

Guernsey Quarterly Inflation Forecast

Quarter 3 2018

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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

- The annual change in RPIX in June 2018 increased to 2.4% falling at the upper end of the forecasts range. The deviation from the central forecasts is largely due to an increase in global oil prices, resulting in increased heating and motoring costs, and the deferral of the Bank of England's decision to raise interest rates until August 2018.
- Following the 0.25% increase in interest rates by the Bank of England on 2 August 2018, RPIX is anticipated to increase in the third quarter, before stabilising at around 3% for the remainder of the forecast period.
- RPI is expected to be pushed slightly higher than RPI by the impact of higher interest rates on the cost of mortgage interest.
- Key factors include:
 - The increase in interest rates by 0.25% on 2 August 2018, with the potential for a further limited increase within the forecast period.
 - A potential further increase in oil prices late in 2018 in line with IMF commodity price forecasts.

Figure 1.1: Forecast Guernsey RPIX

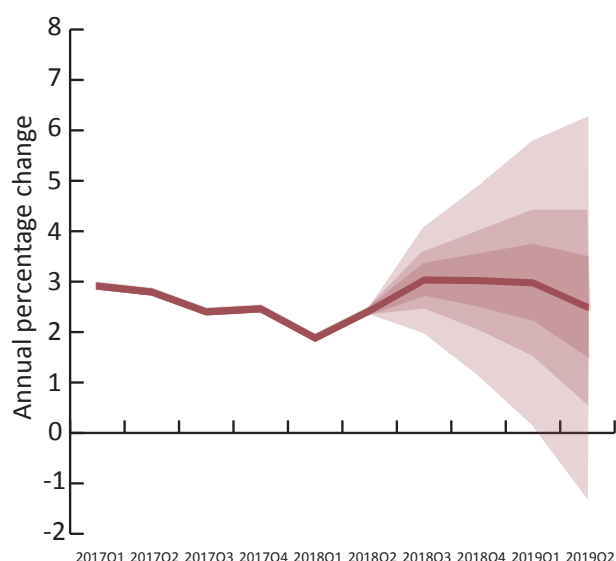
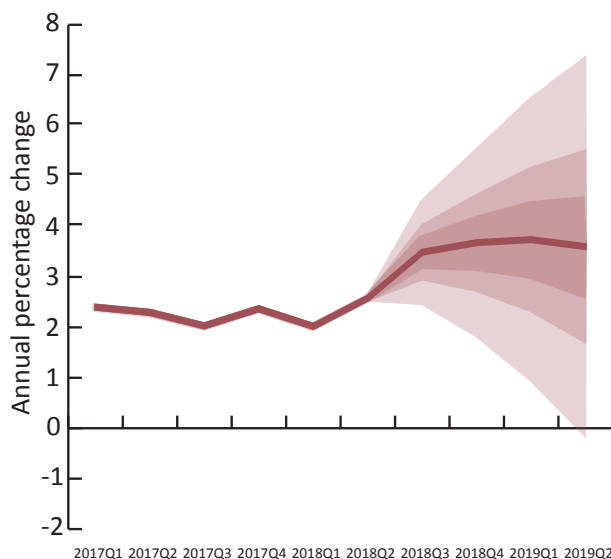


Figure 1.2: Forecast Guernsey RPI



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.