

Guernsey Economic and Financial Stability Overview

Issue date: December 2020

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



States of
Guernsey

1.1 Introduction

The Economic and Financial Stability Overview is compiled by the States of Guernsey and brings together government statistics (www.gov.gg/data) and statistics from the Guernsey Financial Services Commission (www.gfsc.gg). The intention is to combine the available data to provide a more detailed summary 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. The bulletin has been expanded in 2020 to include details of business support measures paid by the government to assist businesses through the restriction imposed as a result of the Covid-19 pandemic.

To assist readers, an explanation of key terms is included in [section 4](#).

1.2 Headlines

- First estimates of GVA for 2019 show that the economy has grown in real terms by 0.3%. Current forecasts for 2020 show a contraction in GVA of between 5% and 8% as a result of the global Covid-19 pandemic. A partial recovery of between 2% and 5% is forecast for 2021.
- Inflation, as measured by RPIX, remains stable. The annual change in RPIX in September 2020 was 2.0% and is forecast to fall slightly in the coming quarters.
- Levels of net immigration remained strong up to the end of 2019 contributing to a net increase in the population of 0.9% over the year ending December 2019. Data showing the impact of Covid-19 on population numbers is not yet available.
- The workforce continued to expand slowly through 2019, but the outbreak of Covid-19 and the restrictions imposed to prevent further spread of the infection resulted in a contraction in employment of 4.5% in June 2020 compared to June 2019. A fall in unemployment and an improvement in total remunerations over the third quarter would suggest that employment levels have recovered, but official employment data for the third quarter is not yet available.
- As at 20 November 2020, £43.7m had been paid to local businesses and self-employed people via the formal business support schemes (comprising small business grants, payroll co-funding and accommodation grants). 24% of this support had been paid to businesses and self-employed people in the Hostelry sector. A further 17% was paid to each of the Wholesale, retail and repairs and Construction sectors.
- The local housing market has recovered very strongly and in the third quarter of 2020 both transaction volumes and real prices were higher than during the same period in 2019.
- The Finance sector is showing evidence of stress with a fall in total employment in the sector beginning in late 2019 and continuing into 2020. By the second quarter of 2020 the total fall in employment in this sector compared to a year earlier was 4.9%. Median earnings in the sector have increased suggesting that job losses have been concentrated in more junior positions. Remuneration data indicates that this is one of the few sectors where conditions appear not to have improved in the third quarter.
- Almost all other sectors show evidence of contraction in the second quarter of 2020, but in most conditions appear to have improved in the third quarter. In some sectors, such as Construction; Real estate and Information and communication, there is evidence that activity levels at the end of September were greater than a year earlier.

2. Macroeconomic indicators

Figure 2.1.1 GVA and GDP with forecasts, constant prices

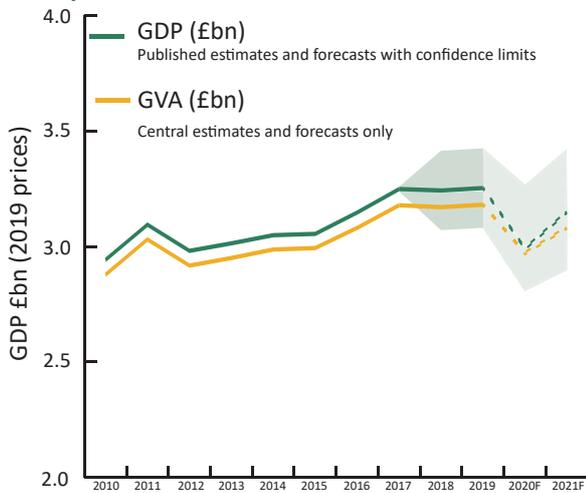


Figure 2.1.2 GVA and GDP real growth, central estimates and forecasts, real

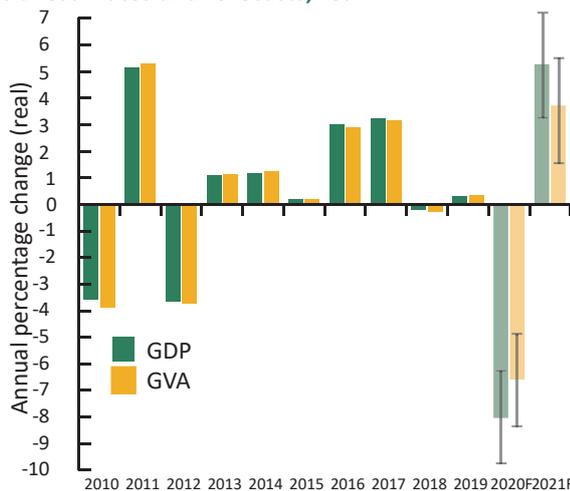
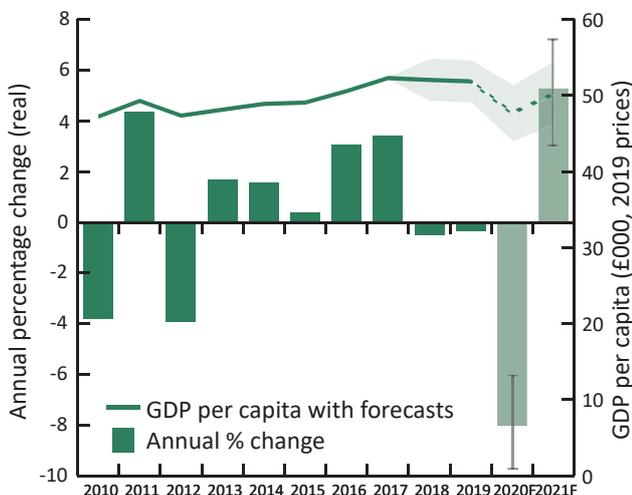


Figure 2.1.3 GDP per capita, central estimates and forecasts, real



2.1 Gross Value Added (2019 and 2020 forecasts)

First estimates of GVA for 2019 show a small level of real growth with a year on year increase of 0.3% (Figures 2.1.1 and 2.1.2). GVA forecasts for 2020 (published for the first time) show a contraction of between 5% and 8%, with a central forecast contraction of 6.6%. This forecast reflects the scope of restrictions applied to limit the spread of Covid-19 in Guernsey and the impact this has had on almost all sectors of the economy. Forecasts for 2021 show a partial recovery of between 2% and 5% of GVA.

In simple terms, GDP is calculated as GVA plus taxes on production and less subsidies on production. These factors accounted for approximately 2.1% of GDP in 2019 (figure 2.1.4). Following guidance provided by the Office of National Statistics, business support measures are counted as a subsidy on production and are therefore subtracted from GDP forecasts for 2020 and 2021. This means that the contraction in GDP in 2020 is larger than the contraction in GVA with a central estimate of a contraction of 8.0%.

Figure 2.1.3 presents the amount of GDP output produced per person in Guernsey. Like headline measures of GDP and GVA this is forecast to contract in 2020 with a partial recovery in 2021.

The forecast contraction of the Guernsey economy in 2020 is of a similar magnitude to the 7.5% forecast contraction in Jersey's GVA published in August¹ (forecast before the recent surge in cases) and smaller than the 11.0% average GDP contraction forecast by independent forecasters in the UK in November². In all jurisdictions forecasts are subject to a significant degree of uncertainty, particularly given the unprecedented nature of the economic and public health crisis. For 2021, much will depend on the speed at which the roll out of vaccines can enable a return to more normal functioning and the extent to which the wide spread disruption caused by Covid-19 has reduced the capacity of the local economy or accelerated more widespread restructuring.

The UK's negotiations with the EU over its future

¹ <https://www.gov.je/news/2020/pages/UpdatedEconomicForecast.aspx>

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936250/Forecomp_November_2020.pdf

2. Macroeconomic indicators

relationship continue. The transition period will end on 31 December 2020 and the outcome remains uncertain. Risks of trade disruption, particularly in the short term, remain and pose a downside risk to growth in 2021.

Figures 2.1.4 and **2.1.5** illustrate the composition of GDP in Guernsey. Compensation of employees is the largest component representing 44.2%. In general this is the most stable element of GDP. Between 2014 and 2019, compensation of employees made a moderate positive contribution to real growth.

Forecasts for 2020 show a negative contribution of 2.6 percentage points to real GDP growth from the compensation of employees. The primary function of the business support schemes (captured within taxes on production less subsidies on production) was to support employment while businesses were unable to function effectively. This has supported a greater level of compensation of employees than would have been possible in 2020 without it. The current forecast payment of business support measures during 2020 is equivalent to 1.7% of GDP.

Based on the strength of recovery achieved in total remunerations between the second and third quarters of 2020, compensation of employees is expected to make a strong contribution to growth in 2021, although they are not forecast to match 2019 levels in real terms.

Gross operating surplus (broadly interpreted as company profits) represented 40.6% of GDP in 2019 and is the most volatile component of GDP. This element typically drives the larger changes in GDP and, at first estimates, contributed a moderate downward contribution to real growth in 2019. It is also expected to make the largest contribution to the forecast contraction in 2020. Like the compensation of employees, Gross operating surplus is forecast to make a positive contribution to real growth in 2021 but not to recover to match 2019 in real terms.

Figure 2.1.4 Components of GDP (2019)

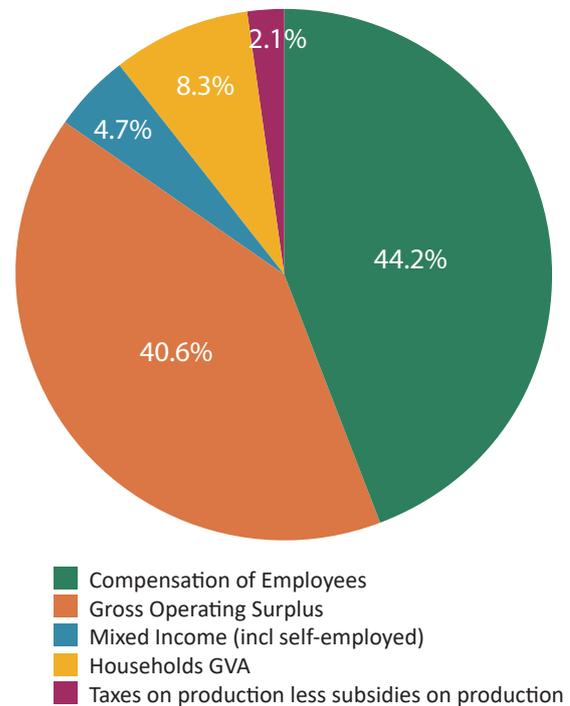
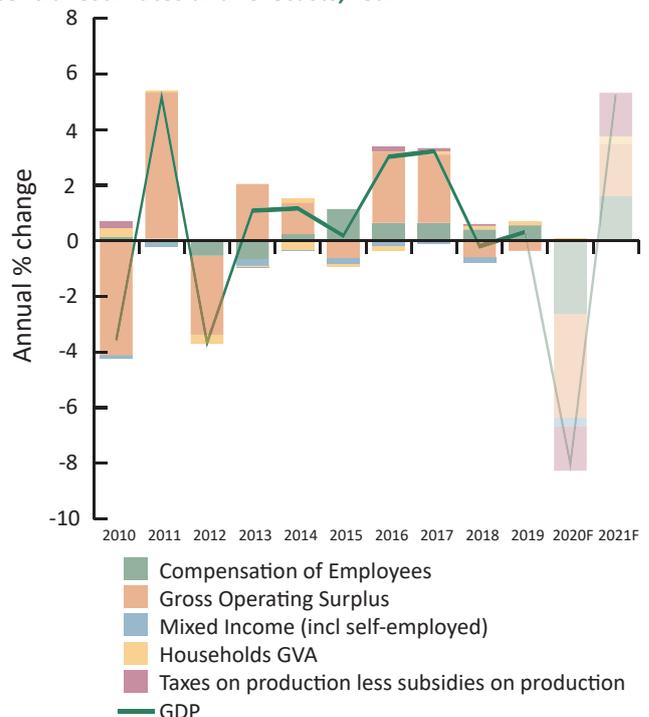


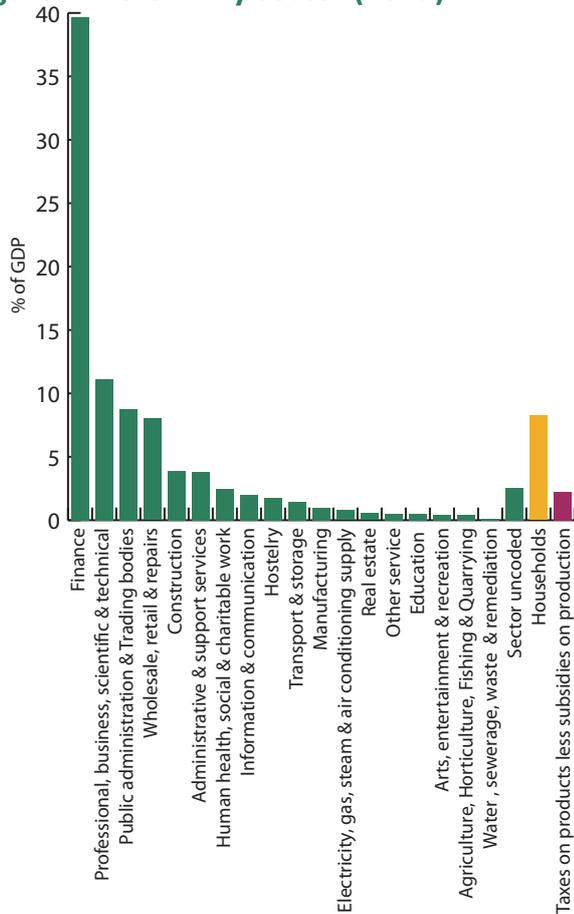
Figure 2.1.5 Contribution of output types to annual growth in GDP

central estimates and forecasts, real



2. Macroeconomic indicators

Figure 2.1.6 GDP by sector (2019)



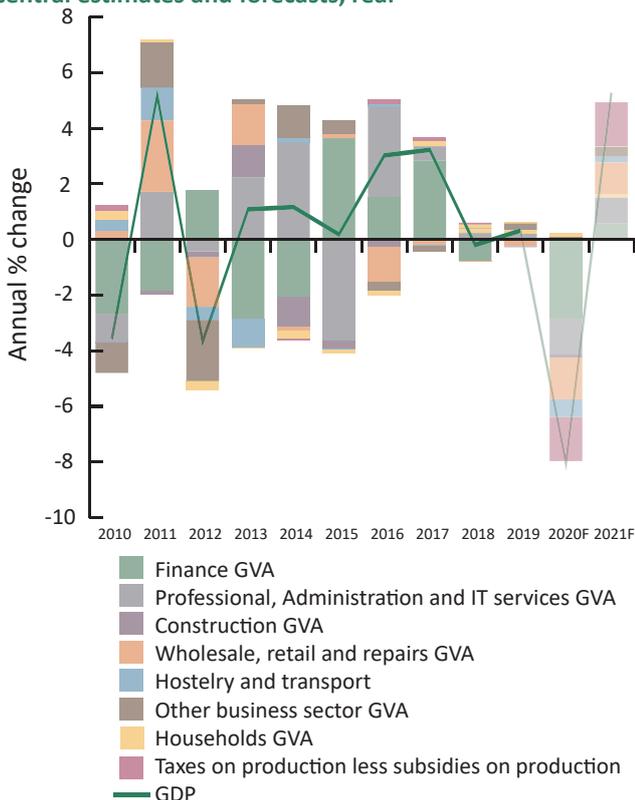
Figures 2.1.6 and 2.1.7 show the contribution of individual sectors to GDP.

The finance sector continues to be Guernsey's largest economic sector contributing 40% of Guernsey's GDP. 2019 estimates show the sector showed no real growth. Forecasts for 2020 provide a central forecast for the sector of a 7% contraction, reflecting a reduction in employment and remuneration in the sector between September 2019 and June 2020. This contraction, some of which predates the outbreak of Covid-19, contributes 2.8 percentage points to the forecast contraction of GDP in 2020. The recovery forecast in 2021 is limited, reflecting an expectation of a continued restructuring in the sector in the coming quarters.

Most other sectors are forecast to contract in 2020 with the largest contraction occurring in the Hostelry sector (31%), which has suffered the largest loss of activity from the on-going limitations placed on travel. However, the small size of the sector means that its overall contribution to the reduction in GDP in 2020 is smaller than other, larger sectors.

Figure 2.1.7 Contribution of economic sectors to annual growth in GDP

central estimates and forecasts, real



Information and communication; Real estate; Public Administration (which captures all activity by the States of Guernsey); Human health, social and charitable work; and Households are forecast to make a positive contribution to GDP in 2020, reflecting the role these sectors have played in managing the outbreak of Covid-19 and the unexpected strength of the recovery in the housing market (see section 2.5).

Based on the improvement in total remunerations between the second and third quarters of 2020, most sectors are forecast to recover at least some of the activity lost during 2020 in 2021. However, forecasts have been compiled on the assumption that some level of travel restrictions will remain in place well into 2021, limiting the scope for recovery for those sectors most dependent on external travel.

2. Macroeconomic indicators

2.2 Inflation

Inflation in Guernsey, as measured by the annual change in RPIX, continues to be relatively stable (figure 2.2.1). The annual change in RPIX was 2.0% in September 2020 broadly the same as a year earlier.

Equivalent measures in the UK and Jersey declined sharply in June, in part reflecting deliberate policy measures such as the UK’s “eat out to help out” scheme. Both the UK and Jersey report a reduction in travel costs which are less apparent in Guernsey because of the tighter travel restrictions and the absence of commercial airlines.

The increase in the cost of services continues to be the primary driver of inflation in Guernsey (figure 2.2.2). Upward pressure on the inflation from food continues to be relatively modest. The fall in global oil prices at the onset of the Covid-19 pandemic continues to exert downward pressure on inflation, reducing the cost of motoring and home heating.

Looking forwards, central forecasts suggest that RPIX will fall through the last quarter of 2020 and into 2021 (figure 2.2.3) mirroring the downward trend in inflation seen in the UK and Jersey to some limited extent.

There are risks to these forecasts in both directions. If economic conditions are weaker than forecast this may result in lower levels of inflation, particularly if this manifests in lower earnings or higher unemployment.

The high level of demand currently evident in the housing market could exert upward pressure on the housing group. A poor outcome of negotiations between the UK and EU regarding their trading relationship beyond the end of the Brexit transition phase on 31 December could also create upward pressure on inflation if this creates disruption in domestic supply chains.

Figure 2.2.1 RPIX in Guernsey, Jersey and UK

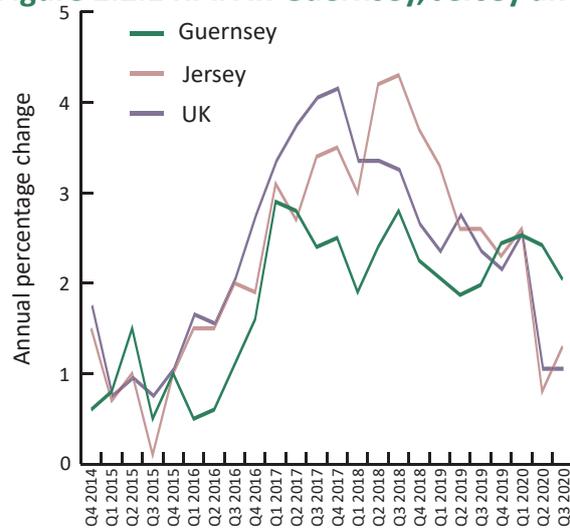


Figure 2.2.2 Contribution to annual change in RPIX

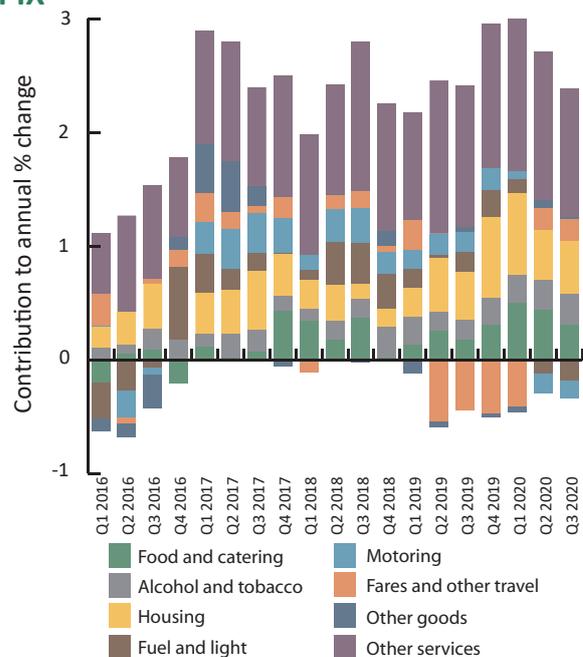
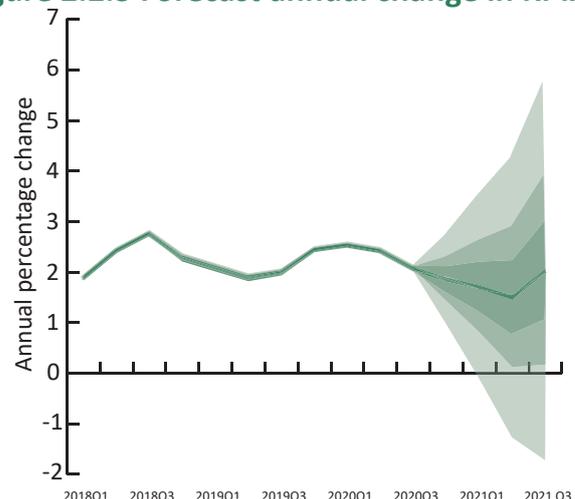


Figure 2.2.3 Forecast annual change in RPIX



2. Macroeconomic indicators

Figure 2.3.1 Annual migration

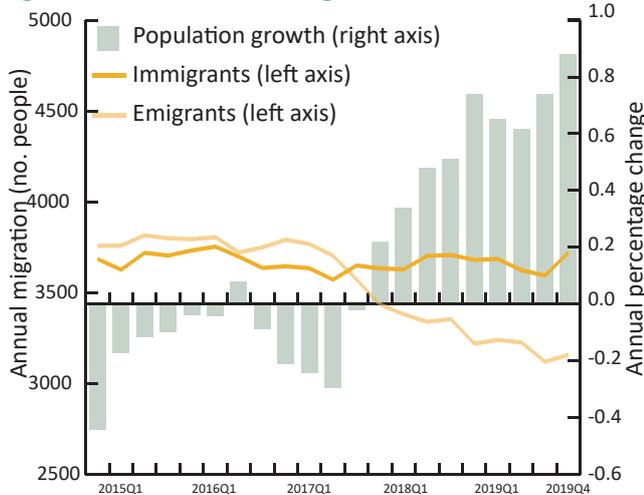


Figure 2.3.2 Population aged 16-64

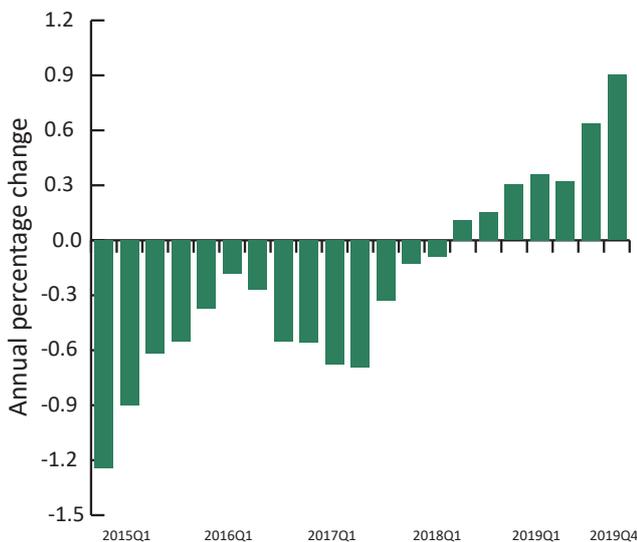
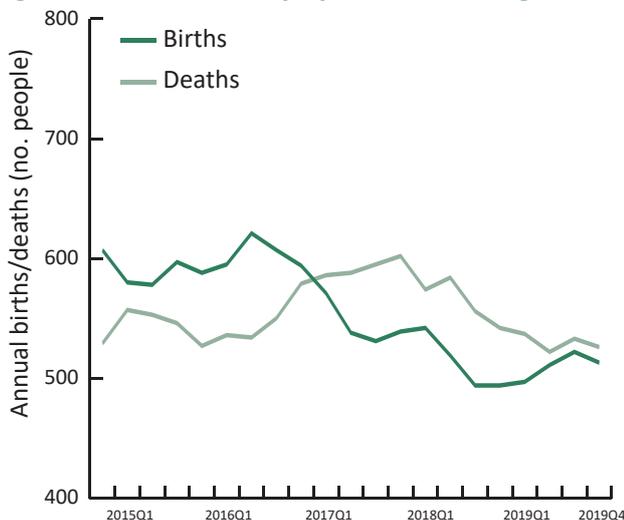


Figure 2.3.3 Natural population changes



2.3 Population

In December 2019 (the latest available data), population growth in Guernsey had accelerated (**figure 2.3.1**) with an increase in the population of 0.9% over the year. Allowing for seasonal variations the population is approximately equal to its previous peak (in 2011).

Net migration contributed an increase of 563 people to population growth, significantly higher than the assumed long term average level of +100 people per year. This suggests that economic conditions and the strength of the labour market in 2019 were able to attract additional workers and retain those already in the island. It should be noted that the acceleration of net immigration is primarily a result of falling levels of emigration and that the implementation of the Guernsey Population Management (2016) Law in April 2017, which enabled some people to remain in Guernsey for a longer period, may also be a contributing factor.

The increased level of net migration for the year ending December 2019 was sufficient to balance the impact of the ageing of the population on the size of the working age population (aged between compulsory school age (16) and current State pension age (65)) (**figure 2.3.2**). This has reversed, at least temporarily, the sustained contraction of the more economically active portion of the population. Growth in this portion of the population is a positive sign for the economy.

Over the same period there was a natural decrease of 13 people. This change represents the balance between births and deaths in Guernsey. The slightly elevated number of deaths seen between 2016 and 2018 has receded and deaths recorded in 2019 were closer to the expected level. The number of births in Guernsey continues to be low and, reflecting this persistent trend, the assumed long term average fertility rate has been revised down to 1.5.

2. Macroeconomic indicators

2.4 Workforce and earnings

The impact on employment has been one of the most visible effects of the global pandemic. Adjusting for seasonal changes, employment in Guernsey totalled 31,119 in June 2020, representing 4.5% fewer people than in June 2019 (**figure 2.4.1**).

Matching the fall in employment, registered unemployment levels peaked during the second quarter with the percentage of the workforce registered as wholly unemployed reaching 5.4% in May 2020 (**figure 2.4.2**). Unemployment levels have fallen sharply in the third quarter of 2020 and by the end of October 2020 had fallen to 1.8% (representing 540 people). While this is a substantial improvement, and would be considered very low in most jurisdictions, this is still higher than the 1.1% unemployment recorded at the same time in 2019.

Data is also captured on those people who work on a part-time or casual basis, who are available to work more hours, but whose earnings are such that they are still eligible to claim a “top-up” to their income from unemployment or income support benefits. This measure also peaked in the second quarter, before falling sharply in the third quarter.

This fall in unemployment during the third quarter, combined with the reported increase in remunerations (presented on **p10**), implies that it is likely that total employment levels have recovered in the third quarter. Employment data for the third quarter of 2020 will be published in January 2021.

At the end of June 2020, median earnings (seasonally adjusted) in Guernsey were £34,600, 1.0% less in real terms than at the same point the previous year (**figure 2.4.3**). This figure is not adjusted for the number of hours individuals might be working. There are likely to be several factors affecting this. The rates of payroll support offered were at a rate lower than median earnings and it is likely that this resulted in a temporary reduction in earnings for many employees. This, combined with a reduction in working hours and bonus payments during lockdown, has likely contributed to the fall in median earnings.

Figure 2.4.1 Total employment growth (seasonally adjusted)

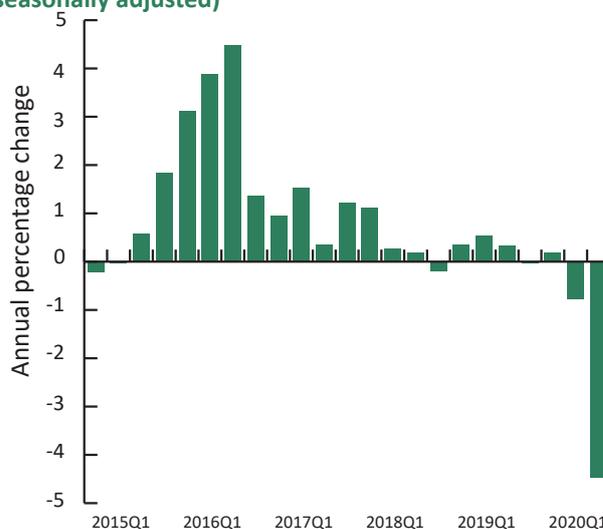


Figure 2.4.2 Registered unemployment

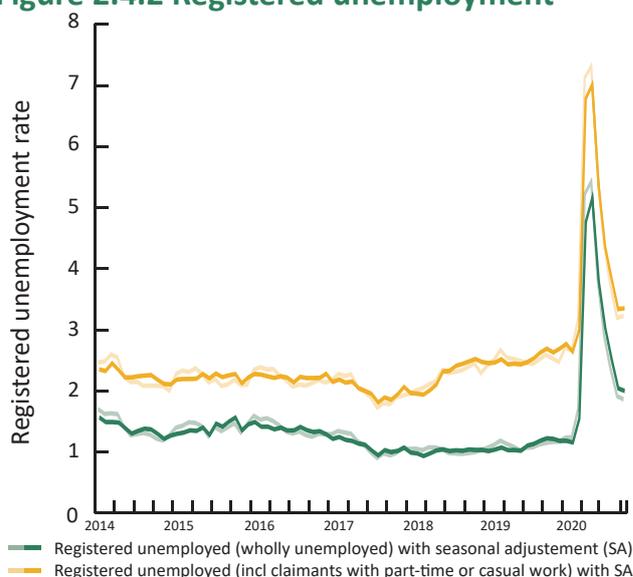
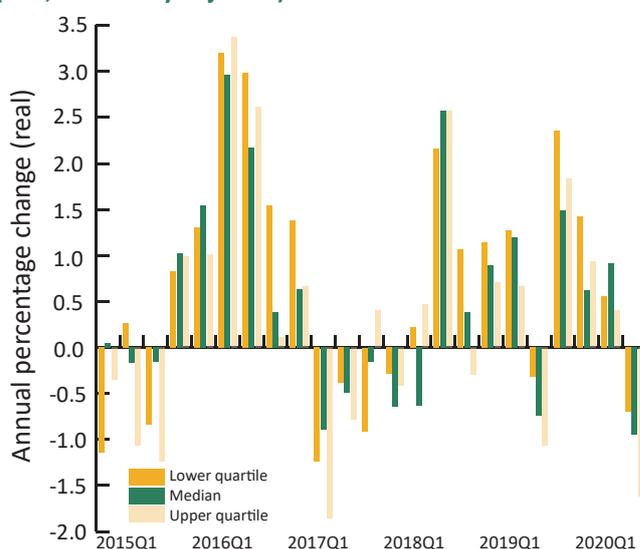


Figure 2.4.3 Median earnings growth (real, seasonally adjusted)



2. Macroeconomic indicators

Figure 2.4.4 Employment and earnings by sector (June 2020)

	Employment (seasonally adjusted)		Earnings (seasonally adjusted)	
	Total	Annual % change	Total (£000s)	Annual % change
Finance	5,982	-4.9	48.0	2.1
Public administration	5,429	-1.8	37.3	-9.1
Wholesale, retail and repairs	3,758	-5.7	23.8	-0.7
Professional, business, scientific and technical activities	2,835	-0.5	42.5	-12.2
Construction	2,783	1.5	34.0	-22.6
Human health, social and charitable work activities	1,994	-2.5	26.0	4.9
Administrative and support service activities	1,577	-8.6	29.2	-13.8
Hostelry	1,562	-24.1	21.1	-3.0
Transport and storage	1,101	-8.0	30.8	-9.9
Information and communication	872	8.9	40.5	-7.6
Manufacturing	664	0.8	28.6	0.2
Education	625	-1.9	29.6	3.4
Other service activities	464	-6.8	20.5	2.2
Agriculture, Horticulture, Fishing and Quarrying	438	7.1	30.8	4.9
Arts, entertainment and recreation	332	-14.3	26.1	3.3
Real estate activities	290	8.6	35.2	1.9
Electricity, gas, steam and air conditioning supply	279	-1.4	36.2	-2.7
Water supply, sewerage, waste management and remediation activities	127	5.1	30.8	-24.3
Activities of households as employers	79	-2.0	22.8	-6.8
Whole Economy	31,119	-4.5	34.6	-1.0

Analysis also suggests that, where jobs were lost in the second quarter, these were at the lower end of the income scale. This would have a tendency to increase the median earnings of those remaining in employment.

Figure 2.4.4 presents the employment and earnings by sector in June 2020, including the changes in each sector compared to a year earlier. Employment has contracted in 13 of the 19 economic sectors, and the contraction is largest in the Hostelry sector (-24.1%). Employment has expanded in a minority of sectors including Information and Communication (by 8.9%) and Real estate (by 8.6%).

The Finance sector continues to be both the largest employing sector in the local economy and the sector with the highest median earnings. However, the sector has experienced a 4.9% contraction in employment since June 2019.

Trends of earnings and employment by sector are discussed in more detail in **Section 3**.

2. Macroeconomic indicators

For the first time this bulletin includes details of gross remunerations declared to the Revenue Service as part of the routine submissions by employers made each quarter (primarily wages but including bonuses and redundancy and other payments made by employers). This data is available earlier than employment and earnings data, providing an opportunity to make provisional assessment of conditions in the labour market. In the context of Covid-19, this provides an early indication of the extent of recovery in the labour market once restrictions were released in the third quarter.

Total remunerations were 7.6% lower in real terms in the second quarter of 2020 than during the same period in 2019 (figures 2.4.5 and 2.4.6). If the value of remunerations supported directly by the payroll co-funding scheme are excluded the reduction in remunerations increases to 14.3%. Given that in many cases the employer continued to top-up their employees earnings in the absence of the payroll support scheme the impact on remunerations would have been larger.

The impact on remunerations reduced to 2.9% over the third quarter (4.2% if payroll co-funding is excluded). Combined with the reduction in unemployment this implies that employment (and potentially earnings) has partially recovered in the third quarter but remains below the 2019 level.

Details of total remuneration by sector have been added to the sector based analysis in Section 3.

Figures 2.4.7 and 2.4.8 provide details of business support paid up to 20 November 2020. Three formal schemes have been made available to businesses:

- Payroll co-funding, which supports employee wages up to a value of 80% or 100% of minimum wage. This scheme is now in its third phase and at each phase the eligibility criteria have been refined to reflect the prevailing conditions.
- Small business grant is a one off payment of £3,000 made available to self-employed persons and businesses with ten or fewer employees. This scheme is not attributable to specific

Figure 2.4.5 Total remunerations growth at constant prices, seasonally adjusted

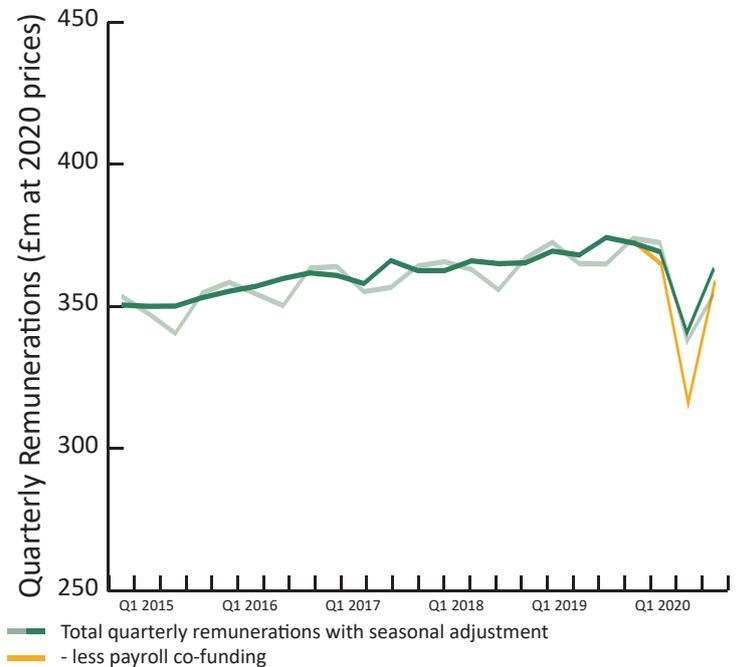
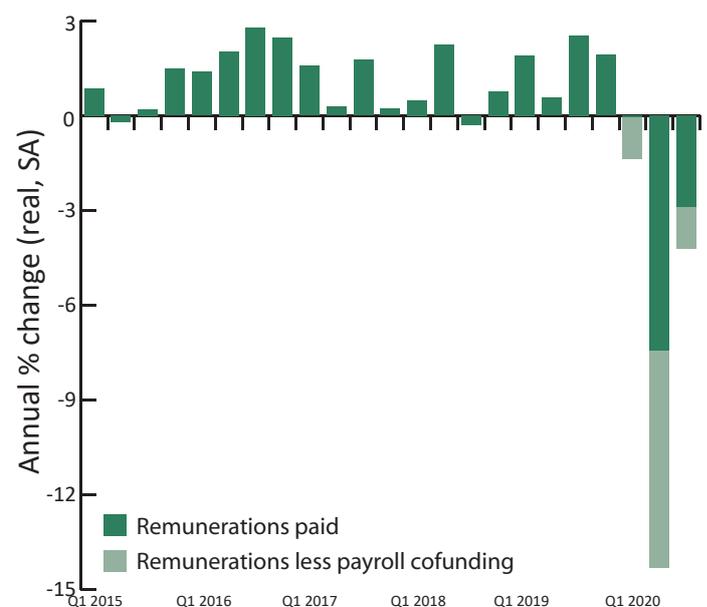


Figure 2.4.6 Total remunerations growth real, seasonally adjusted



2. Macroeconomic indicators

Figure 2.4.7 Payroll co-funding and accommodation grants provided by pay period

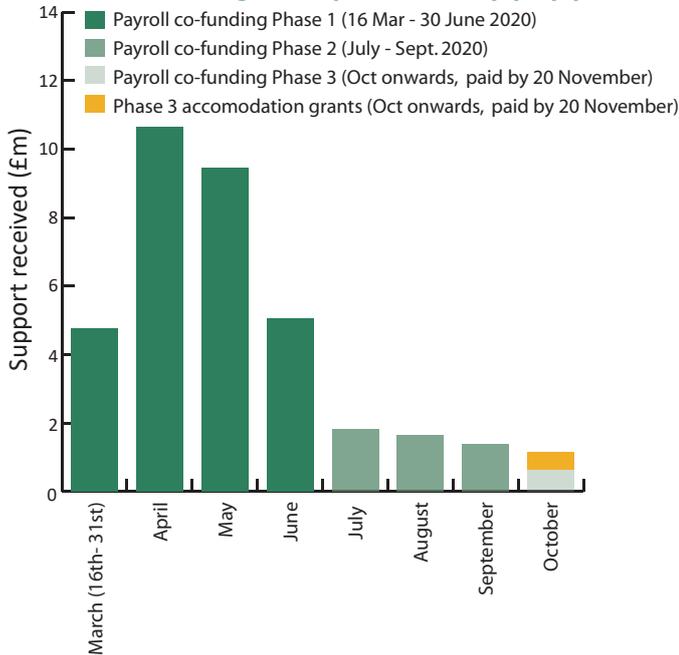
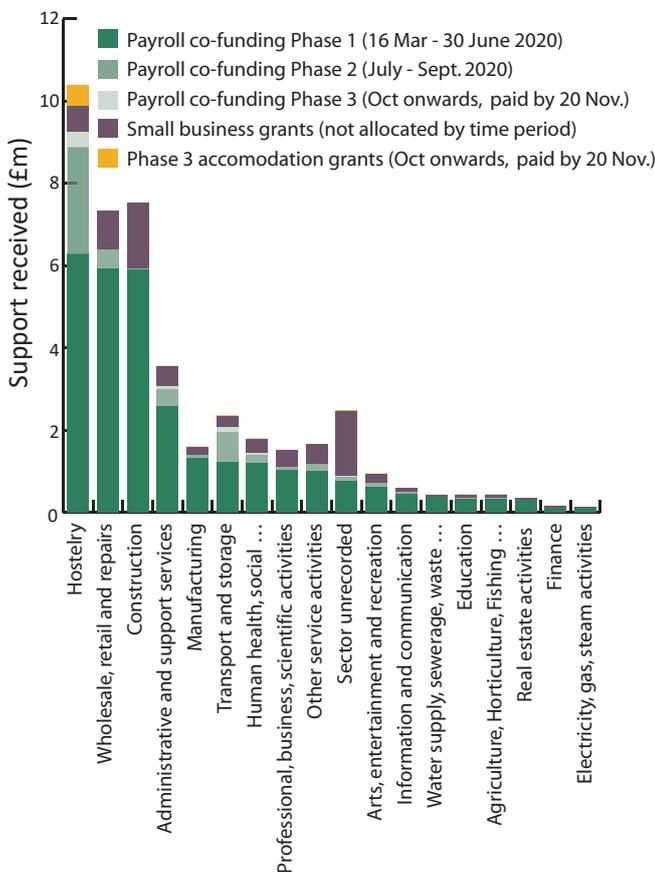


Figure 2.4.8 Business support received by sector



pay dates although the majority were paid out between March and June.

- Accommodation grants are to be paid specifically to hostelry accommodation providers between October 2020 and March 2021. The grant is paid on a monthly basis at an amount set based on the type of accommodation offered and the number of rooms. Providers are able to opt to receive payroll co-funding instead of the accommodation grant should they wish.

Up to the 20th November £43.7m had been paid to business under the formal schemes. The level of support reached a peak in April when £10.6m of support was made available (excluding small business grants which are not assigned to a specific time period). As restrictions on economic activity were released progressively more businesses have been able to operate without support. Payments made to support businesses in respect of October were only 13% of the amount paid in respect of April.

The Hostelry sector is the largest recipient of support, receiving 23.9% (£10.4m) of the support paid to date. This sector, which is the most impacted by the ongoing restriction on off-island travel, has been less able to operate without financial support than most other areas of the economy and between phase 3 payroll co-funding and the accommodation grant have received 78% of the support payable in respect of October.

Wholesale Retail and repairs and Construction sectors have each received 17% of the support paid, primarily in the form of phase 1 payroll co-funding. The support paid to both sectors significantly reduced in phase 2. The Construction sector is no longer eligible for support in phase 3 and only those retailers able to demonstrate a significant impact on trade resulting from the restriction on travel (for example if they are located at the harbour or airport) are still able to apply for financial support.

2. Macroeconomic indicators

2.5 Property market

The lockdown restrictions imposed in late March and April resulted in a significant reduction in property transactions in the second quarter (**figure 2.5.1**). However, as restrictions were lifted the property market made an unexpectedly strong recovery. The demand for both local and open market property has increased resulting in an increase in both transaction numbers and prices in the third quarter. Local market property prices for the third quarter were 7.7% higher than the previous year in real terms (although they remain 9.4% lower in real terms than their peak in 2014).

The strength of the property market recovery has impacted positively both on government revenue (in the form of document duty) and economic forecasts for 2020 and 2021.

The upward movement in prices has reversed the downward trend in the purchase price to earning ratio (**figure 2.5.2**) indicating that local market housing has become less affordable as a result of the surge in demand.

High levels of demand have also had the effect of reducing the amount of time properties spend on the market before a sale is completed and the differential between the price at which properties are first advertised for sale and their final sale value (**figure 2.5.3**).

Figure 2.5.1 Local property market
constant prices, seasonally adjusted

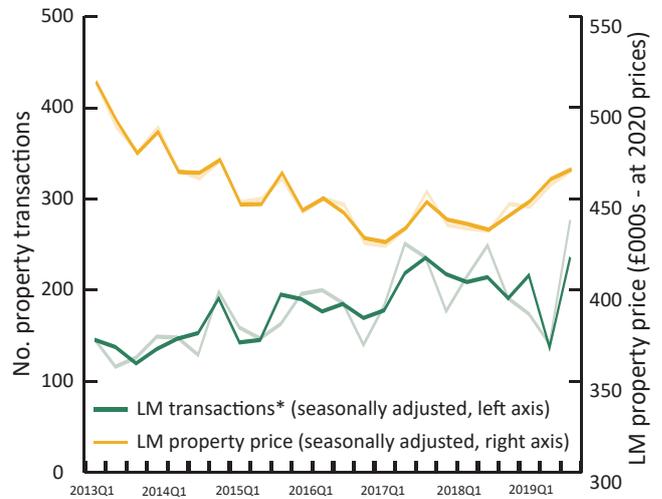
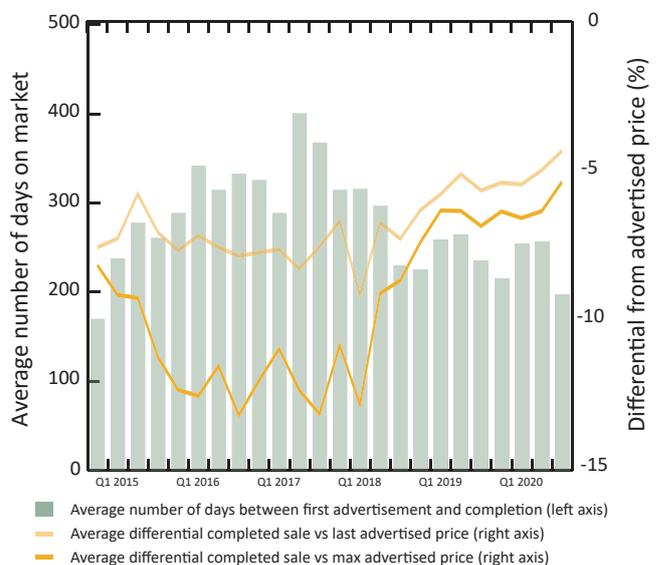


Figure 2.5.2 Local market purchase price to earnings ratio

	Purchase price to earnings ratio	Average loan to value
2013	15.2	76.8%
2014	15.2	77.5%
2015	14.2	78.5%
2016	13.3	76.7%
2017	13.2	80.6%
2018	12.6	81.8%
2019	12.6	82.5%
2020E	13.3	82.2%

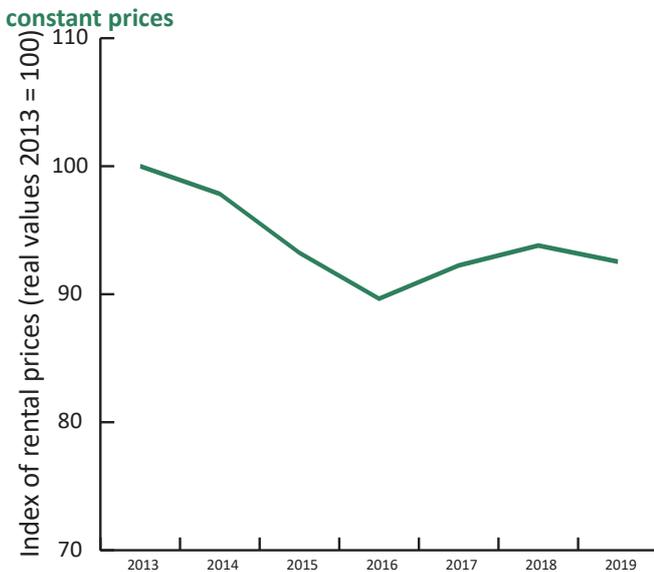
Figure 2.5.3 Local market discount rate and sale period



*Data on transaction numbers exclude transactions between family members, exchanges, repossessions and by share transfer

2. Macroeconomic indicators

Figure 2.5.4 Local market rental values



Data on local market rentals is collected from the web and classified adverts and published on an annual basis. Published indices are calculated on nominal prices but for the purpose of this report have been converted to express trends in real terms (i.e. adjusted for inflation).

Rental measures typically show similar trends to purchase prices. The rental index, which measures the mix adjusted average value of advertised rental properties, showed a decline in real terms between 2013 and 2016 (figure 2.5.4). Rents increased in real terms in 2017 and 2018 and stabilised in 2019. Estimates for 2020 were not available at the time of publication.

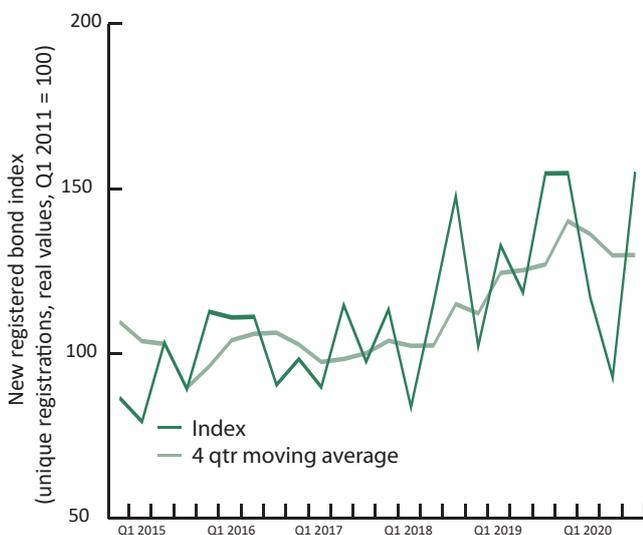
Figure 2.5.5 Local market rent to earnings ratio

	Annual rent to earnings ratio	Purchase price to annual rent ratio
2013	0.51	29.3
2014	0.50	30.2
2015	0.48	29.7
2016	0.45	29.3
2017	0.47	28.0
2018	0.47	26.6
2019	0.46	27.1

The cost of rental accommodation relative to median earnings has declined, indicating that accommodation has become more affordable (figure 2.5.5). However, like purchase prices, rental prices remain high relative to averages for England and Wales (comparable to the South East).

The purchase price to rent ratio, which is a broad measure of the level of return on investment for properties purchased for rental has also decreased.

Figure 2.6.1 Index of new bond registrations**



2.6 Mortgages and Borrowing

New bond registrations are closely correlated with the housing market and, as both the volume and value of transactions have increased, the index of new lending has trended upwards (figure 2.6.1). Allowing for the seasonality of the property market, this upward trend is particularly apparent in those loans identified as relating to a residential property transaction (figure 2.6.2).

** This series includes unique bond registrations only and duplicate registrations (where a bond is registered to multiple borrowers) are excluded. Bonds of exceptional size (greater than £10m) are also excluded to reduce volatility.

2. Macroeconomic indicators

About half of new bond registrations can be attributed to residential sales. Loans may be secured on property when owners choose to move or extend their mortgages or for commercial development or other investment. The removal of duty payable on the registration of new bonds in 2019, designed to reduce the frictional cost of moving debt between lenders, is expected to push these values upwards.

A review of the housing market commissioned by the States of Guernsey and published in 2017 raised concerns about the concentration of new lending activity among a very small number of lenders. The States have continued to monitor the concentration of new lending activity (**figure 2.6.3**). There are currently five principal lenders in Guernsey who together provide lending services for between 80% and 90% of mortgages registered each quarter. The mortgage market had become more competitive in 2019, however, since the exit from lockdown, a single lender had dominated the new mortgage market in the third quarter pushing the index towards a less competitive position.

The index of the estimated value of real aggregate domestic mortgage debt has increased during 2020 (**figure 2.6.4**). This implies that the level of new lending issued is greater than the downward movement from mortgage repayments and the erosion of the real value of existing debt by price inflation.

Figure 2.6.2 Value of new bond registrations attributable to residential sales**

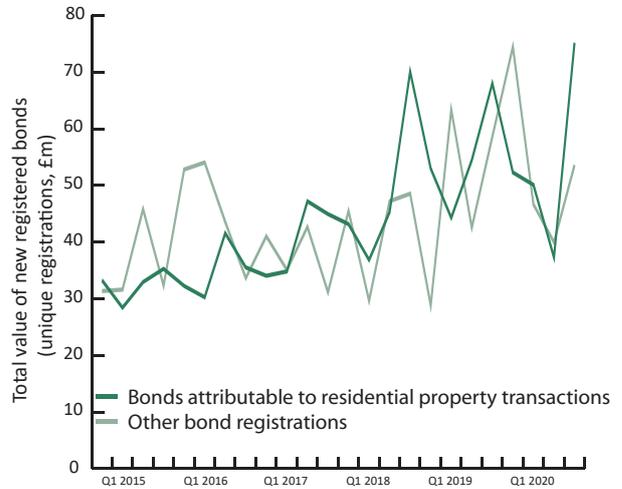


Figure 2.6.3 Market concentration index

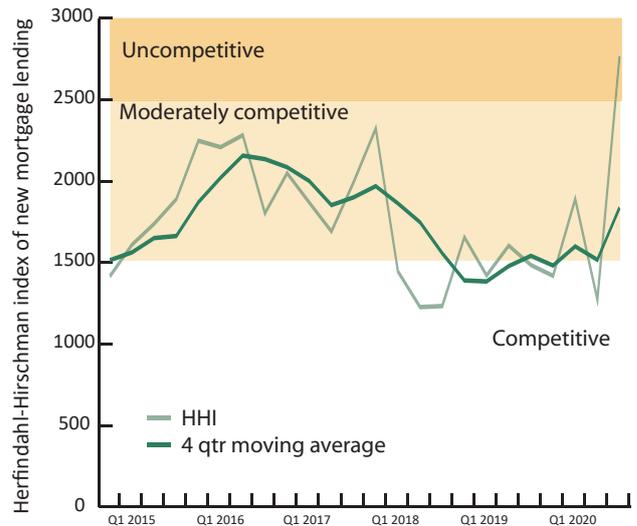
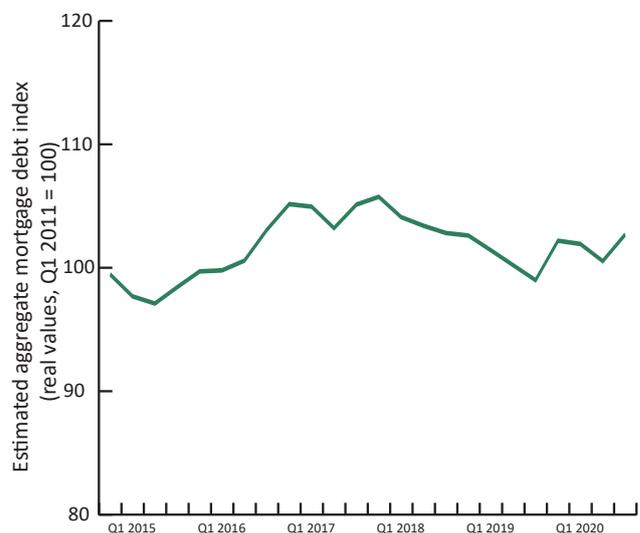


Figure 2.6.4 Aggregate residential mortgage debt index



** This series includes unique bond registrations only and duplicate registrations (where a bond is registered to multiple borrowers) are excluded. Bonds of exceptional size (greater than £10m) are also excluded to reduce volatility.

3. Business sector indicators

Figure 3.1.1 Finance: employment and earnings growth real, seasonally adjusted

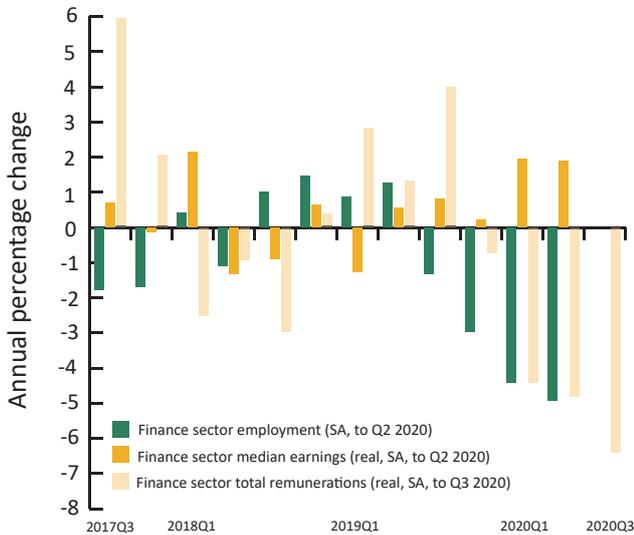


Figure 3.1.2 Finance: distribution of employment

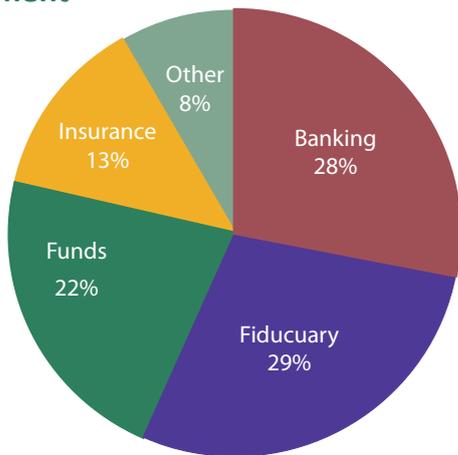
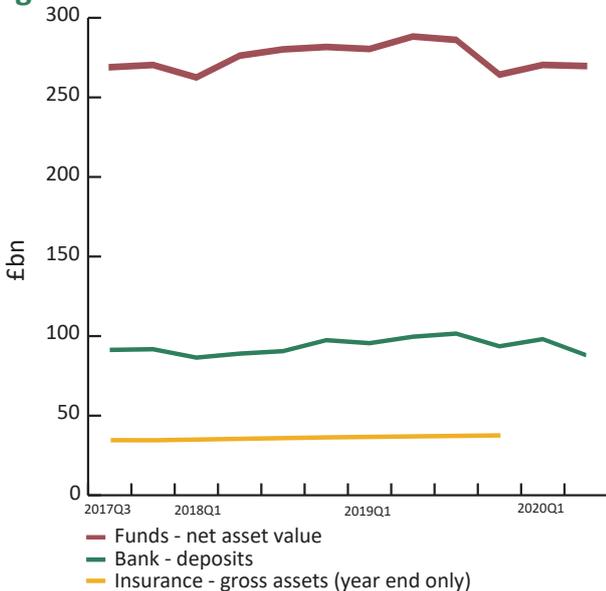


Figure 3.1.3 Finance: sub-sector asset values#



3.1 Financial services

Financial services (not including accountancy and legal services) is the largest sector in the Guernsey economy and comprises 19% of employment in Guernsey and 40% of GVA.

Employment in this sector has declined since the third quarter of 2019 and much of the 4.9% reduction in employment in this sector over the year ending June 2020 appears to have occurred before the onset of Covid-19 (figure 3.1.1). This contraction is largely focused within banking. The 1.9% real increase in median earnings over same period suggests that the loss of employment from this sector may be concentrated among lower paid positions.

Data on total remunerations for the third quarter suggests that, unlike the majority of economic sectors, conditions in the finance sector have not improved as lockdown restrictions have been released.

The Finance sector in Guernsey is typically classified into four key sub-sectors: banking, fiduciaries, funds and insurance. Banking is traditionally the largest of these sectors but the global contraction of banking activity and the local expansion of fiduciary, funds and insurance activity before the onset of Covid-19 means that these sectors, in terms of employment, have become closer in size. Banking activity in June 2020 accounted for 28% of employment in the sector, Fiduciaries comprised 29%, Funds comprised 22% and Insurance 13%. Other finance sector employment, which includes brokerage activity and money service providers, comprises 8% of employment.

Combined, the sector is engaged in the management and administration of a very significant amount of assets (figure 3.1.3) with the Funds sector managing or administering investments worth more than £269bn in June 2020. The underlying performance across the four primary sub-sectors differs and is covered in more detail in the following sections.

Data source: www.gfsc.gg

3. Business sector indicators

Figure 3.1.4 Banking sector liabilities and assets#

	No. Banks	Bank deposits (£bn)	Third party deposits (£bn)	Total deposits (£bn)	Total liabilities (£bn)	Loans to banks (£bn)	Other loans in Guernsey (£bn)	Other loans not in Guernsey (£bn)	Other Assets (£bn)	Total Assets (£bn)
Sept 18	23	48.5	42.1	90.6	120.7	83.0	3.3	8.8	25.5	120.7
Dec 18	23	55.8	41.7	97.4	119.7	80.9	3.5	9.4	25.9	119.7
Mar 19	23	55.5	40.1	95.6	115.7	76.6	3.6	9.7	25.8	115.7
Jun 19	23	59.2	40.4	99.6	121.5	80.0	3.9	10.2	27.4	121.5
Sept 19	22	60.8	40.8	101.6	122.7	79.4	4.0	10.4	28.8	122.7
Dec 19	22	58.4	35.2	93.6	113.4	79.5	4.0	10.4	19.5	113.4
Mar 20	22	59.0	39.1	98.1	119.6	84.5	4.0	10.7	20.4	119.6
June 20	22	50.2	37.8	88.0	110.5	75.3	4.0	10.0	21.3	110.5

Banking

Data published by the Guernsey Financial Services Commission (GFSC) shows the total nominal sterling value of Banking assets in Guernsey had decreased to £110bn in June 2020, largely as a result of reduced bank deposits (figure 3.1.3).

Figure 3.1.4 provides details of the composition of the liabilities and assets of the Guernsey banking sector. These values are reported in Sterling for aggregation, but they are held in multiple currencies including Euros and US dollars. As a result bank asset and liability values are sensitive to changes in exchange rates.

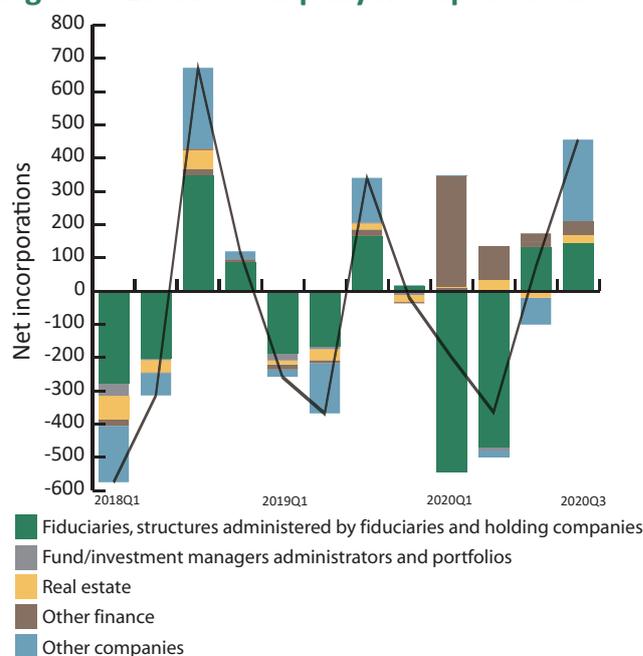
At the end of June 2020, 68% of banking assets in Guernsey were held in the form of interbank loans. This high proportion of interbank lending reflects the up-streaming model employed in many Guernsey institutions.

The small proportion of banking activity dedicated to other loans (i.e. not interbank loans) in Guernsey represents what might be considered to be domestic retail activity in Guernsey. This includes the majority of the estimated £2.1bn of residential mortgages currently secured on residential property in the island, as well as any domestic or commercial loans offered to local residents and businesses by registered banks. It also captures loans to Guernsey registered trusts. It does not capture domestic lending by financial service providers without a banking licence (such as credit brokers).

Figure 3.1.5 Fiduciary licences#

	Oct 18	Oct 19	Oct 20
Lead licences	150	150	146
Joint licences	570	557	532
Personal licences	43	41	42
Total	763	748	720

Figure 3.1.6 Net company incorporations



Data source: www.gfsc.gg

3. Business sector indicators

Fiduciaries

In October 2020, there were 720 authorised fiduciary licences in Guernsey (figure 3.1.5). This number includes 146 lead licences, 4 fewer than at the same time the previous year.

Fiduciaries in Guernsey offer a wide range of services to international clients, from private trust and wealth management to the provision of corporate services. A significant majority of company formations in Guernsey are operated by corporate service providers. Net changes in company registrations tend to be seasonal in nature with company incorporations and dissolutions following the financial year. As a result, there is usually a net increase in companies in the second and third quarters and a net decrease in the first and fourth quarters (figure 3.1.6). The introduction of alternative coding of companies has resulted in a shift in classifications in the fourth quarter of 2019 and the first quarter of 2020. There was a net increase in companies in the finance sector in both the second and third quarters of 2020 on a level comparable with previous years.

Funds

The net asset value of funds under management or administration in Guernsey has declined by £19bn (6.4%) over the year ending June 2020, bringing the total value of Guernsey and non-Guernsey funds managed or administered in Guernsey to £269bn.

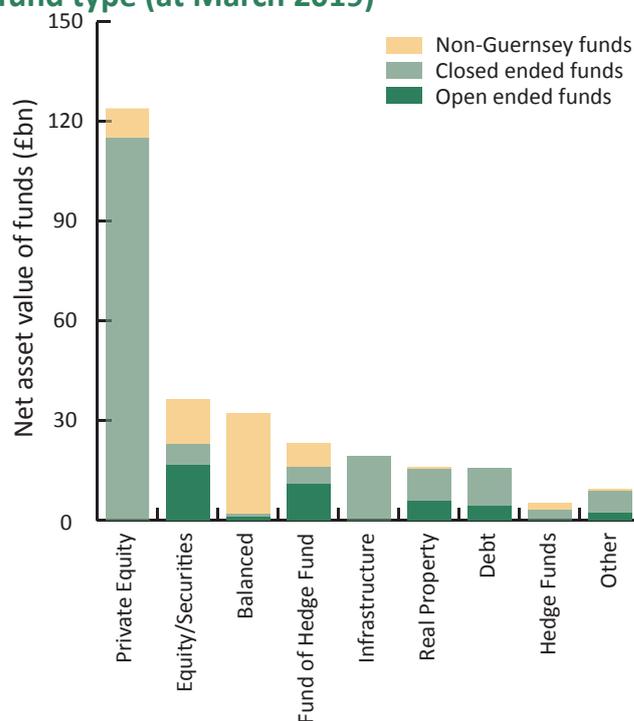
Closed ended funds comprise the majority of fund activity in Guernsey (figure 3.1.7) and represent the largest growth area in the sub-sector. Most closed ended schemes regulated in Guernsey are private equity funds and these form the core of regulated investment activity in Guernsey (figure 3.1.8). While the total net asset value of these schemes has reduced by 0.4% over the year the number of schemes administered has increased by 4.8%.

Open ended fund activity has been in decline for some time and the number of open ended funds registered in Guernsey continues to decline. However the net asset value of these funds (expressed in Sterling) has increased over the past year. Open ended funds in Guernsey operate primarily as equity and securities funds or funds of hedge funds.

Figure 3.1.7 Fund statistics#

	No. funds			Net asset value (£bn)		
	Dec 18	Dec 19	Jun 20	Dec 18	Dec 19	Jun 20
Open ended schemes	148	140	136	42.5	46.3	47.8
Closed ended schemes	655	679	697	176.4	181.3	179.0
Guernsey Green Funds	na	5	7	na	2.7	3.3

Figure 3.1.8 Value of investment activities by fund type (at March 2019)#



The Guernsey Financial Services Commission launched the “Guernsey Green Fund” in July 2018, creating the first regulated green investment product in the world. The purpose of the accreditation is to provide certainty to investors that accredited schemes meet strict eligibility criteria of green investing. Seven funds have been accredited with a net asset value of £3.3bn.

Non-Guernsey funds are funds incorporated in other jurisdictions but with some aspect of management, administration or custody undertaken by local fund administrators. These are predominantly open ended balanced funds and equity funds. Funds in this category had a total value of £39bn in June 2020.

Data source: www.gfsc.gg

3. Business sector indicators

Insurance

The total gross values of assets managed by the insurance sector stood at £31.4bn at the end of 2019, an increase of £1.2bn compared to 2018. The sub sector also generated £5.0bn of premiums during 2019.

During 2019 Guernsey the number of authorised managers in Guernsey reduced by one and the number of intermediaries by 6 (figure 3.1.4). The number of vehicles under management decreased over 2019 (figure 3.1.10).

Captive insurance continues to be the dominant activity in the international insurance market, despite a decrease in the number of companies operating in this area.

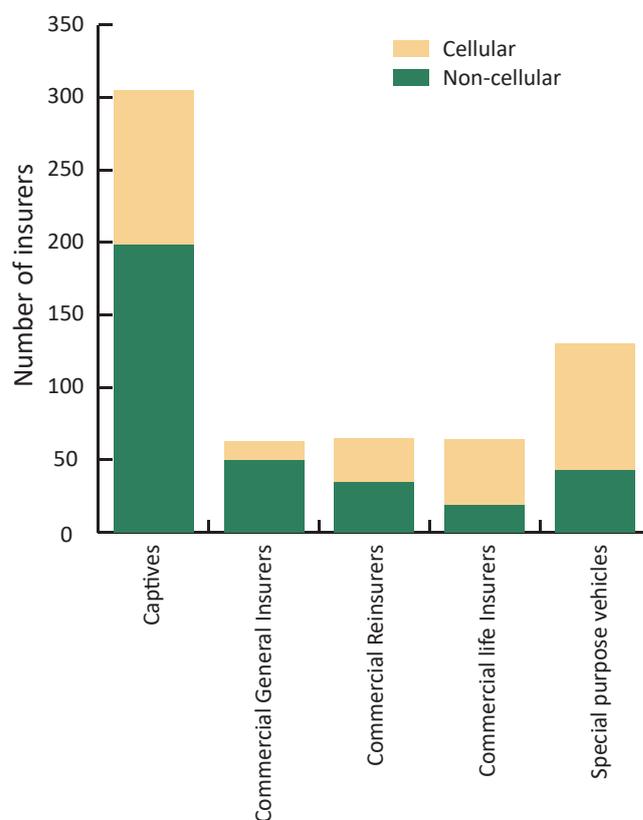
Figure 3.1.9 Insurance managers, intermediaries and domestic insurers#

	Dec 18	Additions	Surrenders	Dec 19
Authorised managers	21	0	1	20
Insurance intermediaries	34	2	8	28
Domestic insurers	8	0	1	7

Figure 3.1.10 Insurance vehicles#

	Dec 18	Additions	Surrenders	Dec 19
Companies	230	6	15	221
PCCs	56	4	2	58
PCC Cells	290	0	15	281
ICCs	17	0	2	15
ICC Cells	56	2	6	52
Total	649	18	40	627

Figure 3.1.11 Number of insurers by type#



Data source: www.gfsc.gg

3. Business sector indicators

Figure 3.2.1 Professional and business services: employment and earnings growth real, seasonally adjusted

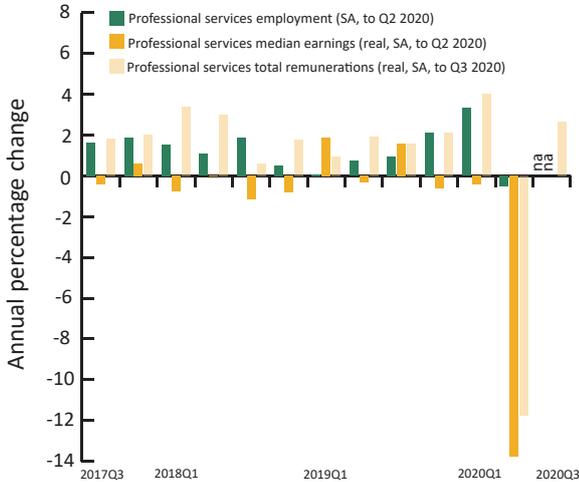


Figure 3.2.2 Information and communications services: employment and earnings growth real, seasonally adjusted

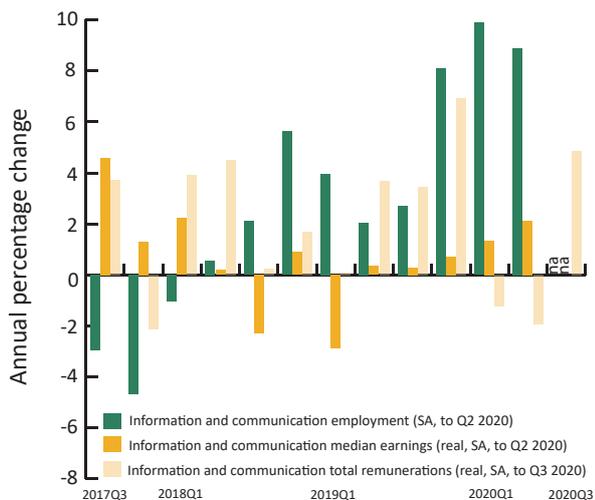
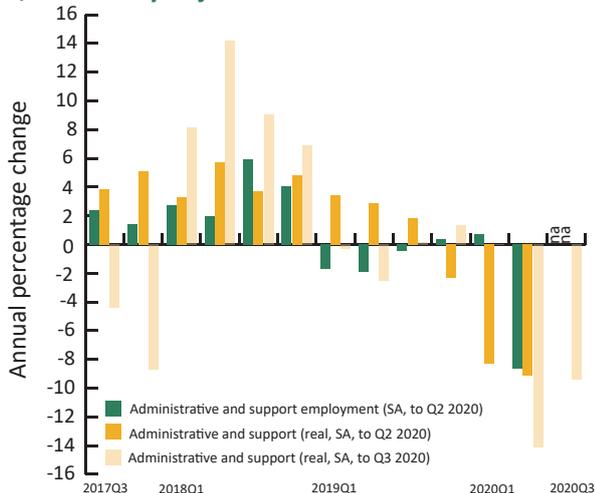


Figure 3.2.3 Administration and support services: employment and earnings growth real, seasonally adjusted



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 17% of the labour market in Guernsey.

Professional, business, scientific and technical activities

This sector is among the largest employers of graduates. This sector saw a small year on year decline in employment in the second quarter of 2020 and a significant decline in median earnings in real terms (figure 3.2.1). This is likely because despite the minimal number of job losses in this sector a significant number of employees were supported by business support measures at a rate of pay significantly less than their normal salary. The real year on year increase in total remunerations in the third quarter suggest that overall this sector has recovered well since restrictions have been lifted.

Information and communications

The increase in employment in this sector during 2019 and early 2020 in part reflects the transfer of employees from the States of Guernsey to Agilisys, thier partner in the delivery of digital services inducing an expansion of the sector. This is one of the few sectors to show a year on year increase in both employment and median earnings during the second quarter of 2020 (figure 3.2.2). This expansion began in late 2019 and has been maintained through the first two quarters of 2020. This may reflect the extent to which services were required to make rapid adjustments to a greater degree of home working. Total remunerations for the third quarter show strong real growth suggesting that the sector continues to experience a high level of activity.

Administrative and support service activities

Employment and earnings in this sector (which includes human resources support, cleaning and security activities) declined significantly in the second quarter of 2020 (figure 3.2.3). Remunerations for the third quarter, while still significantly down on the previous year, have improved suggesting some level of recovery has been achieved.

3. Business sector indicators

3.3 Construction and Wholesale, retail and repairs

These two sectors comprise much of the domestic economy and comprise about 21% of total employment. They also employ a significant proportion of those who leave school before the age of 18.

Construction

The Construction sector showed a significant loss of total remunerations in the second quarter reflecting the period during which building work was impaired by lockdown restrictions (**figure 3.3.1**). However, the year on year increase in employment in the sector by the end of June suggests that recovery in this sector was well underway by the end of the second quarter. A real increase in remuneration in the third quarter compared to the previous year suggests that this recovery has continued.

Wholesale, retail and repairs

Wholesale, retail and repairs showed a significant reduction in both employment and median earnings in the second quarter (**figure 3.3.3**). Total remunerations data for the third quarter show some improvement but remain significantly lower than at the same time the previous year suggesting recovery is incomplete.

Figure 3.3.1 Construction: employment and earnings growth real, seasonally adjusted

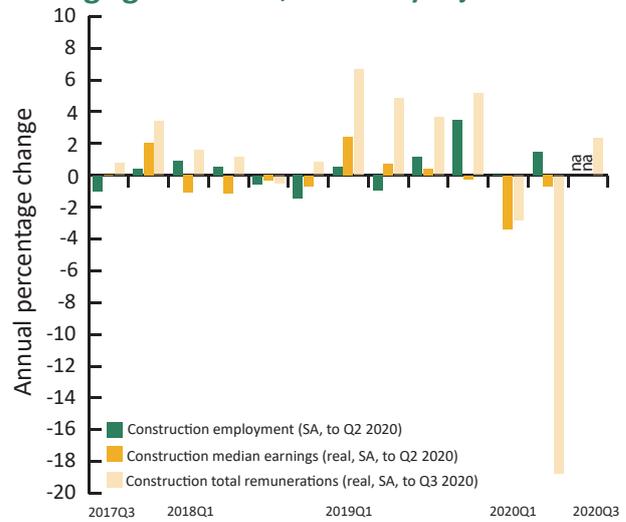
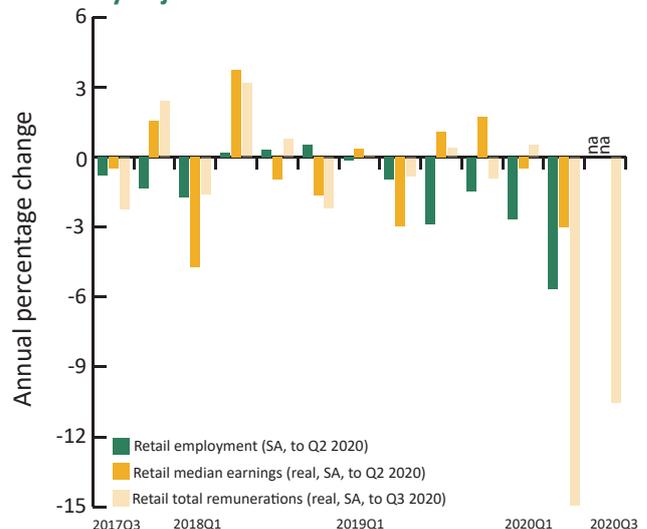


Figure 3.3.2: Net change in residential property units

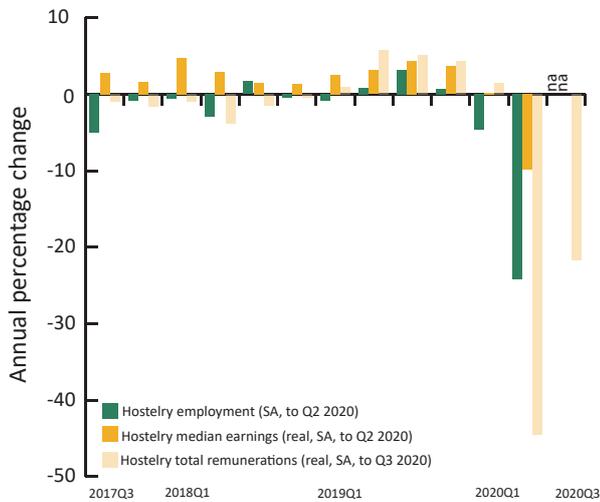
Net change in domestic unit	
2013	+171
2014	+296
2015	+144
2016	+43
2017	+90
2018	+229
2019	+110

Figure 3.3.3 Wholesale retail and repairs: employment and earnings growth real, seasonally adjusted



3. Business sector indicators

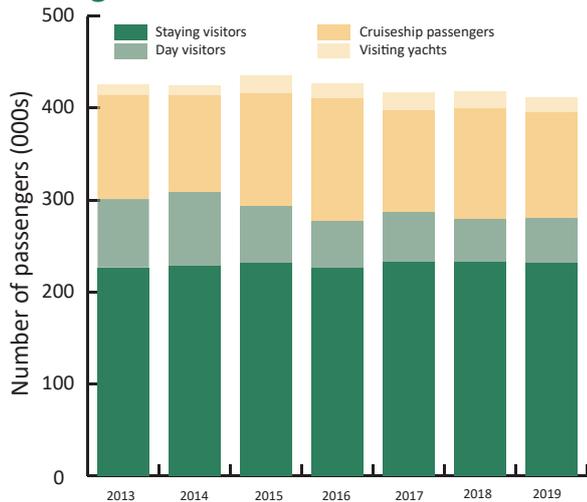
Figure 3.4.1 Hostelery: employment and earnings growth real, seasonally adjusted



3.4 Hostelery and visitor movements

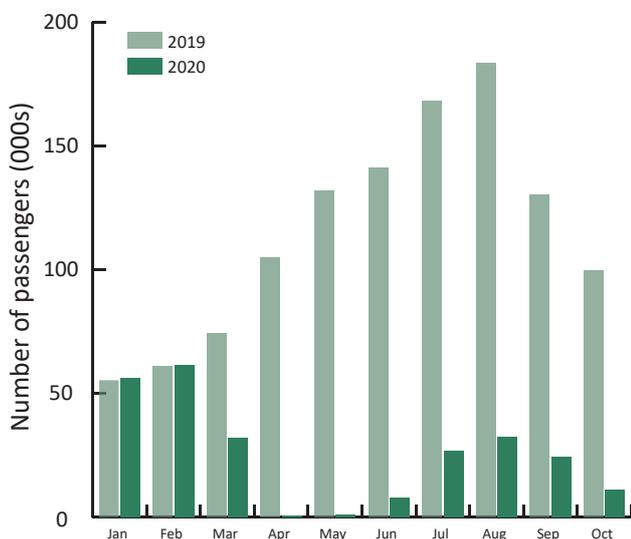
Employment in hostelery showed the most significant reduction in the second quarter of 2020 reflecting the dependence of the sector on the movement of people into the island (figure 3.4.1). It is estimated that the payments made by the payroll co-funding scheme represent more than 95% of the remunerations paid in this sector in the second quarter. Remunerations data for the third quarter suggests that conditions have improved but that the sector remains under a considerable degree of stress.

Figure 3.4.2 Visitor departures and cruise passengers



Figures 3.4.2 and 3.4.3 show the number of visitors to Guernsey each year up to 2019 and a comparison, month by month of passenger movements in 2019 and 2020. The data suggests that there has been almost a complete loss of visitor activity from March 2020, with the number of arrivals to Guernsey between April and October representing only a small fraction of the number of arriving during the equivalent period in 2019. Given the nature of restrictions the majority of these movements are likely to represent local residents returning to Guernsey. This situation is likely to continue as long as incoming arrivals to Guernsey are subject to significant quarantine requirements, which make it impractical to visit Guernsey for short periods.

Figure 3.4. Air and sea passengers by month



Because of the restrictions on contact with people in transit through the airport and harbours the visitor survey which is used to capture official visitor numbers for the year was not undertaken in 2020. There will therefore be no official count of visitor numbers for the year.

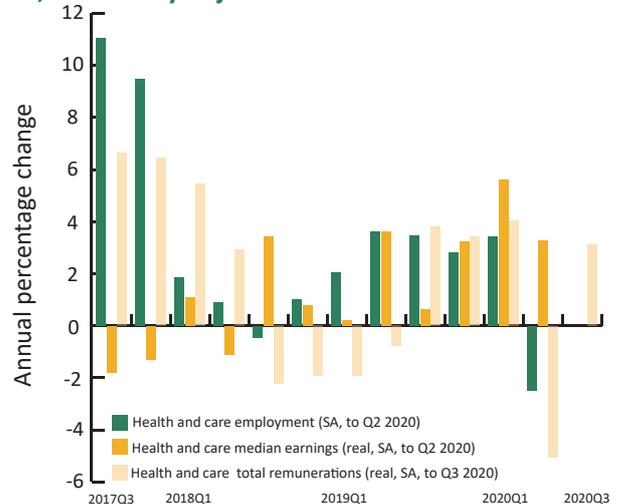
3. Business sector indicators

3.5 Private health and social care and charitable activities

This sector covers the private provision of health and social care services, including private residential and nursing homes and all charities (public sector health workers are captured under public administration). 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 increase.

Employment in this sector was negatively impacted by Covid-19 in the second quarter, likely in areas such as nonessential private health and medical services which were under restrictions between March and June (figure 3.5.1). Total remunerations data for the third quarter suggests that recovery in this sector has been strong.

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



4. Explanation of key terms

Gross Value Added (GVA) and Gross Domestic Product (GDP) are measures of the size of the economy. GVA represents the output of economic sectors (such as wages paid to employees), plus the output of households (primarily in the form of the value of property that people own). GDP is calculated by adding taxes on products (such as passenger duties) and subtracting subsidies on productions, which in 2020 includes business support measures. In normal circumstances the growth of the two measures is closely aligned but the scale of business support paid in 2020 means that the two measures have diverged.

Median, lower and upper quartiles are terms used to describe statistics and in this bulletin are used to describe earnings. If everyone was listed in order of their earnings from lowest to highest, the median would be the earnings of the person in the middle of the list. The lower quartile would be the earnings of the person 25% of the way down the list and the upper quartile the earnings of the person 75% of the way down the list.

Nominal terms/ current prices are terms used to describe monetary series that are presented *without* making any adjustment for inflation. “At current prices” is the term used to describe the data series expressed in monetary terms, “nominal terms” is the term usually used to describe the data when it is presented as changes.

Real terms/ constant prices are terms are used to describe monetary series that are presented *with* adjustments for inflation. These adjustments serve to reflect the fact that the amount you can buy with a given amount of money tends to reduce over time so it had greater value in the past than it does now. “At constant prices” or “at 2019 prices” are the terms used to describe the data series expressed in monetary terms, “real terms” is the term usually used to describe the data when it is presented as changes.

Seasonal Adjustment is a standardised statistical procedure to smooth seasonal variations from data like employment numbers which can show significant variation depending on the time of year. This makes it easier to make consistent comparisons over time.

4. Developments in economic data

The primary source of data presented in this overview is provided by the States of Guernsey Data and Analysis Unit. The team are engaged in a programme of continuous improvement to ensure national statistics are as timely and accurate as possible and meet user demands.

Current development plans include the launch of a business census, which will enable further improvement of measures of GVA, productivity and earnings. The States of Guernsey approved the legislation required to commence the census in 2019. The intention is to begin the census in 2021 in order to inform the production of GVA estimates for 2020.

Routine updates to inflation measures to reflect changes in spending patterns are underway and due to be fully implemented in early 2021. This work will also include a review of the inflation measures used in Guernsey and consider whether the range of measures should be extended further.

For more information please contact dataandanalysis@gov.gg.

5. Contact details and other information

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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 marked with # are published by the Guernsey Financial Services Commission and available at www.gfsc.gg.

