Figure 2.4.1 Total employment growth

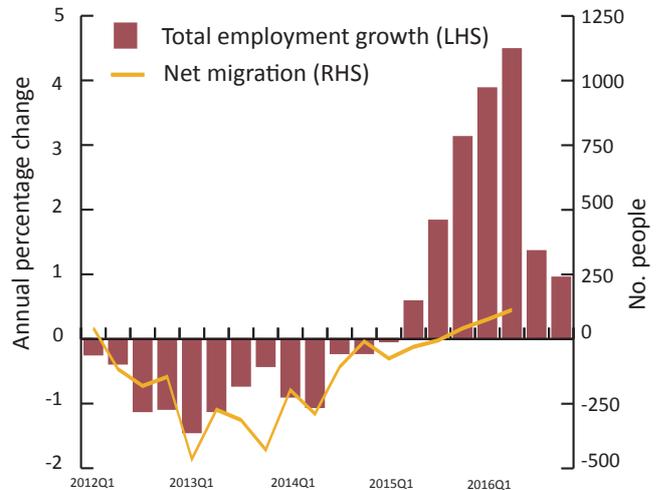


Figure 2.4.2 Participation in employment or and self-employment

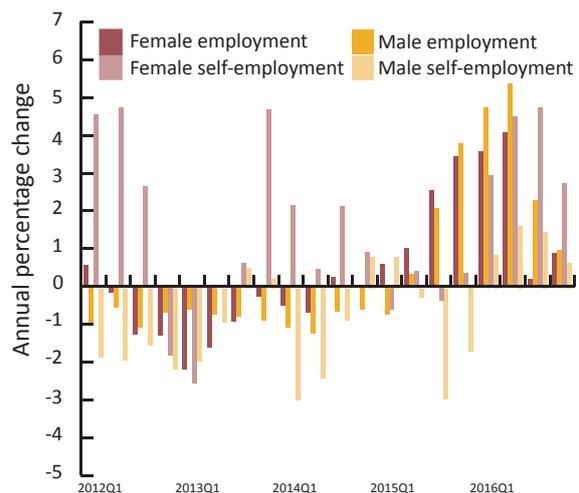
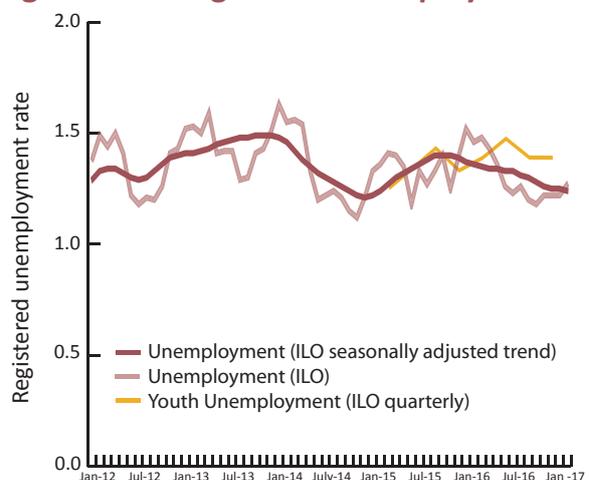
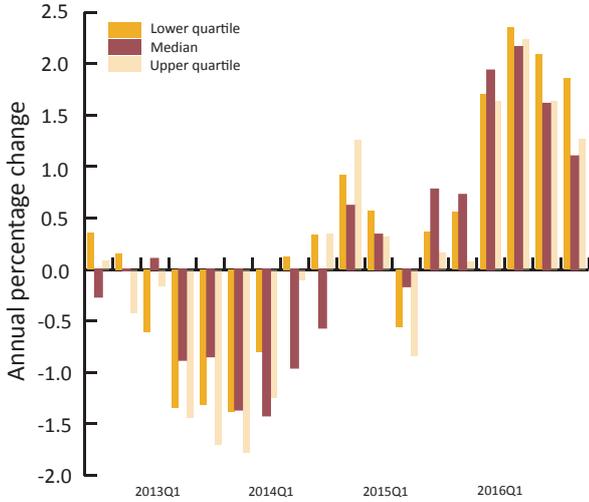


Figure 2.4.3 Registered unemployment



2. Macroeconomic indicators

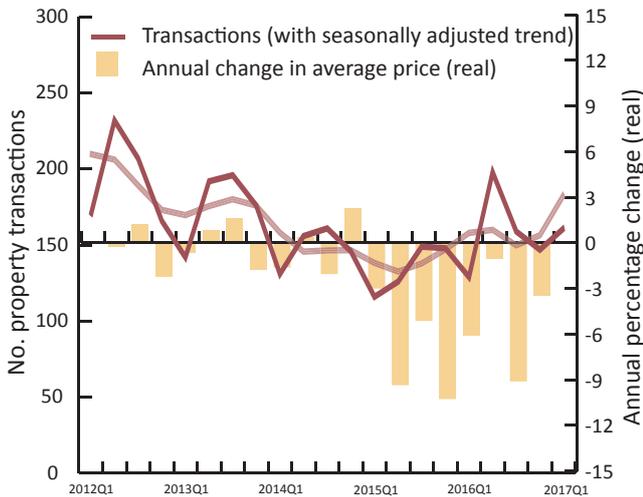
Figure 2.4.4 Earning growth (real)



Real annual growth in median earning continues to be strong although again the growth rate had slowed towards the end of 2016 (figure 2.4.4).

More recent indications are that the labour market remains relatively buoyant. Feedback from agencies suggest that recruitment levels are healthy and the number of vacancies advertised at the job centre in the first quarter of 2017 was higher than the same period in 2016. Combined, the buoyant employment and earnings growth should have a positive impact on States finances. However, it is possible that there will be a lag in earnings adjusting to the higher level of inflation, which may mean more subdued real earnings growth in the short term.

Figure 2.5.1 Local property market

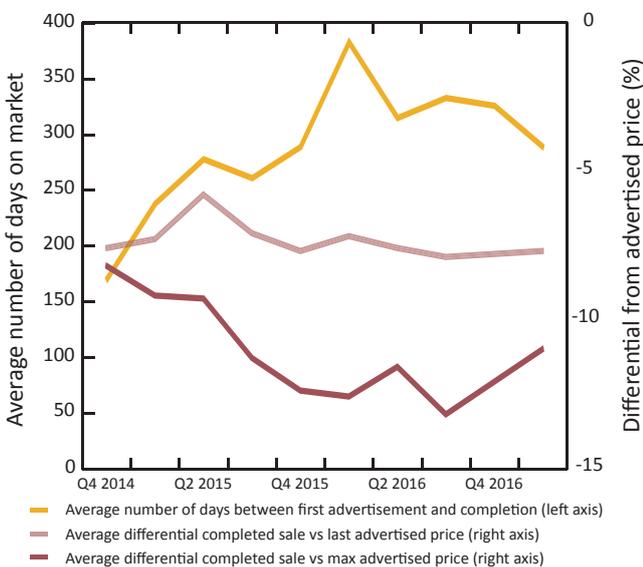


2.5 Property Market

The local residential property market statistics show a general strengthening of conditions. Adjusted for seasonal factors, local market transaction numbers were trending upward in the first quarter of 2017 (figure 2.5.1). Prices had also risen year on year in nominal terms for the first time since late 2014, and were stable in real terms.

Combined with real earnings growth up to the end of 2016, this means that, while assets values remain stable, affordability, as measured by the house price to earnings ratio, should still be gradually improving.

Figure 2.5.2 Local market discount rate and sale period



The average length of time which a property is on the market has also reduced a little and the differential between advertised prices and eventual sale value has also reduced (figure 2.5.2). Again this suggests a level of confidence returning to the housing market which suggest greater economic confidence as a whole.

Open market transaction numbers continue to be low and activity in the market appears limited. However, because transaction numbers are so low and prices so volatile, it is difficult to draw any further conclusions from it.

3. Business sector indicators

3.1 Financial services

The Financial services sector is Guernsey’s largest sector in terms of both its contribution to GDP (32% of the total) and total employment (21% of the total) and recorded the highest level of median earnings (55% greater than the overall median).

At the end of 2016 both total employment and real median earnings in the Finance sector continued modest annual growth of 1.1% and 1.7% respectively (figure 3.1.1). At an aggregate level the sector has been growing slowly, but steadily for almost two years. Given the size and importance of the sector to the local economy, this stable growth is important.

At a sub sector level, the picture is mixed. The depreciation of sterling continues to boost the total value of deposits when expressed in sterling (currency deposits being worth more in terms of sterling). However, employment in the banking sub-sector continues its slow decline with the knock on effects of mergers and cost reduction measures keeping employment low. This continues the shifting of the balance of the local finance sector away from banking activity in favour of investment and fiduciary activities apparent in the data since 2009.

The value of fund assets registered, managed or administered in Guernsey has increased through 2015 and 2016 (figure 3.1.2) and has recovered most of the value lost during 2014. A steady growth employment in this sub sector means that employment in December was 1.2% higher than the previous year (figure 3.1.3).

Employment in Fiduciaries has shown an 8.8% increase over the year ending December 2016 and in terms of employment the sector is now significantly larger than the Banking sub-sector. While the rate of employment growth had slowed in the second half of 2016, the sector still appeared strong at the close of 2016.

The net asset value of international insurance business in Guernsey has also trended upwards and had increased by 0.8% in 2015. After a strong second half to 2015, employment in insurance had reduced year on year by the close of 2016.

Figure 3.1.1 Finance: employment and earnings growth

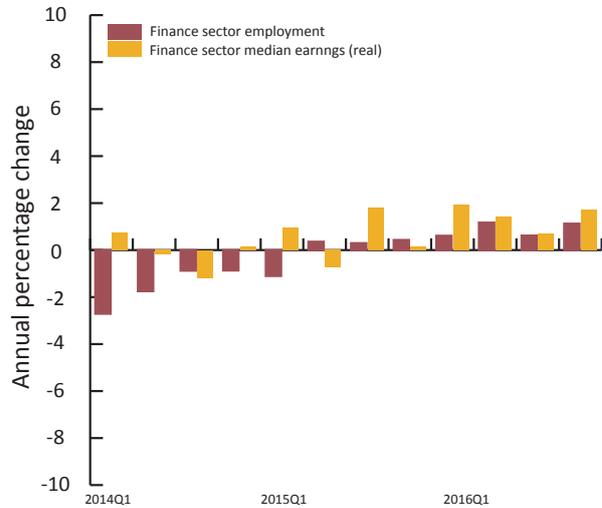


Figure 3.1.2 Finance: sub-sector values*

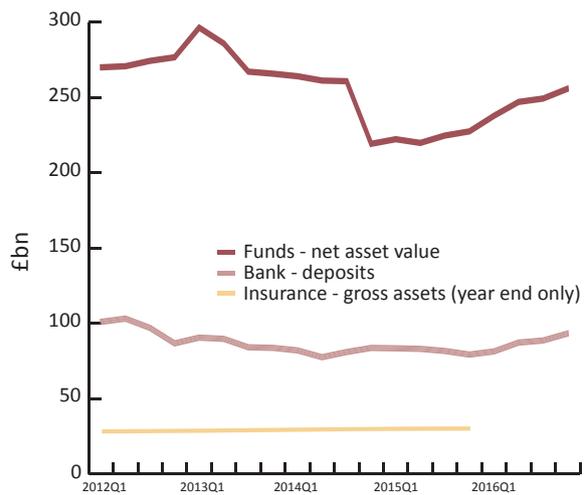
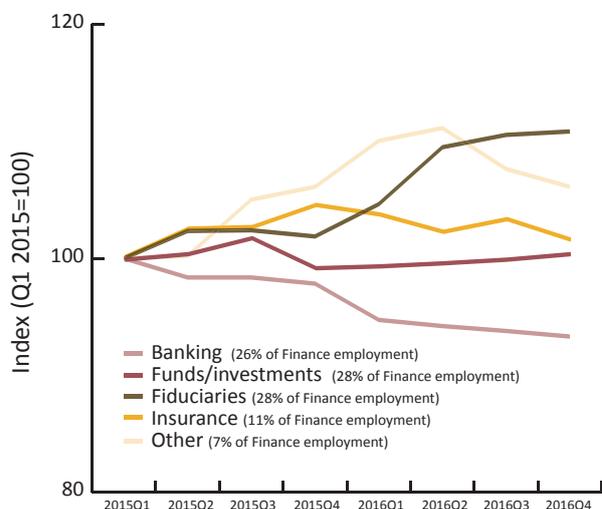


Figure 3.1.3 Finance: sub-sector employment



* data published by the Guernsey Financial Services Commission

3. Business sector indicators

Figure 3.2.1 Professional and business services: employment and earnings growth

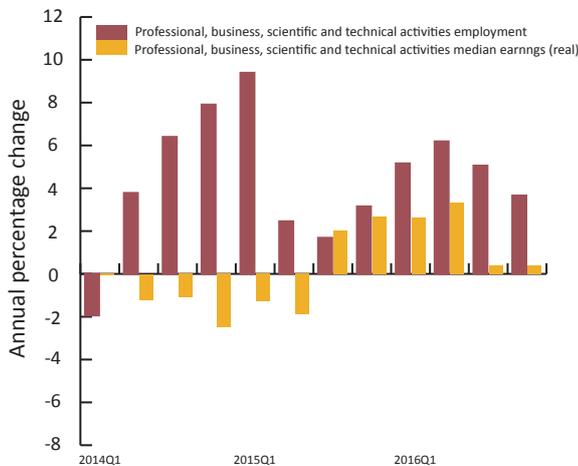


Figure 3.2.2 Information and communications services: employment and earnings growth

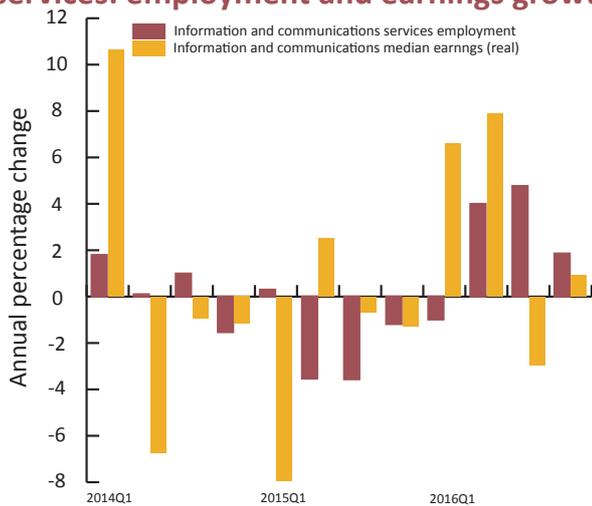
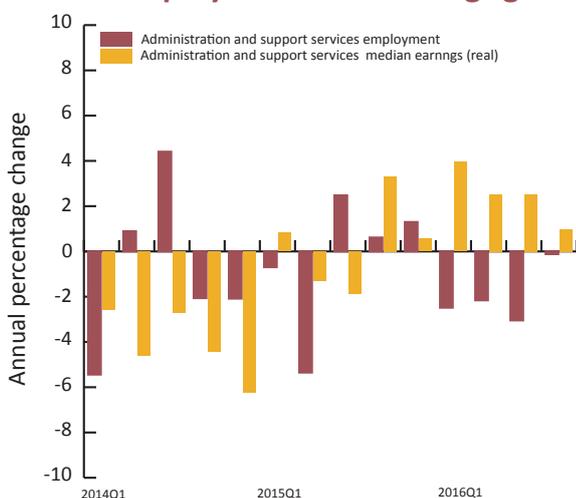


Figure 3.2.3 Administration and support services: employment and earnings growth



3.2 Business, IT and support services

The three sectors captured in this section (Professional, business, scientific and technical activities; Information and communication; and Administrative and support service activities) have been traditionally viewed as support services for the Finance sector but are increasingly exporting services in their own right. Combined, these sectors represent 15% of the labour market in Guernsey.

Professional, business, scientific and technical activities (which includes specialist services such as accountancy, consultancy, legal and marketing services) was the largest the employer of graduates in 2015. The sector has been growing strongly since mid 2014 and this has continued throughout 2016 (figure 3.2.1). Median earnings in this sector have been growing year on year since mid 2015 although real annual growth had slowed to 0.4% by the close of 2016. Growth in this sector has been strongest in Accounting, Management and consultancy and Marketing activities.

Employment and median earnings in the Information and communications sector (which includes IT support services, telecommunications and publishing activities) have been volatile over the past three years, but year on year both had increased in the year ending December 2016 (figure 3.2.2). Employment growth has been distributed across this sector.

Employment in Administrative and support service activities (including human resources support, cleaning and security activities) was stable over the year ending December 2016 and median earnings continued to increase (figure 3.2.3).

3. Business sector indicators

3.3 Construction and Wholesale, retail and repairs

These two sectors are the largest employers of domestic unskilled and semi-skilled labour in Guernsey and combined represent approximately 21% of the workforce. These sectors are also the largest employers of those who leave school at years 11 or 12. Shifts in employment in these sectors tend to have a greater impact on unemployment rates than others.

Employment in Construction is closely linked to the amount of development taking place in Guernsey at any one time, with large scale projects typically boosting employment in this sector. The sector continues its sustained contraction in employment although the rate of contraction had slowed a little by the close of 2016 (figure 3.3.1). The sector was approximately 17% smaller at the close of 2016 than at its peak in 2013 and if the shrinkage persists it may cause longer term issues for the ability of the sector to meet demand for services on-island in terms of both capacity and skills.

Employment in Wholesale, retail and repairs has been relatively stable through 2016 (figure 3.3.2). Earnings in this sector grew year on year for the first three quarters of 2016 but had decreased slightly in real terms in December compared to the previous year.

3.4 Hostelery and visitor movements

The Hostelery sector captures all hotels and visitor accommodation as well as bars and restaurants. This sector is heavily reliant on seasonal workers and short term licence holders. Employment in the sector underwent a step change in 2013 which coincided with the increasing numbers of cruise ship passengers visiting the island (figure 3.4.1 and 3.4.2). Employment in the sector has largely stabilised through 2016.

Earnings in the sector have been trending upwards in real terms for 3 years and have increased slightly relative to the overall median.

Statistics for 2016 show a decline in visitor numbers of -3.3% on the previous year (figure 3.4.2), despite the depreciation of sterling during the summer, which

Figure 3.3.1 Construction: employment and earnings growth

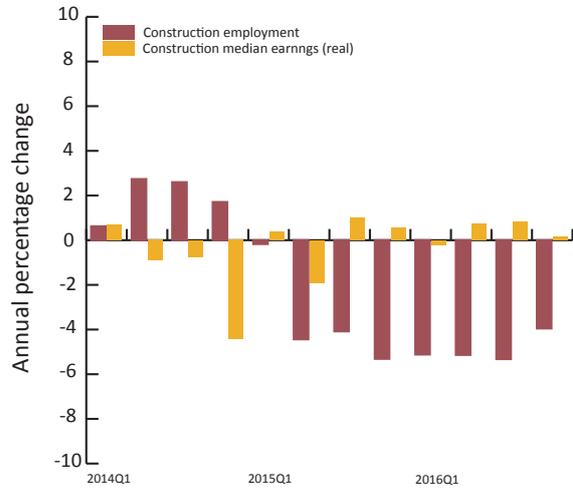


Figure 3.3.2 Wholesale retail and repairs: employment and earnings growth

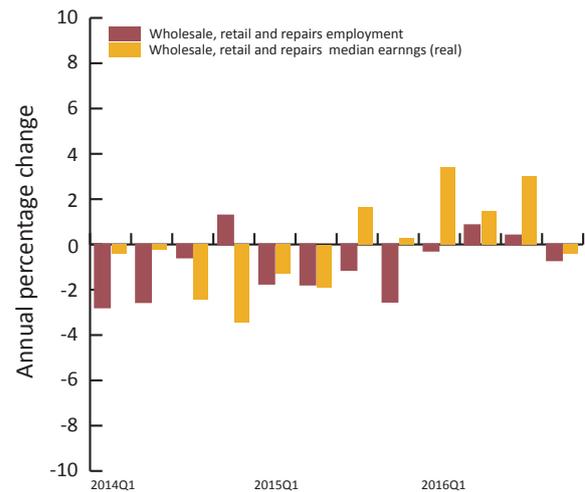
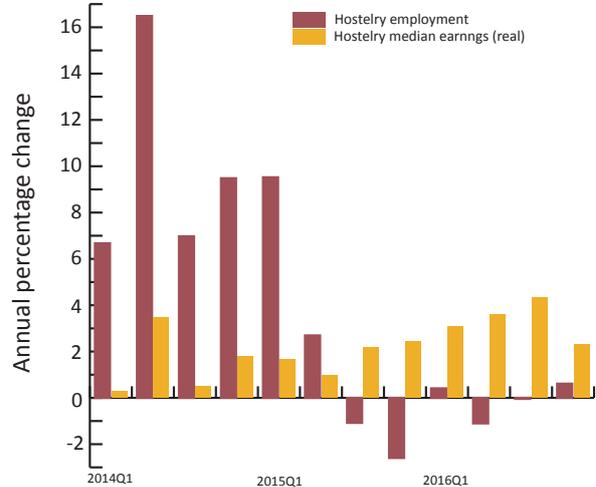
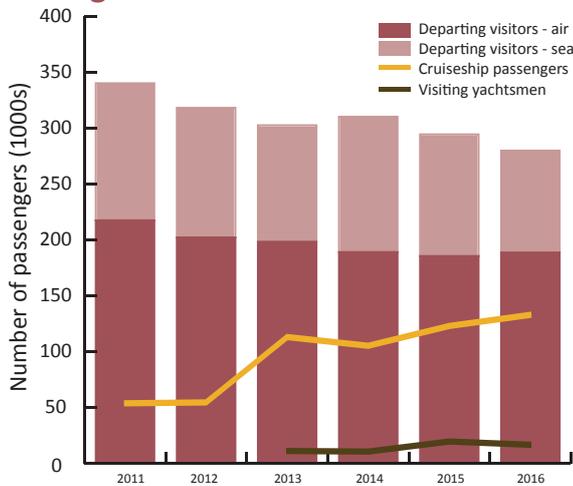


Figure 3.4.1 Hostelery: employment and earnings growth



3. Business sector indicators

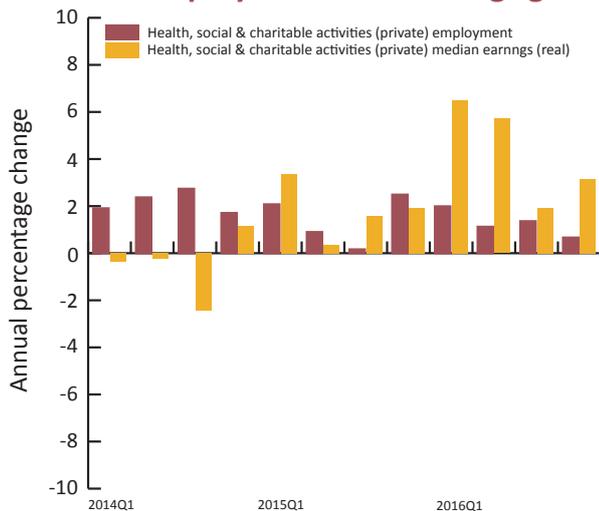
Figure 3.4.2 Visitor departures and cruise passengers



should make Guernsey more competitive relative to European destinations. However, given that people typically plan holidays several months in advance, there may be a lag and the effect of the exchange rate may be more apparent in 2017. The decline in total visitor numbers in 2016 reflects a decrease in the number of visitors arriving by sea, which is not unanticipated given the restructure of services. The number of visitors arriving by air increased year on year but was not sufficient to offset the decline in sea passengers.

The number of cruise ship passengers visiting Guernsey continues to increase, with a total of 132,950 passengers visiting Guernsey in 2016, 8% more than the previous year.

Figure 3.5.1 Health, social and charitable activities: employment and earnings growth



3.5 Private health and social care and charitable activities

This sector covers the private provision of health and social care services, including the private residential and nursing homes and all charities. The sector is the 7th largest in terms of employment and one that is likely to grow in the medium to long term as the population ages and the aggregate care needs of the population increases.

Both employment and earnings in this sector have been growing for some time and the growth in this sector appears to be largely independent of other movements in the economy, but is likely to be driven instead by the change in the demographic profile. This sector is also reliant on inward migration for a significant proportion of nursing and care staff.

4. Contact details and other information

This bulletin is presented by the States of Guernsey Strategy and Policy Unit. For more details please contact:

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The majority of the data presented in this report is provided by the States of Guernsey Data and Analysis Unit. More detailed statistics are available online at www.gov.gg/data.

The data presented in **figure 3.1.2** is published by the Guernsey Financial Services Commission and available at www.gfsc.gg.

