

Guernsey Quarterly Inflation Forecast

Quarter 4 2018

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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 a 30%, 60% and 90% statistical certainty.

1.2 Forecasts

- The annual change in RPIX had increased to 2.8% in September 2018 compared to 2.4% in June 2018. This was a smaller increase than anticipated and follows an increase in interest rates from 0.5% to 0.75% by the Bank of England in August 2018.
- The current expectation is that the annual change RPIX will continue at about the same level in the next quarter before falling in the first half of 2019.
- The Bank of England have implied that, should conditions continue as they have forecast, they may tighten monetary policy further. However, given that UK CPI rates fell slightly to 2.2% in September 2018 it is not anticipated that there will be another increase in interest rates before the middle of 2019. The Bank of England stress in their August Inflation Report that increases will be gradual and of limited extent.
- Upward pressure on the cost of services is expected to continue, but the upward pressure from rental prices is expected to remain subdued.
- RPI is expected to rise slightly toward the close of 2018 as the affect of increased interest rates is translated into an increase in the Average Effective Rate of interest paid by mortgage holders over time.

Figure 1.1: Forecast Guernsey RPIX

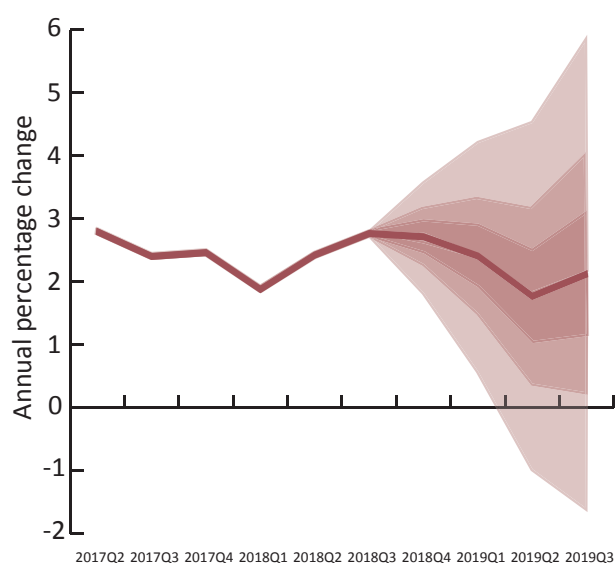
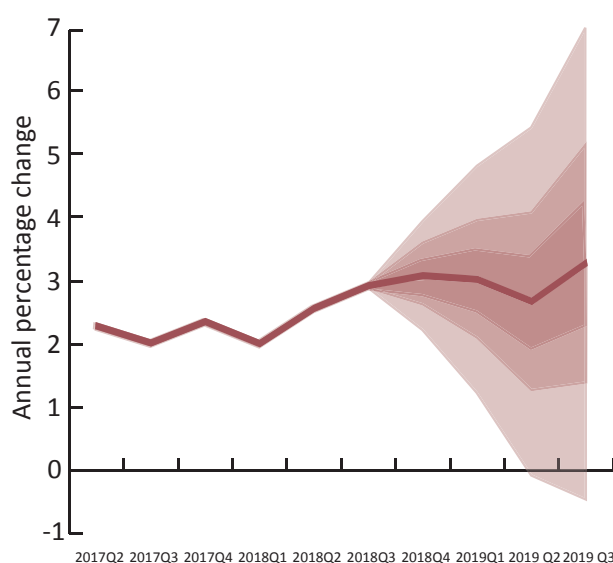


Figure 1.2: Forecast Guernsey RPI



1.3 Forecast assessment

Table 1.1 below presents an overview of the performance of the RPIX forecasts against actual data three, six, nine and twelve months ahead of publication. For example, T+3 months presents a summary of how accurate the forecasts are one quarter before publication of the actual data, detailing how many of the actual observations fall within 30%, 60% and 90% confidence intervals of the forecasts represented by the coloured bands in **Figure 1.1**.

Table 1.1: Summary of RPIX forecast performance

	t +3 months	t +6 months	t +9 months	t +12 months
Total number of observations	14	13	12	11
Within 30% confidence interval	43%	31%	58%	55%
Within 60% confidence interval	64%	62%	75%	73%
Within 90% confidence interval	93%	85%	83%	82%
Outside 90% confidence interval	7%	15%	17%	18%

1.4 Contact Details

For more information on this and other publications issued by the States of Guernsey Strategy and Policy Unit, please contact:

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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.