

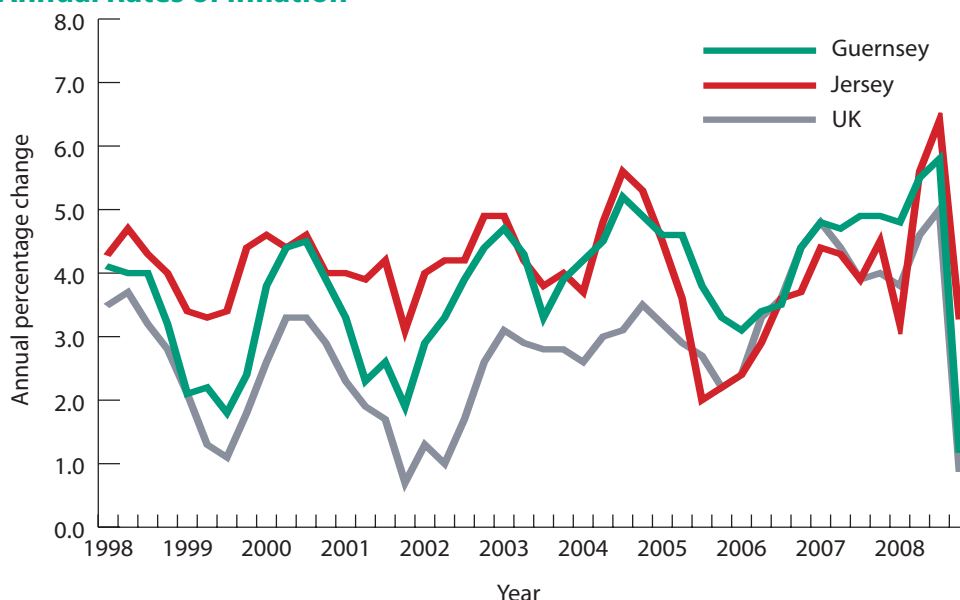
Introduction

The Guernsey Retail Prices Index (GRPI) is the measure of inflation used in Guernsey. It measures the change in the prices of goods and services bought for the purpose of consumption or use by households in Guernsey. It is published quarterly by the States of Guernsey Policy and Research Unit. The calculation of the GRPI is based on the price change of items within a 'shopping basket'. Whilst some prices rise over time, others will fall or fluctuate and the Index represents the average change in these prices. More detailed information on the RPI and its calculation can be found at the end of this handout.

Headlines

- At the end of December 2008 Guernsey's annual headline rate of inflation was 1.2%, compared to 5.8% at the end of September and 4.9% at the end of December 2007.
- A similar trend was seen in the UK and Jersey (see *Figure 1*), where the equivalent figures for the end of December 2008 were 0.9% and 3.3% respectively.
- Guernsey's RPIX ("core" inflation excluding mortgage interest payments) was 4.6% this quarter, compared to 6.2% at the end of September and 3.9% at the end of December 2007.
- The Housing group alone contributed a decrease of -2.1 percentage points to the headline rate of inflation as a result of decreases in the mortgage interest component, which reduced significantly due to the Bank of England cutting interest rates.
- The Clothing and Footwear, Fuel Light & Power and Leisure Goods groups also decreased during the year.
- However, ten of the fourteen RPI groups increased over the year ending December 31st 2008: the Food, Alcohol, Household Services and Leisure Services groups contributed the largest increases.
- The Index stood at 137.9 (1999 base).

Figure 1: Annual Rates of Inflation



Overview

Table 1: Annual Rates of Inflation

Year	March	June	September	December
2002	2.9	3.3	3.9	4.4
2003	4.7	4.3	3.3	3.9
2004	4.2	4.5	5.2	4.9
2005	4.6	4.6	3.8	3.3
2006	3.1	3.4	3.5	4.4
2007	4.8	4.7	4.9	4.9
2008	4.8	5.5	5.8	1.2

RPI Analysis

Figure 2: Annual Percentage Change

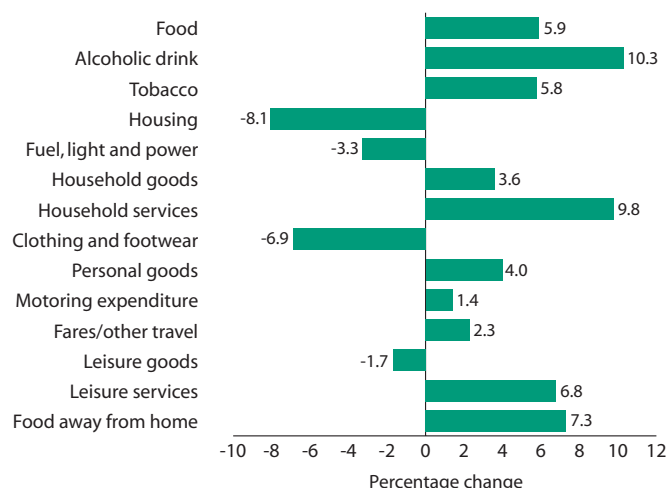
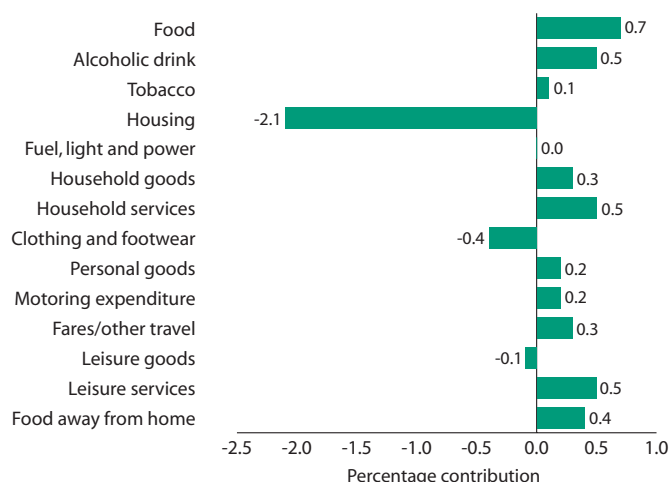


Figure 3: Annual Contribution to RPI



Note: Individual contributions to the change in rates may not sum to the total due to rounding.

Overview of the annual and quarterly change

The Guernsey RPI increased by 1.2% for the twelve months ending 31st December 2008.

The change over the three months ending 31st December 2008 was -3.4%, compared to 0.9% during the previous quarter and 2.1% the quarter before.

Main contributions to the annual change

The annual percentage change of each of the RPI groups is shown in *Figure 2* and the contribution of each group to the overall annual rate is shown in *Figure 3*.

Out of the fourteen groups, ten increased over the twelve months ending 31st December 2008. However, decreases in the Housing group and particularly the mortgage interest component largely offset the increases in other groups (see *Figure 3*).

The Housing Group reduced by -8.1% over the year, contributing -2.1% to the headline annual increase.

The Bank of England decreased the interest rate from 5% to 2% during the quarter, resulting in a dramatic reduction in the average cost of mortgage repayments, which is the highest weighted item within the Guernsey RPI. This item alone (in a basket of thousands of items) holds 14% of the total weight, reflecting the average proportion of Guernsey household's expenditure, which is spent on mortgage repayments. As a result of this, changes in this item have a large impact on the headline figure.

The Fuel Light and Power group decreased as a result of reductions in oil prices.

Clothing and Footwear and Leisure Goods groups also decreased during the year. Items in these groups in particular had their prices discounted in December 2008.

The Alcoholic Drink and Household Services groups increased by the largest amounts over the year. Followed by food Away from Home and Leisure Services.

The Food group also increased, which with its higher weighting, means that it was the largest contributor (0.7% out of 1.2%) to the annual increase.

RPI Analysis

Main contributions to the quarterly change

Figure 4 shows the percentage change over the three months ending December 31st 2008 for each of the RPI groups. The quarterly contribution of each group is shown in Figure 5 and described in more detail on Page 3 of this handout.

Half of the fourteen groups had a downward effect on the quarterly change this quarter (see Figure 4). The largest decreases were seen in the Fuel, Light and Power, Housing and Fares / Other Travel groups.

The Housing group has the highest weight within the Guernsey RPI, so the 11% decrease, resulted in a -2.9% contribution to the overall quarterly change (-3.4%).

Reductions in oil prices during the quarter were reflected by decreases in Fuel, Light and Power and Motoring groups, which each contributed -0.4% to the quarterly change.

Household Services increased the most this quarter (5.7%) and had the only significant upward effect (0.4%) on the quarterly change.

Group Indices

Individual group indices are presented for December 2007 to December 2008 in Table 2 (the percentage changes illustrated in Figures 2 to 5 are based on the changes in these index numbers). Please note that the weights were revised last quarter.

Figure 4: Quarterly Percentage Change

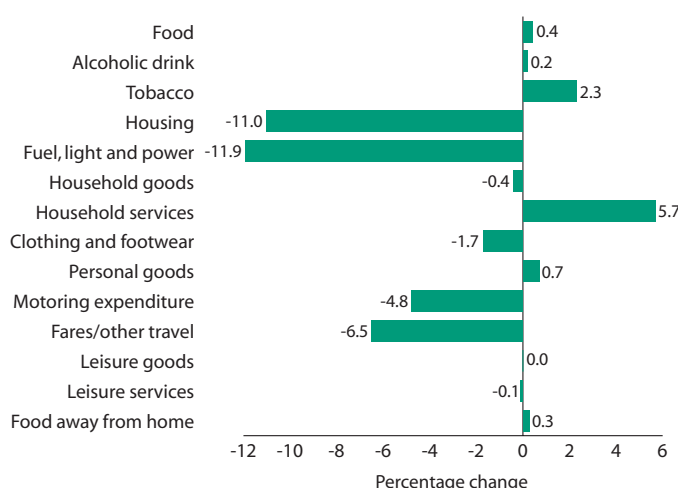
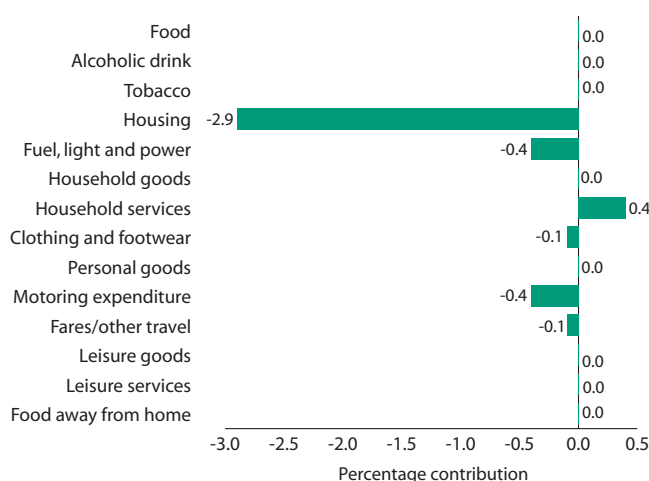


Figure 5: Quarterly Percentage Contribution



Note: Individual contributions to the change in rates may not sum to the total due to rounding.

Table 2: Group Indices

RPI Group	Weight	2007 Dec	2008 Mar	2008 Jun	2008 Sep	2008 Dec
Food	107	131.3	133.8	137.4	138.6	139.1
Alcoholic Drink	42	170.0	180.4	186.3	187.1	187.5
Tobacco	16	281.8	291.0	290.9	291.4	298.0
Housing	264	213.0	212.9	216.3	219.8	195.7
Fuel, Light and Power	39	180.1	192.7	203.2	197.9	174.2
Household Goods	55	129.6	133.6	133.9	134.9	134.3
Household Services	77	158.0	159.7	161.9	164.0	173.4
Clothing & Footwear	41	98.5	92.5	91.8	93.3	91.7
Personal Goods	55	163.0	165.8	167.6	168.2	169.4
Motoring Expenditure	86	144.9	149.7	155.3	154.5	147.0
Fares/Other Travel	22	177.4	190.4	194.2	194.3	181.6
Leisure Goods	66	103.3	103.5	102.9	101.5	101.5
Leisure Services	88	166.2	168.6	170.9	177.7	177.5
Food Away from Home	44	153.6	163.4	162.5	164.3	164.8

RPI Group Analysis

Within each group, specific items can be identified as having an upward or downward effect on the Index, details are given below.

Food (0.4%)

Decreases in the prices of fresh meat partially offset increases in milk, bread and other cereal products.

Alcoholic Drinks (0.2%)

Some prices of beers and spirits bought in shops were discounted, however, the prices of the majority of items increased during the quarter.

Tobacco (2.3%)

The price of cigarettes, tobacco and cigars increased slightly this quarter.

Housing (-11.0%)

The official Bank of England interest was dramatically reduced from 5% to 2% this quarter. This decrease was not reflected in full by all mortgage providers and the local average house price continued to rise, but overall there was still a large reduction in the cost of mortgage repayments during the quarter. Other items in this group remained relatively stable in price.

Fuel, Light and Power (-11.9%)

Prices of heating oil (which has a relatively high weight within the group) decreased significantly this quarter. Coal also decreased in price and the other items in the group remained relatively stable or static.

Household Goods (-0.4%)

There were discounts in prices of appliances, furniture and floor coverings which were partially offset by increases in pet expenses and prices of cleaning and household items.

Household Services (5.7%)

Domestic services, including child minding, which has a high weight within this group, increased this quarter. The prices of other items remained stable.

Clothing and Footwear (-1.7%)

The prices of the many women's clothes and footwear were discounted this quarter. Men's and children's clothing remained relatively stable in price, but men's footwear was reduced in price.

Personal Goods (0.7%)

There were increases in the cost of some medicines and medical expenses this quarter.

Motoring (-4.8%)

Decreases in motor fuel prices, resulting from decreases in oil prices on World Markets, resulted in an overall decrease in this group this quarter.

Fares & Other Travel (-6.5%)

There were significant decreases in air and sea fare prices during the quarter.

Leisure Goods (0.0%)

Decreases in the price of electrical goods, such as TVs, music players and home computers were balanced out by increases in prices of gardening goods and toys.

Leisure Services (-0.1%)

Prices of holiday accommodation decreased this quarter. Other prices in this group remained relatively stable.

Food Away from Home (0.3%)

There were increases in the prices of food from takeaways this quarter, but restaurant meals remained stable.

RPI Indices and Reflation Factors

RPI Indices

RPI Indices are used to calculate the change in prices over time. By determining the percentage change in the Index over one year, the annual RPI headline figure can be calculated. The annual Index rose by 1.2%, from 136.4 to 137.9 over the year ending 31st December 2008 (*Table 3*).

To calculate the percentage change in value between two dates, use the following formula:

$$\% \text{ Change} = \frac{(\text{Most Recent Value} - \text{Earlier Value}) \times 100}{\text{Earlier Value}}$$

For ease of calculation, selected percentage increases for the most recent quarter are given in *Table 4*.

It is possible to calculate percentage changes over longer periods of time. However, when making long-term comparisons, it should be taken into account that the 'shopping basket' may have changed over time. In addition households may not be spending money on the same products as they did in the past.

The Indices as they stood at the end of December 2008 for the 1994, 1988, 1983 and 1978 bases along with the current (1999) base are shown in *Table 5*.

In order to ensure that the Guernsey RPI remains representative of the expenditure of an average Guernsey household, the shopping basket and weights are revised periodically.

Using the findings of the 2005/6 Household Expenditure Survey and local research, the basket and weights have been updated to better reflect what Guernsey people typically spend their money on.

Reflation Factors

The effect of inflation is to erode the purchasing power of currency. The reflation factors in *Table 6* are based on the fourth quarter figures and can be used to convert old values to approximate current prices.

To convert a price, multiply it by the appropriate year's value. For example, £100 in 1998 is equivalent to £100 x 1.46 = £146 in 2008.

Reflation factors can also be used in the opposite way. To calculate what £100 in 2008 would have been worth in 1998 divide by the relevant reflation factor.

There is an *inflation calculator* on our website (www.gov.gg/pru), which you can use to perform reflation calculations for any period from 1965 onwards.

Table 3: RPI Indices

	March	June	September	December
2000	101.2	102.7	103.3	103.9
2001	104.5	105.2	106.0	105.8
2002	107.5	108.6	110.1	110.5
2003	112.6	113.3	113.8	114.8
2004	117.4	118.4	119.7	120.5
2005	122.8	123.9	124.2	124.5
2006	126.6	128.1	128.6	130.0
2007	132.7	134.1	134.9	136.4
2008	139.1	141.5	142.8	137.9

Table 4: Percentage Change at Dec 2008

Period	Percentage change
3 months	-3.4
6 month	-2.5
9 months	-0.8
12 months	1.2
18 month	2.8
2 years	6.1
3 years	10.8
4 years	14.5
5 years	20.1
10 years	41.3

Table 5: Index Figures at Dec 2008

Year of rebase (Index = 100)	Index Figures
1999	137.9
1994	163.7
1988	221.3
1983	295.7
1978	469.5

Table 6: Reflation Factors for 2008

Year	Reflation Factor
1999	1.39
2000	1.33
2001	1.30
2002	1.25
2003	1.20
2004	1.14
2005	1.11
2006	1.06
2007	1.01
2008	1.00

Note: The percentage change figures given in Table 4 are calculated using unrounded index figures, so may differ slightly to those calculated using the index figures given in Table 3.

Comparison with Other Jurisdictions

Table 7: Headline RPI - Guernsey, Jersey, UK

		Guernsey		UK		Jersey	
		Headline RPI	Quarterly Change	Headline RPI	Quarterly Change	Headline RPI	Quarterly Change
2002	Mar	2.9	1.6	1.3	0.6	4.0	2.3
	June	3.3	1.0	1.0	1.0	4.2	1.1
	Sept	3.9	1.4	1.7	0.8	4.2	1.3
	Dec	4.4	0.4	2.9	0.5	4.9	0.1
2003	Mar	4.7	1.9	3.1	0.8	4.9	2.4
	June	4.3	0.6	2.9	0.8	4.2	0.4
	Sept	3.3	0.4	2.8	0.7	3.8	0.9
	Dec	3.9	1.0	2.8	0.5	4.0	0.3
2004	Mar	4.2	2.2	2.6	0.6	3.7	2.1
	June	4.5	0.9	3.0	1.2	4.8	1.5
	Sept	5.2	1.1	3.1	0.8	5.6	1.7
	Dec	4.9	0.7	3.5	1.0	5.3	0.0
2005	Mar	4.6	1.9	3.2	0.2	4.5	1.3
	June	4.6	0.9	2.9	0.9	3.6	0.6
	Sept	3.8	0.3	2.7	0.6	2.0	0.1
	Dec	3.3	0.2	2.2	0.5	2.2	0.2
2006	Mar	3.1	1.7	2.4	0.4	2.4	1.5
	June	3.4	1.2	3.3	1.8	2.9	1.1
	Sept	3.5	0.4	3.6	0.9	3.6	0.8
	Dec	4.4	1.1	4.4	1.3	3.7	0.3
2007	Mar	4.8	2.1	4.8	0.8	4.4	2.2
	June	4.7	1.1	4.4	1.4	4.3	1.0
	Sept	4.9	0.6	3.9	0.4	3.9	0.4
	Dec	4.9	1.1	4.0	1.4	4.5	0.9
2008	Mar	4.8	2.0	3.8	0.6	3.2	0.9
	Jun	5.5	1.7	4.6	2.4	5.6	3.3
	Sept	5.8	0.9	5.0	0.6	6.4	1.1
	Dec	1.2	-3.4	0.9	-2.7	3.3	-2.0

RPI was 3.3% in Jersey and 0.9% in the UK, compared to 1.2% in Guernsey.

The ten year trends, as illustrated in *Figure 7*, reveal a broadly similar trend for the three jurisdictions.

In Jersey, the Food, Alcoholic Drinks Household Services and Leisure Services groups contributed 3.0% to the 3.3% increase. In common with Guernsey, there were decreases in Fuel & Light, Clothing & Footwear, Leisure Goods and the Housing group contributed (which alone contributed -0.8%). A Goods and Services Tax was introduced in Jersey in May 2008, which is probably now being reflected in their RPI.

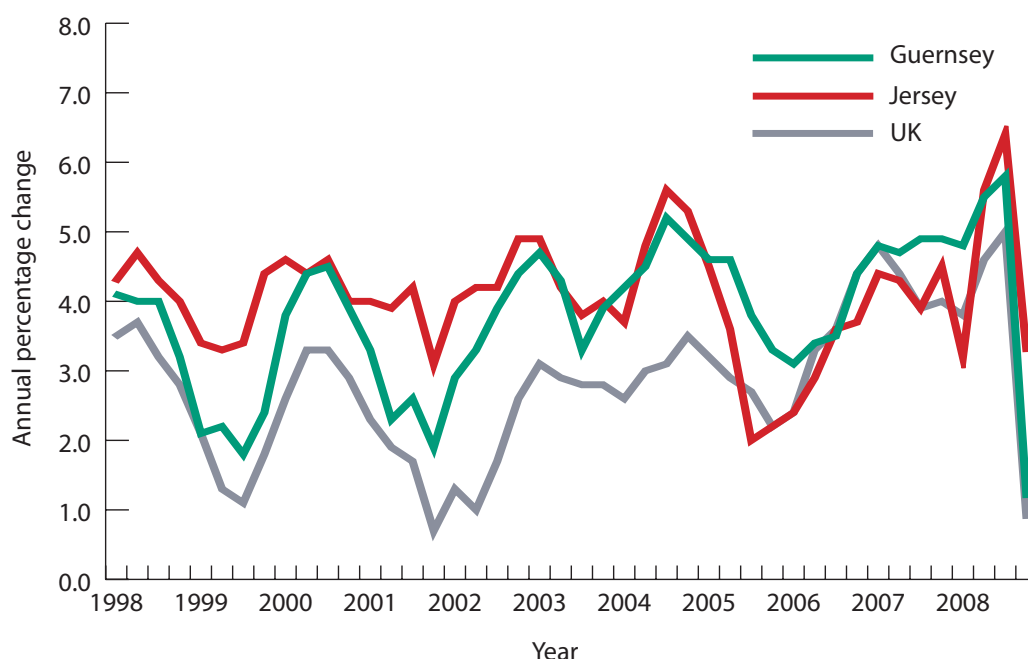
In the UK, the reduction in the VAT rate (from 17.5% to 15%) and mortgage interest payments made the largest downward contributions to the annual percentage change.

It should be noted that there are methodological differences between the three jurisdictions* but the figures are broadly comparable.

*More information can be found on the following websites:

UK RPI: www.statistics.gov.uk
 Jersey RPI: www.gov.je/ChiefMinister/Statistics

Figure 7: Headline RPI - Guernsey, Jersey and UK



RPIX

RPIX is RPI excluding the mortgage interest component. The mortgage interest component is calculated as a combination of increases/decreases in interest rates combined with the effects of rising/falling house prices.

The Guernsey RPIX was 4.6%, compared to 6.2% last quarter and 3.9% the previous year. This implies that core inflationary pressures were greater in 2008 than in 2007. The decrease in RPIX compared to the previous quarter is a reflection of recent decreases in prices - in particular of motor fuel and heating oil.

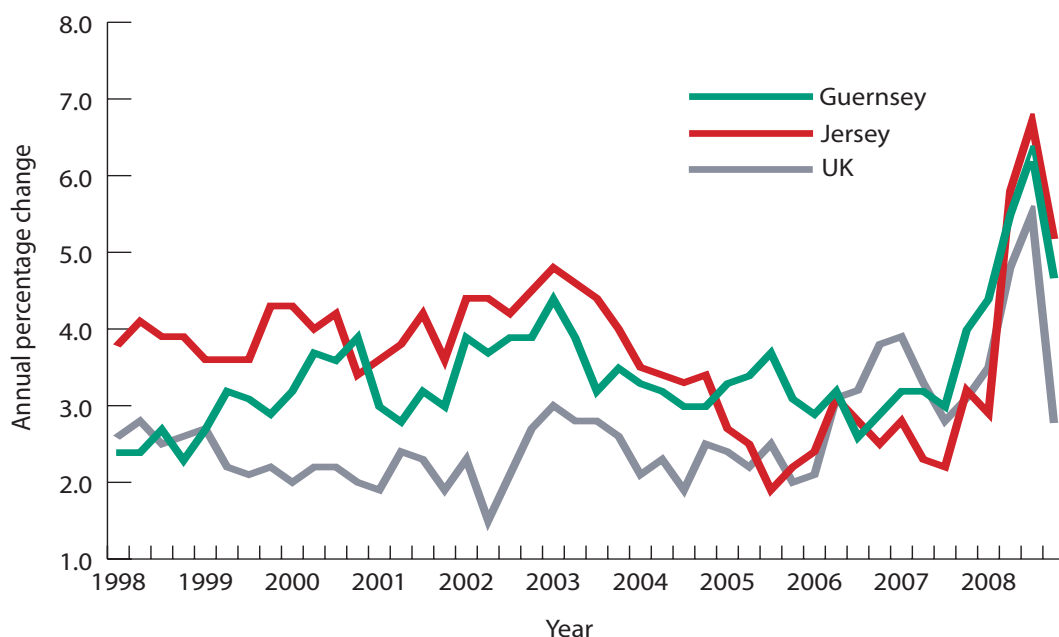
There were significant decreases in the RPIX in all three jurisdictions this quarter (shown in *Figure 8*), reflecting recent decreases in core inflationary pressures across Britain.

Guernsey's RPIX remained higher than that of the UK (2.8%) and lower than that of Jersey (5.2%) this quarter. This indicates that core inflationary pressures in Guernsey were higher than in the UK (where VAT rates were reduced), but lower than in Jersey (where a GST was introduced) over the twelve months ending 31st December 2008.

Table 8: RPIX - Guernsey, Jersey and UK

		Guernsey	UK	Jersey
2002	Mar	3.8	2.3	4.4
	June	3.6	1.5	4.4
	Sept	3.8	2.1	4.2
	Dec	3.8	2.7	4.5
2003	Mar	4.3	3.0	4.8
	June	3.8	2.8	4.6
	Sept	3.1	2.8	4.4
	Dec	3.4	2.6	4.0
2004	Mar	3.2	2.1	3.5
	June	3.1	2.3	3.4
	Sept	2.9	1.9	3.3
	Dec	2.9	2.5	3.4
2005	Mar	3.2	2.4	2.7
	June	3.3	2.2	2.5
	Sept	3.6	2.5	1.9
	Dec	3.0	2.0	2.2
2006	Mar	2.8	2.1	2.4
	June	3.1	3.1	3.1
	Sept	2.5	3.2	2.8
	Dec	2.8	3.8	2.5
2007	Mar	3.1	3.9	2.8
	June	3.1	3.3	2.3
	Sept	2.9	2.8	2.2
	Dec	3.9	3.1	3.2
2008	Mar	4.3	3.5	2.9
	Jun	5.4	4.8	5.8
	Sept	6.2	5.5	6.7
	Dec	4.6	2.8	5.2

Figure 8: RPIX - Guernsey, Jersey and UK



Methodology

How is the RPI calculated?

The calculation of the GRPI is 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 of the GRPI contains over 2,000 items. This list of goods and services remains the same 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 Index contains a representation of what 'typical' consumers in a Guernsey household spend their money on. It 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. During the fourth quarter of 2008 the mortgage interest component was calculated using a basket of Banks' standard variable mortgage rates which more fairly represented behaviour as many fixed rate products had been removed from the market.

Which items are included?

All goods and services on which a household typically spends money make up the GRPI. The shopping basket stretches from the inexpensive, such as the cost of a loaf of bread to expensive items such as the cost of new car.

Prices are collected quarterly from over 250 local suppliers, businesses and internet shopping sites and in order to maintain consistency, they are collected from the same establishment each quarter.

Are all items equally represented?

The average person spends more of their budget on some items and less on others. Therefore the GRPI is weighted, which means that some items have a higher importance or 'weight' than others. An increase in certain items will have more of an impact on the GRPI than others, for example, an increase in the price of petrol will have more effect on the Index than an increase in the price of milk.

How is it kept up to date?

The shopping basket is updated by means of a Household Expenditure Survey (HES), which takes place approximately every five to six years. The main purpose of the HES is to establish the proportion of expenditure spent on particular items in an average household budget. The 'shopping basket' is then revised according to the results of the survey. A new HES was undertaken in 2005/6 and the revised set of items and weights were introduced in 2008.

Further Information

The Guide to the Guernsey Retail Prices Index is now available on our website.

Please contact Helen Walton (Research & Information Analyst) for further information.

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