

# Guernsey Retail Prices Index

## Quarter 3 - 30 September 2008

Issue Date - 24th October 2008

## 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 September 2008 Guernsey's annual headline rate of inflation was 5.8%, compared to 5.5% at the end of June. The equivalent figures for the UK and Jersey were 5.0% and 6.4% respectively.**
- **The Food group contributed the largest amount (1.1%) to the headline increase, followed by the Housing group, which contributed an additional 1%. Motoring and Leisure Services were also significant contributors.**
- **Guernsey's RPIX (inflation excluding mortgage interest payments) was 6.4% this quarter, compared to 5.4% at the end of June.**
- **The Index increased to 142.8 (1999 base).**

## Overview

The Guernsey RPI increased by 5.8% for the twelve months ending 30th September 2008. This is the highest rate of inflation since September 1991.

The increase over the three months ending 30th September 2008 was 0.9%, compared to 1.7% during the previous quarter and 2.1% the quarter before.

The Food group was the largest contributor to the annual percentage change (1.1% out of 5.8%), due to increases in prices throughout the group over the past year.

The Housing group contributed 1.0% to the annual change and was the largest contributor to the quarterly change (0.4% out of 0.9%).

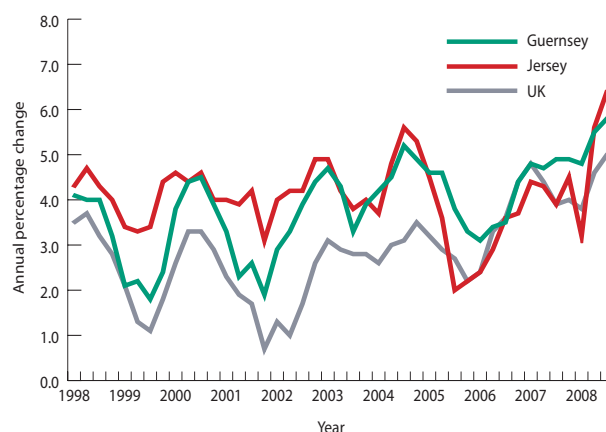
The Bank of England kept the interest rate unchanged during the quarter, however, with local house prices continuing to increase, the average cost of mortgage repayments continued to rise. Rents and home maintenance costs also increased during the quarter.

Clothing & Footwear and Leisure Goods had a downward effect on the annual change (-0.4% in total).

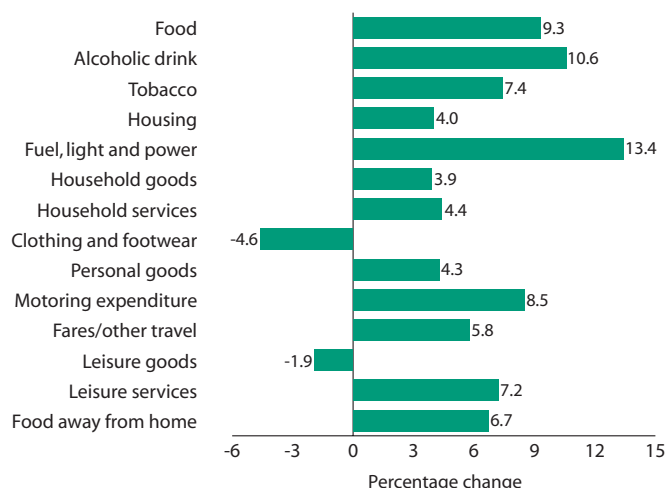
**Table 1: Annual Rates of Inflation**

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	

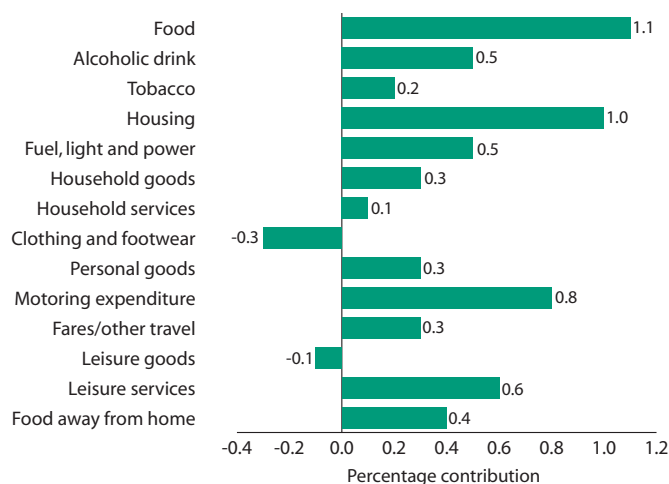
**Figure 1: Annual Rates of Inflation**



**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.*

## 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, twelve increased over the twelve months ending 30th September 2008.

The Food group increased by 9.3% (*Figure 2*), which, combined with its high weighting, means that it became the largest contributor (1.1% out of 5.8%) to the annual increase.

The Housing Group has been the highest contributor to the annual change for the past 5 years. This quarter however, it was the second highest, contributing 1.0% out of 5.8% (an increase of 4.0% within the group).

The Fuel, Light & Power group has increased by 13.4% since September 2007 - the largest percentage increase of all the groups during the last 12 months. However, with a relatively low weight it had a lesser effect (0.5%) on the overall RPI.

Motoring also contributed 0.8% to the overall RPI as a result of its relatively high weight combined with a percentage increase of 8.5%.

The Clothing and Footwear and Leisure Goods groups were the only groups to have a downward effect on the annual change this quarter. They contributed -0.4% in total.

# RPI Analysis

## Main contributions to the quarterly change

Figure 4 shows the percentage change over the three months ending September 30th 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.

Eleven of the fourteen groups had an upward effect on the quarterly change this quarter (see Figure 4). Decreases was seen in the Fuel, Light and Power, Leisure Goods and Motoring groups.

Leisure Services increased the most this quarter (4.0%), but has a relatively low weighting, so only contributed 0.3% to the quarterly increase.

The Housing group has the highest weight, so the 1.7% increase in this group contributed the largest amount (0.4%) to the overall quarterly change.

The increases in the Food, Clothing and Footwear, Household Services and Food Away from Home groups contributed 0.1% each to the quarterly change.

## Group Indices

Individual group indices are presented for September 2007 to September 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 this quarter.

Figure 4: Quarterly Percentage Change

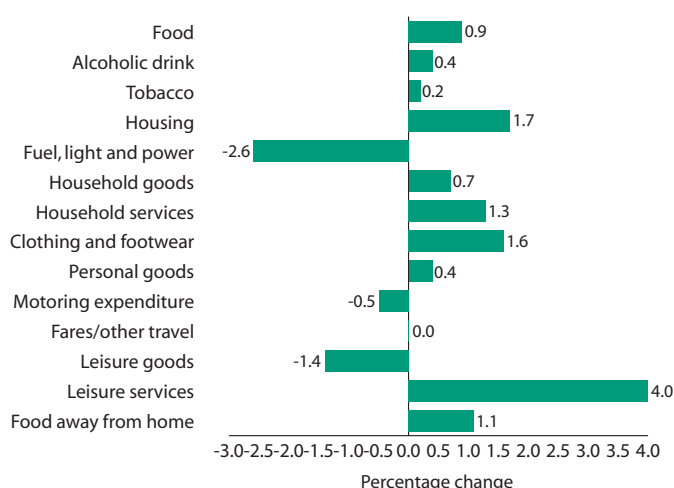
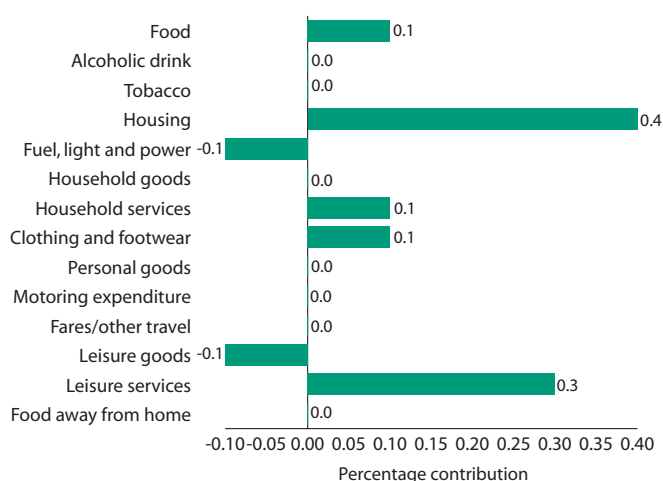


Figure 5: Quarterly Percentage Contribution



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 Sept	2007 Dec	2008 Mar	2008 Jun	2008 Sep
Food	107	126.8	131.3	133.8	137.4	138.6
Alcoholic Drink	42	169.1	170.0	180.4	186.3	187.1
Tobacco	16	271.5	281.8	291.0	290.9	291.4
Housing	264	211.3	213.0	212.9	216.3	219.8
Fuel, Light and Power	39	174.5	180.1	192.7	203.2	197.9
Household Goods	55	129.8	129.6	133.6	133.9	134.9
Household Services	77	157.1	158.0	159.7	161.9	164.0
Clothing & Footwear	41	97.8	98.5	92.5	91.8	93.3
Personal Goods	55	161.2	163.0	165.8	167.6	168.2
Motoring Expenditure	86	142.4	144.9	149.7	155.3	154.5
Fares/Other Travel	22	183.7	177.4	190.4	194.2	194.3
Leisure Goods	66	103.4	103.3	103.5	102.9	101.5
Leisure Services	88	165.8	166.2	168.6	170.9	177.7
Food Away from Home	44	154.0	153.6	163.4	162.5	164.3

# 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 (0.9%)**

Decreases in the prices of some seasonal fruit and vegetables were offset by increases in many items, particularly tinned, frozen and packaged foods.

## **Alcoholic Drinks (0.4%)**

The prices of cider bought in shops decreased during the quarter, however, prices of other items within this group increased during the quarter.

## **Tobacco (0.2%)**

The price of cigarettes increased slightly this quarter.

## **Housing (1.7%)**

The official Bank of England interest rate stayed at 5% this quarter, however due to continued increases in local house prices, the cost of mortgage repayments increased during the quarter. Rents, labour costs for maintenance work and the price of some DIY materials also increased. There was an overall increase, since the only decreases were in items with relatively low weightings, including power tools and light fittings.

## **Fuel, Light and Power (-2.6%)**

Prices of heating oil decreased this quarter and, since this item has a relatively high weight within the group, it offset increases in bottled gas and coal.

## **Household Goods (0.7%)**

There were increases in the prices of furniture and baby equipment, which were partially offset by decreases in pet expenses and cleaning materials.

## **Household Services (1.3%)**

Bank charges and subscriptions increased this quarter. The prices of other items in the group remained stable.

## **Clothing and Footwear (1.6%)**

The prices of women's and men's footwear and women's jumpers and dresses increased this quarter. There were decreases in prices of women's jeans and coats.

## **Personal Goods (0.4%)**

There were increases in the cost of dental and optical care and jewellery this quarter.

## **Motoring (-0.5%)**

The cost of motor insurance increased during the quarter, however, this was outweighed by decreases in motor fuel prices resulting from decreases in oil prices on World Markets.

## **Fares & Other Travel (0.0%)**

Taxi fares and the cost of purchasing a bicycle increased this quarter, however, these were balanced out by decreases in train and air fares.

## **Leisure Goods (-1.4%)**

Increases in the price of home computers, cameras and computer games combined with decreases in the prices of CDs, garden equipment, games and toys, resulted in an overall decrease this quarter.

## **Leisure Services (4.0%)**

Prices of holidays, school fees and sport club memberships increased this quarter.

## **Food Away from Home (1.1%)**

There were increases in the prices of meals in restaurants and from takeaways this quarter.

# 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 5.8% to 142.8 on 30th September 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 June 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](http://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	

**Table 4: Percentage Change at Sept 2008**

Period	Percentage change
3 months	0.9
6 month	2.7
9 months	4.8
12 months	5.8
18 month	7.6
2 years	11.1
3 years	15.0
4 years	19.3
5 years	25.6
10 years	46.9

**Table 5: Index Figures at Sept 2008**

Year of rebase (Index = 100)	Index Figures
1999	142.8
1994	169.6
1988	229.2
1983	306.2
1978	486.2

**Table 6: Reflation Factors for December 2007**

Year	Reflation Factor
1998	1.46
1999	1.40
2000	1.38
2001	1.32
2002	1.29
2003	1.24
2004	1.14
2005	1.10
2006	1.05
2007	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

RPI was 6.4% in Jersey and 5.0% in the UK, compared to 5.8% in Guernsey.

The ten year trends, as illustrated in *Figure 7*, reveal a broadly similar trend for the three jurisdictions. It can also be seen that RPI has increased to its highest levels for the past 10 years in all three jurisdictions this quarter.

In Jersey, the Food, Housing, Fuel & Light and Alcoholic Drinks groups showed the greatest annual increases, contributing 3.2% to the 6.4% increase. The Leisure Goods group was the only Group to have a downward effect on the annual increase. A Goods and Services Tax was introduced in Jersey in May 2008, which due to time lags in suppliers passing on price increases, is probably only now being fully reflected in their RPI.

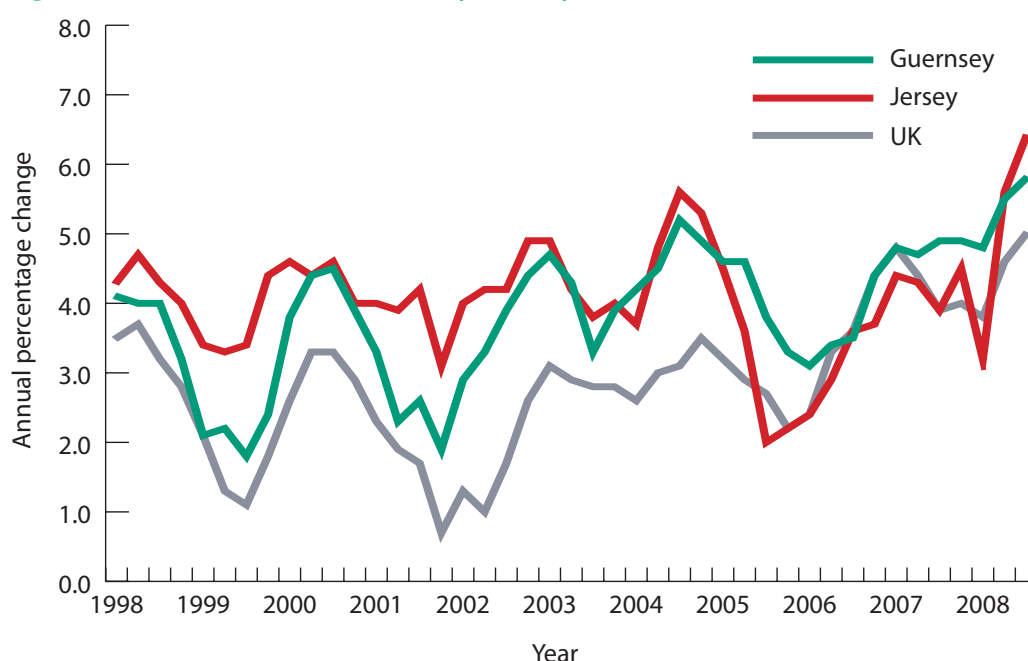
In the UK, housing, household services and recreation and culture made the largest upward contributions to the annual increase. Food and non-alcoholic beverages had the largest downward effects.

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](http://www.statistics.gov.uk)  
 Jersey RPI: [www.gov.je/ChiefMinister/Statistics](http://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 6.2%, compared to 5.4% last quarter. This implies that, although the mortgage interest component of the RPI was lower than a year ago, core inflationary pressures continued to increase.

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

Guernsey's RPIX remained higher than that of the UK (5.5%) and lower than that of Jersey (6.7%) this quarter. This indicates that core inflationary pressures in Guernsey were higher than in the UK, but lower than in Jersey over the twelve months ending September 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

**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.

## 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.

## What is RPIX?

RPIX is simply RPI excluding mortgage interest payments. It is sometimes referred to as the "underlying" rate of inflation. Some jurisdictions use RPIX to set inflation targets as it does not reflect the direct impact of interest rate changes made to control inflation.

# 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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