

Guernsey Economic and Financial Stability Overview

Issue date: January 2022

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 restrictions 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 2020 show a contraction of 2% compared to 2019. Forecasts for 2021 indicate the economy should recover in real terms to approximately the same size it was in 2019.
- Inflation, as measured by RPIX, has increased to 3.4% and is forecast to increase further by the end of the year, driven by increases in housing costs and issues with global supply chains.
- Net migration has been significantly distorted by the pandemic, and the normal seasonal trends have been disrupted. For the year ending December 2020 net immigration totalled 449 people, resulting in an increase in the population by 0.6%. This is well above the ten year average rate of net migration.
- Adjusting for seasonal changes, employment in Guernsey totalled 31,132 in June 2021, a recovery of 3.0% compared to June 2020, but still 1.5% (481 people) less than in June 2019. Median earnings also increased by 3.8% over the same twelve month period.
- Up to 26th November 2021, approximately £68m had been paid to businesses since March 2020. 29% of the support paid to date has been received by the Hospitality sector.
- The local housing market has been exceptionally strong through 2020 and 2021. High levels of demand have resulted in a 15% real increase in local market purchase prices and a 7% real increase in rental prices over the year ending September 2021. This has resulted in housing in Guernsey becoming less affordable relative to earnings.
- The Finance sector is showing mixed conditions. Employment in Banking continues a downward trend, but this is balanced by a surge in Funds and Investment activity in late 2020 and the first half of 2021.
- Most sectors have shown a good recovery from the initial impact of the Covid-19 pandemic. In sectors connected closely to the housing market, such as the construction sector, there has been an expansion beyond 2019 levels in terms of employment and remunerations. However, in sectors more sensitive to the reduced level of travel taking place, activity remains well below that recorded in 2019.

2. Macroeconomic indicators

Figure 2.1.1 GVA and GDP with forecasts, constant prices

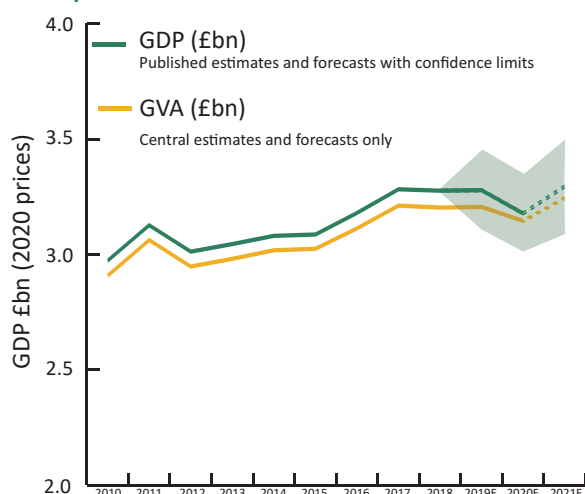


Figure 2.1.2 GVA and GDP real growth, central estimates and forecasts, real

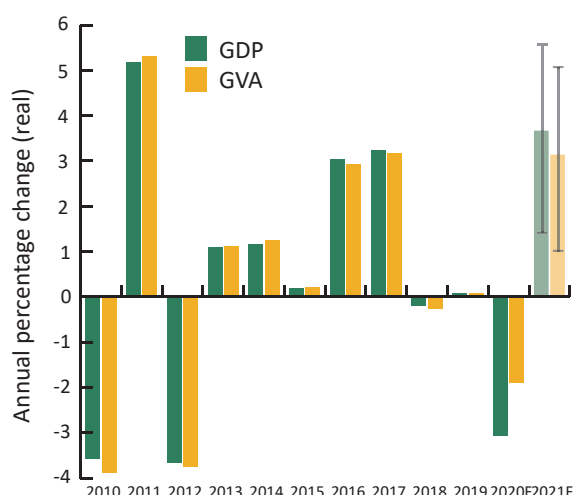
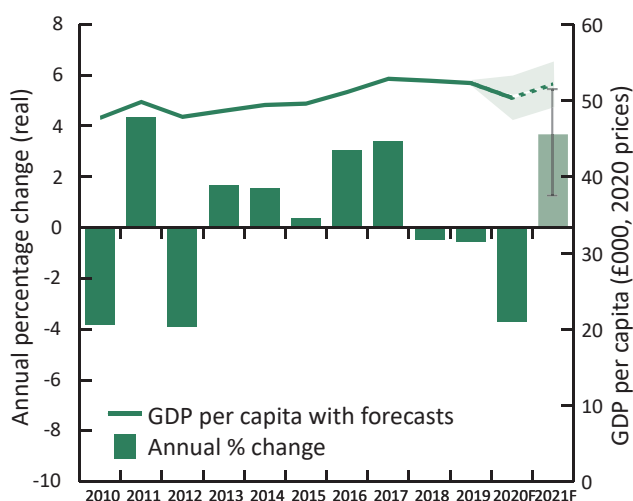


Figure 2.1.3 GDP per capita, central estimates and forecasts, real



2.1 Gross Value Added (and 2021 forecasts)

First estimates of GDP and GVA for 2020 show a contraction of 3% and 2% respectively (**Figures 2.1.1 and 2.1.2**). This is significantly better than was forecast at the outset of the pandemic as Guernsey's economy has recovered much faster than first anticipated. The contraction of the Guernsey economy in 2020 is smaller than that reported in Jersey (9.2%)¹ or in the UK (9.9%)².

The current central forecast for 2021 is that the GDP will return to approximately the same size it was in 2019 - £3.3bn. This forecast reflects a strong recovery in most areas of the economy and a strong housing market. However, while Guernsey's economic recovery has been faster and more complete than initially anticipated, there are some areas where the economy continues to be negatively impacted by the continuing measures in place to limit the spread of Covid-19. With these likely to remain in place well into 2022 there is likely to be a continued negative impact into 2022. However, comparisons between the first and second lockdowns suggest that the community and the economy have adapted well and the impact of these measure has reduced. The reduction in off-island travel, and the spending retained in Guernsey as a result, has benefitted the economy and should continue to offset some of the negative effects.

Ongoing supply challenges, caused both by continuing disruption to global supply chains and the additional supply friction resulting from the new customs arrangements between the UK and the EU also pose a downside risk to growth in 2021 and 2022. These are most likely to manifest as higher levels of inflation. The Bailiwick is also experiencing labour supply issues with many sectors reporting high levels of vacancies which may limit growth for the coming year.

Figure 2.1.3 presents the amount of GDP output produced per person in Guernsey. Like headline measures of GDP and GVA, this contracted in 2020 and is forecast to return to its 2019 level in 2021.

Figures 2.1.4 and 2.1.5 illustrate the composition of

¹ <https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20GVA%20and%20GDP%202020%2020211001%20SJ.pdf>

² <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/september2021>

2. Macroeconomic indicators

GDP in Guernsey. Compensation of employees is the largest component, representing 45.2%. 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. First estimates for 2020 show the negative contribution of compensation of employees to GDP (0.5 percentage points) was less than the negative contribution from gross operating surplus (1.4 percentage points). This is because the primary aim of the business support schemes 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.

Based on the employee tax receipts received to date, compensation of employees is expected to make a strong contribution to growth in 2021 and may exceed 2019 in real terms.

Gross operating surplus (broadly interpreted as company profits) represented 40.0% of GDP in 2020 and is the most volatile component of GDP. This element typically drives the larger changes in GDP and made the largest contribution to the 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.

Taxes on production less subsidies on production includes a negative adjustment to GDP to exclude business support payments made during 2020 and 2021. This made a downward contribution to GDP in 2020. However, because the forecast cost of these measures is less in 2021 than in 2020, will make a positive contribution in 2021.

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. 2020 estimates show the sector contracted by 1.6% in real terms. This contraction, some of which pre-dates the outbreak of Covid-19, contributes 0.6 percentage

Figure 2.1.4 Components of GDP (2020)

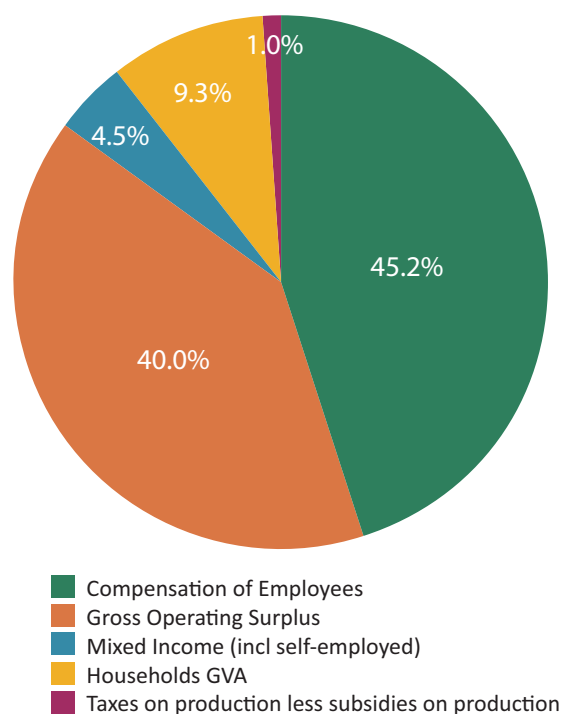
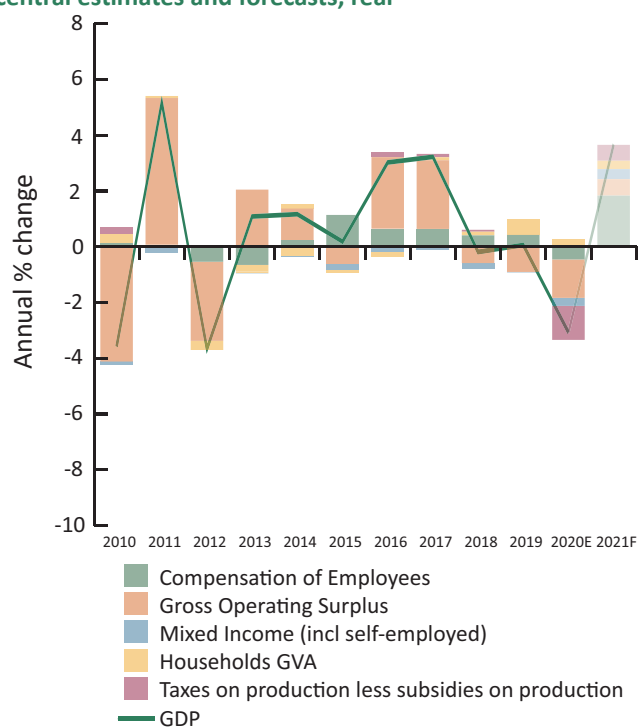


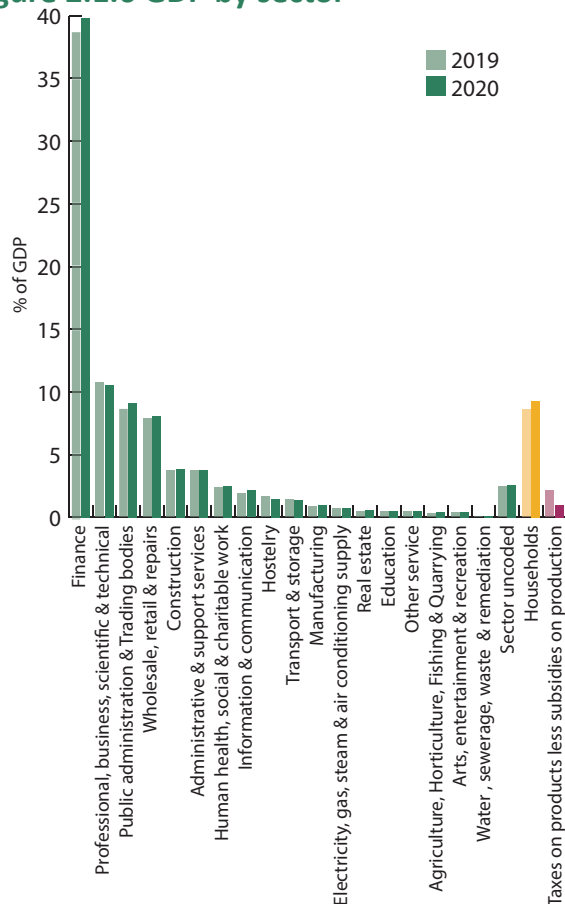
Figure 2.1.5 Contribution of output types to annual growth in GDP

central estimates and forecasts, real



2. Macroeconomic indicators

Figure 2.1.6 GDP by sector



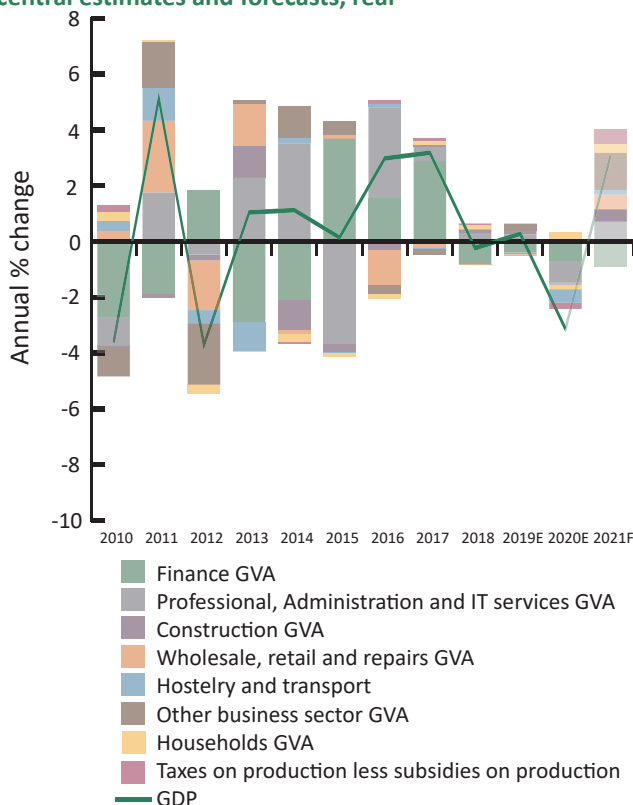
points to the forecast contraction of GDP in 2020. This contraction is focused in banking activity, continuing a general downward trend in the level of activity in this sub-sector over the last decade. This is balanced by a continuing expansion in output from funds and investments.

Most other sectors contracted in 2020, with the largest contraction occurring in the Hostelry sector (20%), which suffered the largest loss of activity from the limitations placed on travel and is among the most sensitive to restrictions on public gatherings. However, the small size of the sector means that its overall contribution to the contraction of GDP in 2020 is smaller than other, larger sectors.

Information and communication; Real estate; Public Administration (which captures all activity by the States of Guernsey); and Households all made a positive contribution to annual growth in 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](#)).

Figure 2.1.7 Contribution of economic sectors to annual growth in GDP

central estimates and forecasts, real



Based on the improvement in total remunerations during 2021 to date, the output of most sectors during 2021 is expected to recover to at least the level reported in 2019 and, where activity is closely related to activity in the housing market, to show a healthy level of real growth. However, travel data suggests that passenger numbers remain significantly below the pre-pandemic norm and appear likely to remain so for some time yet, 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, has increased over the last two quarters (**Figure 2.2.1**). The annual change in RPIX was 3.4% in September 2021 compared to 2.0% a year earlier. Equivalent measures in the UK and Jersey have also increased.

The upward price pressure from services has receded and the primary driver of inflation in Guernsey is currently from housing (**Figure 2.2.2**). Upward pressure on inflation from food and most categories of goods has increased, while the upward pressure from services was less in the third quarter of 2021 than it has been for some time.

Looking forwards, central forecasts suggest that RPIX will increase further in the last quarter of 2021 and that it may reach 4% or higher (**Figure 2.2.3**). Increases in fuel costs are expected to become more evident in the last quarter of 2021 and the upward pressure on housing costs is expected to continue. Forecasts of inflation for the UK follows a similar path and the Bank of England have taken steps to try to reduce inflation.

Forecasts suggest that inflation could begin to fall to more typical levels in mid 2022, if the increase in interest rates is successful at slowing the increase in prices in the UK which feeds the majority of Guernsey's supply lines. However, higher levels of inflation could persist if the disruption to global supply chains is not resolved and the measures by the Bank of England are not sufficient to counter this.

Figure 2.2.1 RPIX in Guernsey, Jersey and UK

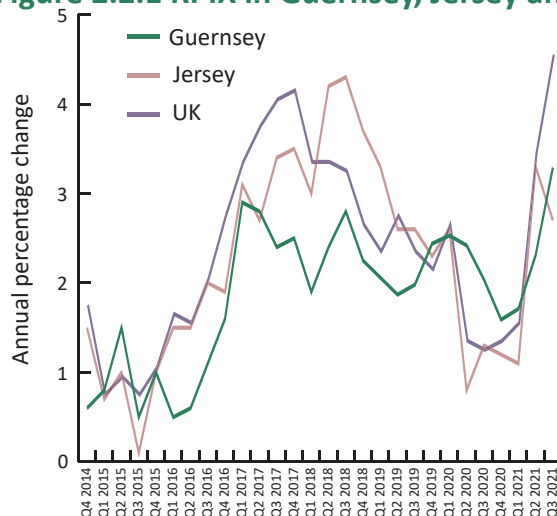


Figure 2.2.2 Contribution to annual change in RPIX

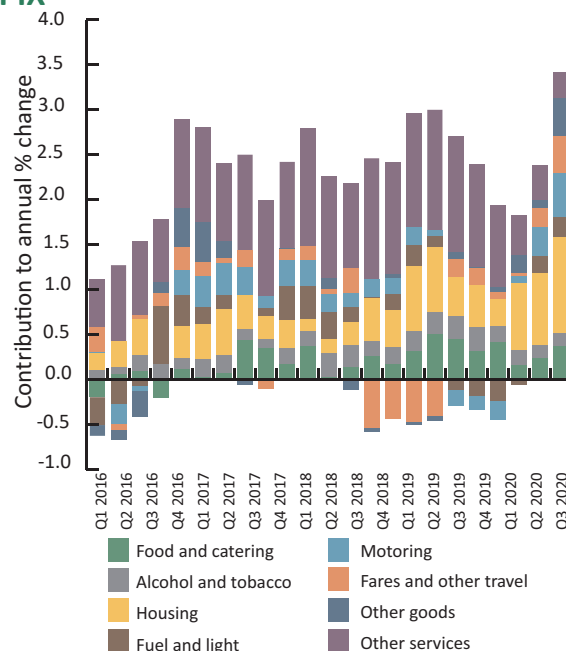
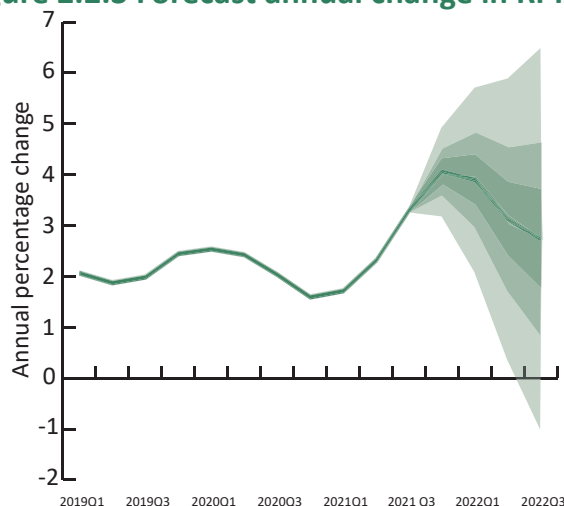


Figure 2.2.3 Forecast annual change in RPIX



2. Macroeconomic indicators

Figure 2.3.1 Population growth

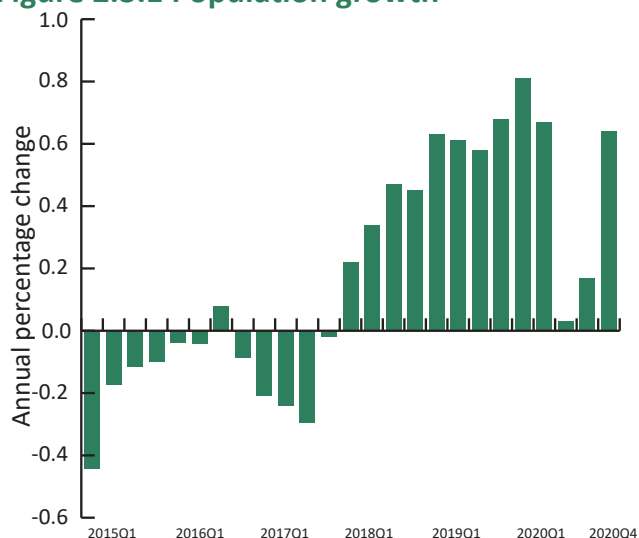


Figure 2.3.2 Source of population changes

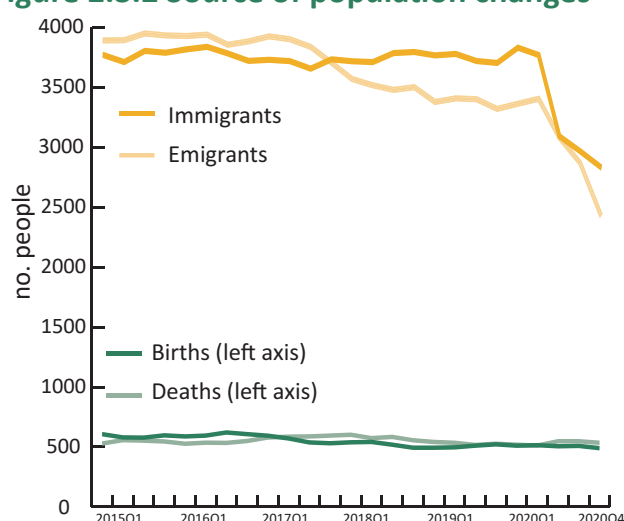
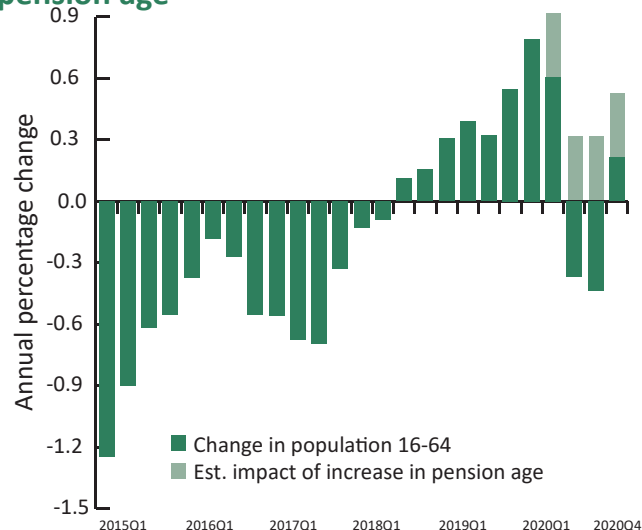


Figure 2.3.2 Population aged 16 to states pension age



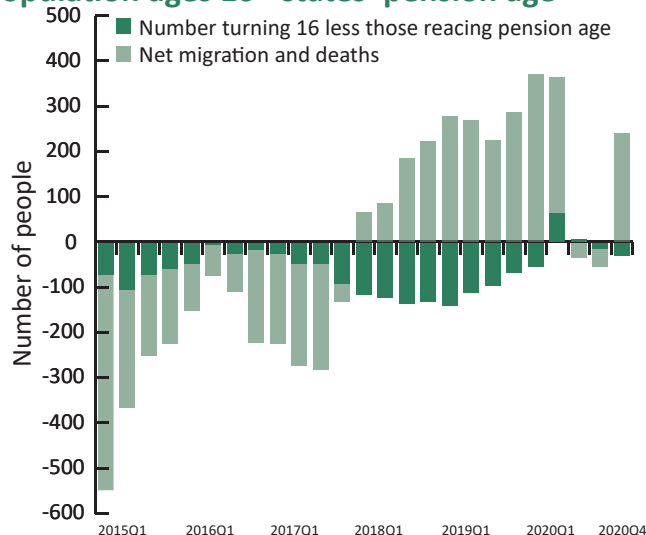
2.3 Population

The annual rate of population growth fell sharply in the second quarter of 2020 (**Figure 2.3.1**), likely because immigration patterns in Guernsey have been significantly disrupted by the pandemic with a significant fall in both immigration and emigration (**Figure 2.3.2**). Much of this relates to the very significant reduction in seasonal workers moving into and out of Guernsey to support the Hospitality sector. Figures for December 2020 (the latest available), where the change in seasonal labour is less significant, show the population increased by 0.6% (404 people) over the year, compared to 0.8% (509 people) in 2019.

Despite the outbreak of Covid-19, deaths in 2020 were within the expected range. The number of births in Guernsey continues to be low, reflecting a persistent trend of falling fertility rates.

Net migration contributed an increase of 449 people to population growth over the year ending December 2020. This is significantly higher than the assumed long term average level of +100 people per year. This was sufficient to balance the persistent negative balance between those turning 16 (and technically able to enter full time employment) and those reaching the States' pension age (65 and 2 months in 2020) (**Figure 2.3.3** and **Figure 2.3.4**). However the population between 16 and States' pension age is still approximately 1,870 people smaller than it was in December 2011.

Figure 2.3.2 Source of change in the size of the population ages 16 - states' pension age



2. Macroeconomic indicators

2.4 Workforce and earnings

The impact on employment has been one of the most visible effects of the global pandemic. Both employment and unemployment have been negatively affected but the impact of the second lockdown, beginning in January 2021, was significantly less than the first.

The reduction in employment during the second lockdown, in the first quarter of 2021, was much smaller than that in the second quarter of 2020, and the recovery in total employment levels resumed the following quarter (**Figure 2.4.1**). Adjusting for seasonal changes, employment in Guernsey totalled 31,132 in June 2021 a recovery of 3.0% compared to June 2020, but still 1.5% (481 people) less than in June 2019.

Unemployment rates peaked in early 2021 as a result of the second lockdown, but at a significantly lower level than that experienced in 2020 (**Figure 2.4.2**). They have subsequently fallen sharply in the third quarter of 2020 and, by the end of October 2021, had fallen to 1.2% (representing 384 people registered as wholly unemployed). This compares to 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 displays a similar pattern.

At the end of June 2021, median earnings (seasonally adjusted) in Guernsey were £36,800, 3.8% higher in real terms than at the same point the previous year and 2.9% higher than in June 2019 (**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 economic contraction in 2020, and the ongoing challenges in the Hospitality sector in particular mean that the number of lower paid roles in the economy has reduced. This would have the tendency to push up measures of median earnings. Low unemployment and issues with labour supply and unfilled vacancies is also likely to exert an upward pressure on wages.

Figure 2.4.1 Total employment growth (seasonally adjusted)

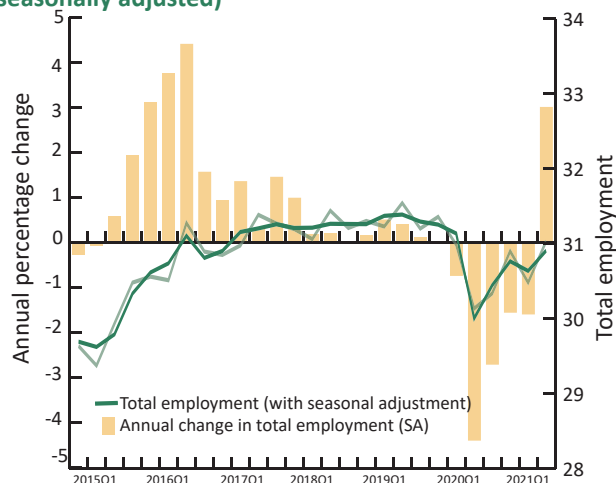


Figure 2.4.2 Registered unemployment

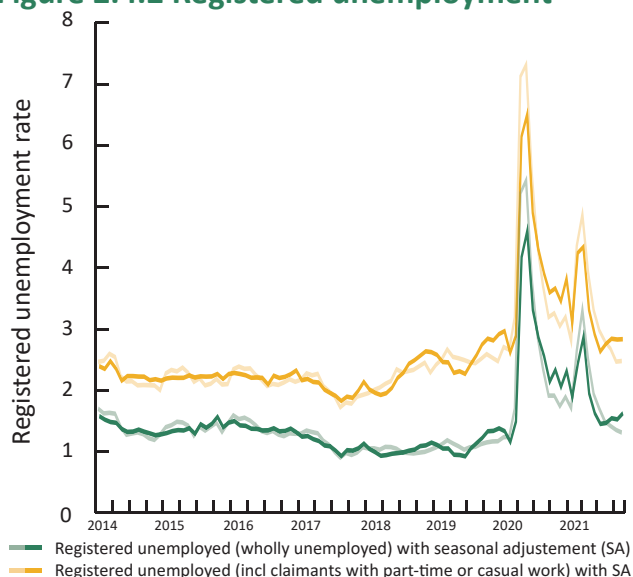
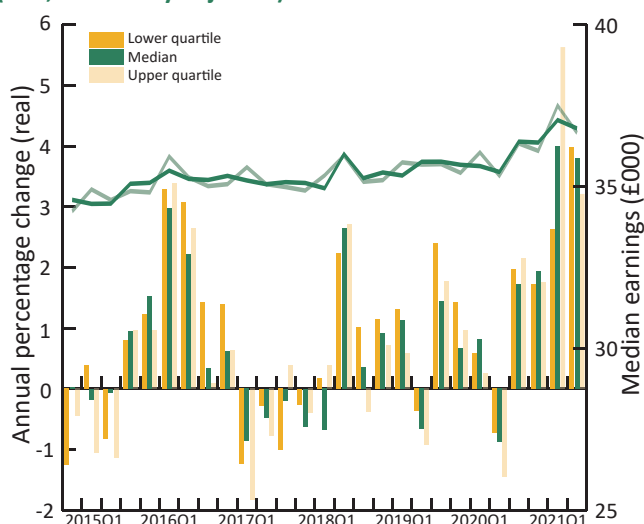


Figure 2.4.3 Median earnings growth (real, seasonally adjusted)



2. Macroeconomic indicators

Figure 2.4.4 Employment and earnings by sector (June 2021)

	Employment (seasonally adjusted)		Earnings (seasonally adjusted)	
	Total	Annual % change	Total (£000s)	Annual % change
Finance	5,975	-0.2	49.9	-0.5
Public administration	5,778	6.3	40.4	3.1
Wholesale, retail and repairs	3,841	2.3	25.2	4.7
Construction	2,946	5.2	35.6	1.3
Professional, business, scientific and technical activities	2,915	2.8	44.4	11.8
Human health, social and charitable work activities	2,154	8.1	26.8	-1.3
Hostelry	1,790	12.7	22.7	11.7
Administrative and support service activities	1,710	7.9	31.9	9.6
Transport and storage	1,101	0.0	32.7	9.1
Information and communication	867	-0.9	43.6	2.6
Manufacturing	672	1.3	29.7	3.2
Education	669	7.0	30.2	-2.1
Other service activities	505	8.8	21.5	4.6
Agriculture, Horticulture, Fishing and Quarrying	444	1.1	33.1	5.1
Arts, entertainment and recreation	388	16.7	26.5	-1.3
Real estate activities	294	1.5	38.1	14.1
Electricity, gas, steam and air conditioning supply	269	-3.2	34.8	9.7
Water supply, sewerage, waste management and remediation activities	126	0.0	32.8	22.5
Activities of households as employers	80	1.7	27.0	9.9
Whole Economy	31,132	3.0	36.8	3.8

Figure 2.4.4 presents the employment and earnings by sector in June 2021, including the changes in each sector compared to a year earlier. Employment has expanded in 16 of the 19 economic sectors, demonstrating the breadth of the economic recovery. In 13 sectors employment has recovered to or beyond the level reported in June 2019. However, employment in Hostelry remains 14% lower than in June 2019 and the recovery of employment levels also remain incomplete in Finance, Administrative and support services, Wholesale retail and repairs, Transport and storage and Electricity, gas, steam and air conditioning supply.

Trends in median earnings and employment by sector are discussed in more detail in [Section 3](#).

2. Macroeconomic indicators

Gross remunerations are declared to the Revenue Service as part of the routine submissions by employers on a quarterly basis. They represent the total value of wages paid per quarter but also include bonuses, redundancy, other payments made by employers and some pensions paid to former employees. Remunerations are impacted by both the numbers of people employed and the amount they are paid. This data is available earlier than employment and earnings data, providing an opportunity to make a provisional assessment of conditions in the labour market.

Total remunerations for the second quarter of 2021 were strong, totalling 3% more in real terms than the same quarter in 2019 and 11% more than in the same quarter of 2020. However, the total for the third quarter was not as strong. In total, remunerations for 2021 for the first three quarters are approximately equal in real terms to those in 2019 (Figures 2.4.5 and 2.4.6). The data displayed also shows the direct contribution of payroll co-funding arrangements during 2020 and 2021.

Details of total remuneration by sector are included in [Section 3](#).

Figures 2.4.7 and 2.4.8 provide details of business support paid up to 26 November 2021. The scheme has been modified at various points during 2020 and 2021 but broadly can be categorised as:

- Payroll co-funding, which supports employee wages up to a value of between 50% and 100% of minimum wage. The extent of support provided and the definition of qualifying sectors has been amended at various points to reflect prevailing conditions. The majority of these claims had ended by November 2021.
- Small business grants offered as a one off payment of £3,000 in 2020 and £2,000 or £1,000 in 2021 made available to self-employed persons and small businesses. This scheme is not attributable to specific pay dates although the majority of the 2020 grants were paid out between March and June 2020, with a second tranche of grants paid during the second lockdown in February and

Figure 2.4.5 Total remunerations
at constant prices, seasonally adjusted

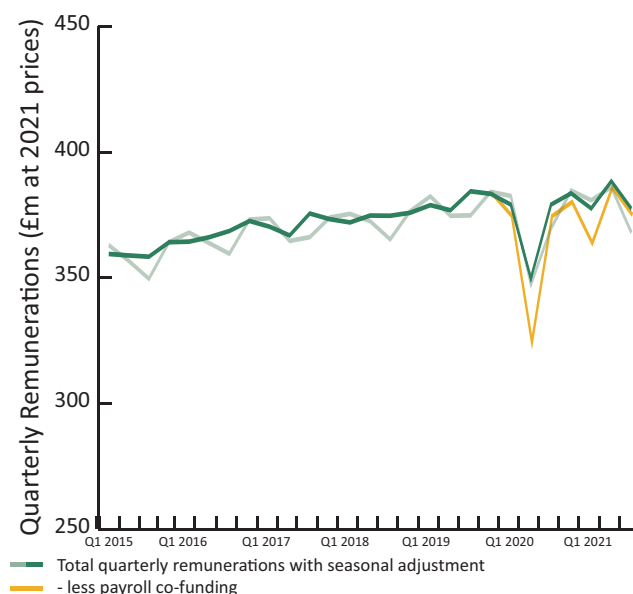
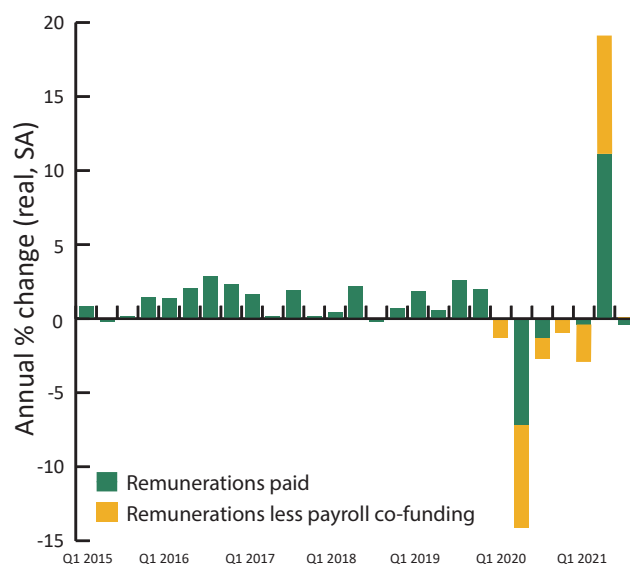
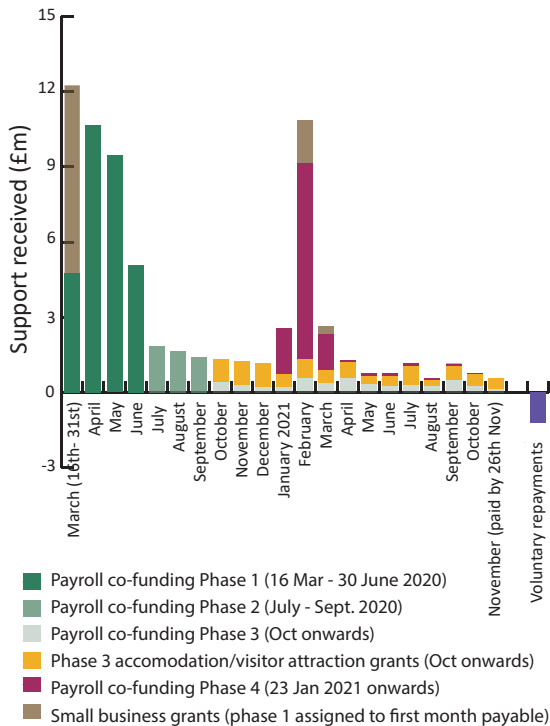


Figure 2.4.6 Total remunerations growth
real, seasonally adjusted



2. Macroeconomic indicators

Figure 2.4.7 Business support scheme by pay period



March 2021.

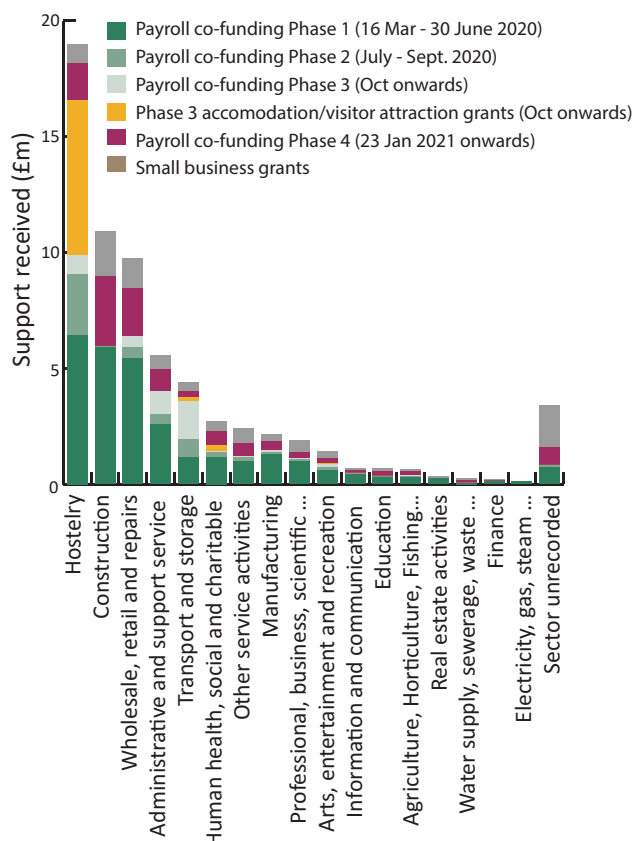
- Specific grants payable to hostelry accommodation providers from October 2020 and to visitor attractions. This support is due to continue until March 2022.

Up to the 26th November approximately £68m had been paid to business since March 2020. Of this, voluntary repayments totalling £1.2m have been made by local businesses. Peaks in the level of support paid coincide with the two periods of lockdown. Outside of these periods, support has continued at a significantly lower level, focussed primarily at those businesses most impacted by travel restrictions.

The Hostelry sector includes hotel and other tourist accommodation providers as well as restaurants, bars and cafés. This sector has been the most impacted by restrictions on travel and is also particularly sensitive to other measures designed to limit the spread of Covid-19. As a result it has required the largest amount of support and has received a total of £19m since March 2020, or 29% of the support paid to date. Those in this sector who qualify for support under the visitor accommodation scheme will continue to receive support until at least March 2022.

Construction and Wholesale, retail and repairs sectors have received 16% and 15% of the support paid respectively, primarily in the form of payroll co-funding during periods of lockdown.

Figure 2.4.8 Business support received by sector



2. Macroeconomic indicators

2.5 Property market

Despite the restrictions in place during the second quarter of 2020 and the first quarter of 2021, which limited the flow of transactions during lockdown, the local property market has been exceptionally strong (**Figure 2.5.1**). Demand for both local and open market property has been high, resulting in an increase in both transaction numbers and prices. Local market property prices for the third quarter of 2021 were 15% higher in real terms than for the third quarter of 2020. Prices now exceed the previous peak in house prices in 2011 by 3% in real terms.

The strength of the property market recovery has impacted positively on government revenue (in the form of document duty). Document duty receipts have contributed significantly to the improvement in the financial position for 2021 when compared to the forecasts published in the 2021 Budget. They have also lead to an increase in the valuation of the household sector in GDP for 2020 and the forecasts for 2021.

While median earnings measures have increased, the more rapid increase in house prices has increased the ratio of purchase prices to median earnings (**Figure 2.5.2**). This measure is used as an indicator of the affordability of housing and indicates 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**). On average properties are selling faster than they were before the outbreak of Covid-19 and for values closer to their first advertised asking price. The occurrence of properties re-advertised at a reduced price after a period of time without a sale is also less common.

Data on local market rentals is collected from the web and classified adverts. Since 2020 these have been published on a quarterly basis. Published indices are

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

Figure 2.5.1 Local property market
constant prices, seasonally adjusted

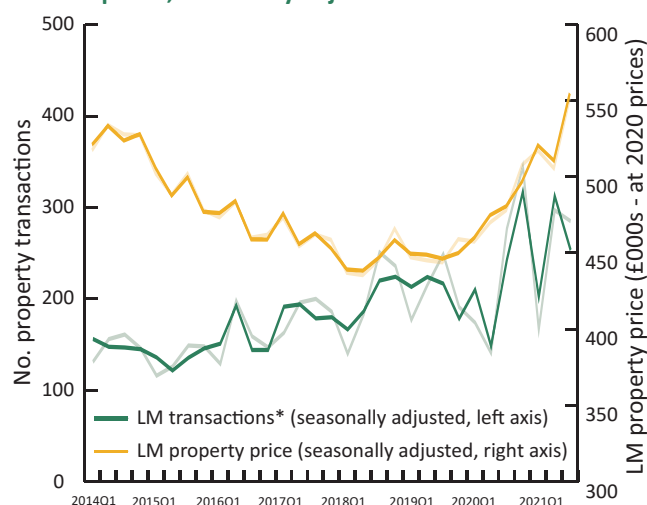
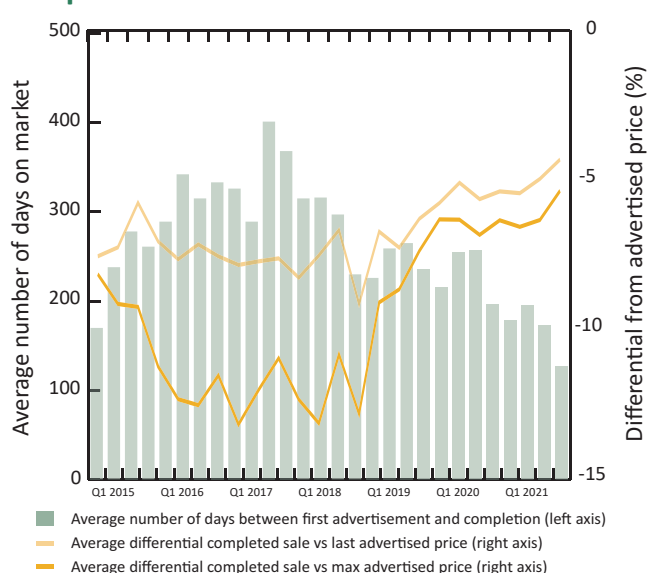


Figure 2.5.2 Local market purchase price to earnings ratio
for Q3 each year

	Purchase price to earnings ratio	Average loan to value
2013	15.3	77.8%
2014	15.3	77.7%
2015	14.6	77.3%
2016	13.5	74.9%
2017	13.2	80.0%
2018	12.7	81.5%
2019	12.8	81.8%
2020	13.1	82.8%
2021	14.3	75.0%

Figure 2.5.3 Local market discount rate and sale period



2. Macroeconomic indicators

Figure 2.5.4 Local market rental values

constant prices

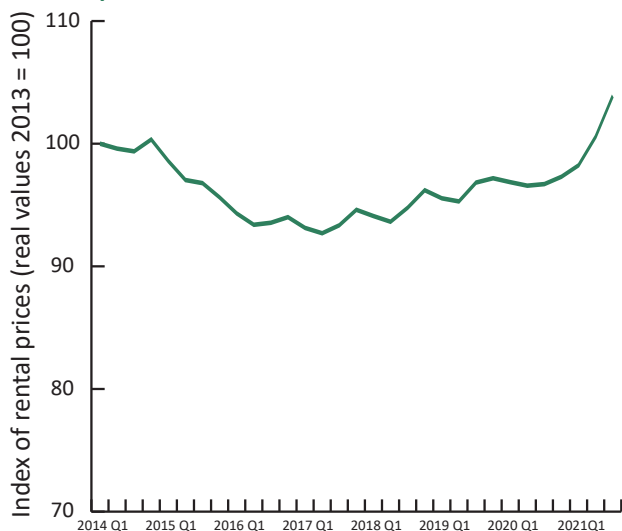
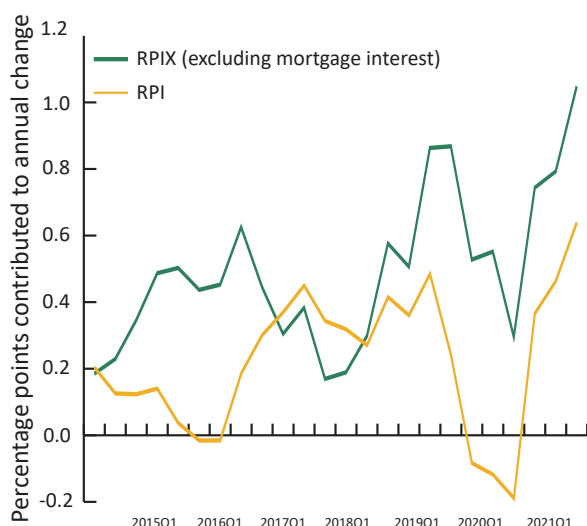


Figure 2.5.5 Local market rent to earnings ratio

for Q3 each year

	Annual rent to earnings ratio	Purchase price to annual rent ratio
2013	0.52	29.6
2014	0.51	30.0
2015	0.49	29.9
2016	0.47	28.9
2017	0.47	28.3
2018	0.48	26.6
2019	0.48	26.5
2020	0.48	27.6
2021	0.51	28.3

Figure 2.5.6 Contribution of housing costs to inflation



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, shows a marked increase in 2021 and was 7% higher in the third quarter of 2021 than a year earlier (**Figure 2.5.4**).

The cost of rental accommodation relative to median earnings has increased, indicating that rental accommodation has also become less affordable (**Figure 2.5.5**).

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 increased because purchase prices have increased faster than rents.

Figure 2.5.6 shows the contribution that housing costs have made to RPIX and RPI. The RPIX excludes mortgage interest payments and is driven primarily by increases in rental prices. Housing costs have contributed an increase of 1.0 percentage points to RPIX over the year ending September 2021.

Within RPI the measure of housing costs includes mortgage interest payments, which are influenced by both prevailing interest rates and the estimated value of mortgage debt (a function of both current and historic house prices) in addition to rents and this item has quite a high weighting. Because interest rates have been very low for a sustained period, the contribution of housing to RPI is lower at 0.6 percentage points over the year ending September 2021.

This demonstrates that the impact of these various factors on a household's costs will vary depending on their circumstances. Cost pressures are likely to be high for those in rented accommodation or with new mortgages. For those owner occupiers with established mortgages, the benefits of low interest rates are likely to be more significant and the pressure on their housing costs is likely to be less.

2. Macroeconomic indicators

2.6 Mortgages and Borrowing

Figure 2.6.1 shows the estimated average effective rate charge on local domestic mortgages. This measure has been trending downward through 2020 and 2021, reflecting the lagged response to the reduction in the Bank of England base rate. It is estimated that in the third quarter of 2021 the average effective rate had decreased to 2.1%, compared to 2.5% a year earlier. This suggests that, on average, mortgage holders are paying less in interest on local property.

New bond registrations are closely correlated with the housing market. Because both the volume and value of transactions have increased through 2021, the index of new lending has trended upwards (**Figure 2.6.2**), although this is mitigated by a fall in the average loan to value from 83% in September 2020 to 75% in September 2021.

The extent of activity has resulted in an increase in the total level of residential mortgage debt held in Guernsey (**Figure 2.6.3**), which increases when the rate at which new debt is issued exceeds the rate at which it is being repaid. It is estimated that in September 2021, households had 2.8% more debt secured on property than a year earlier.

Figure 2.6.1 Estimate of Average Effective Rate for Domestic Mortgages

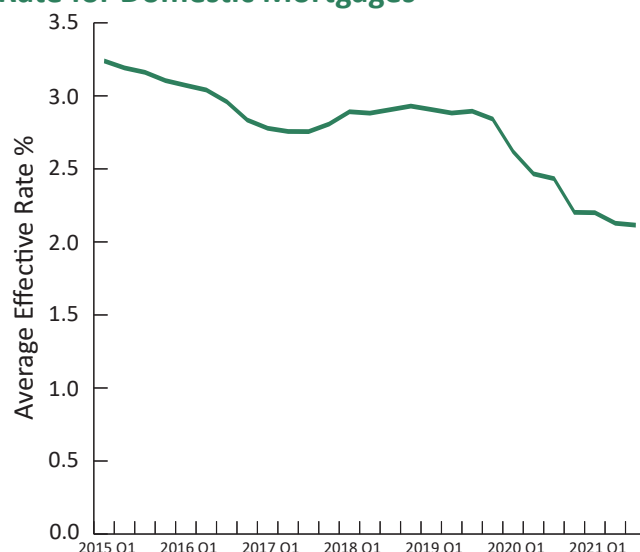


Figure 2.6.2 Index of new bond registrations**

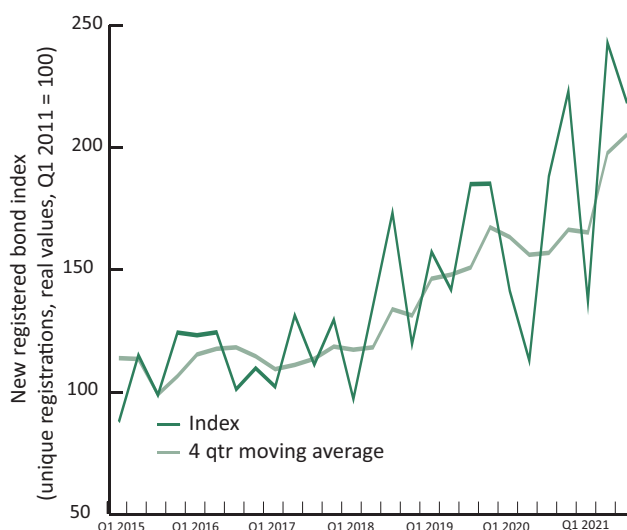
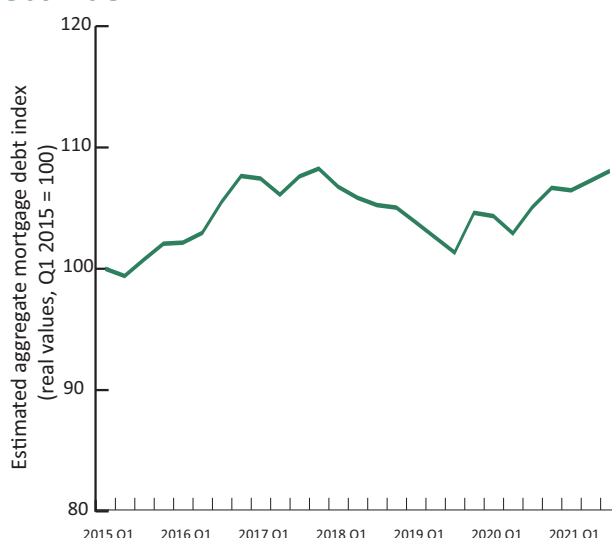


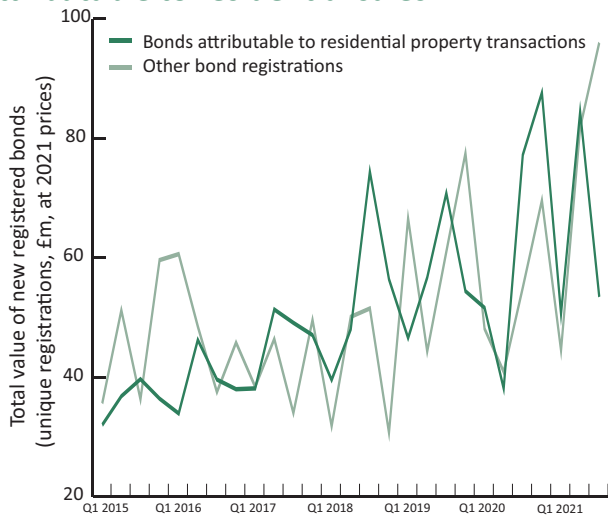
Figure 2.6.3 Aggregate residential mortgage debt index



** 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.

2. Macroeconomic indicators

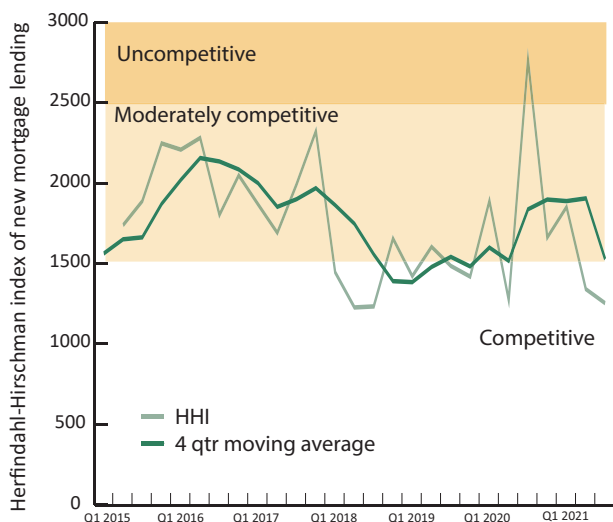
Figure 2.6.4 Value of new bond registrations attributable to residential sales**



About half of new bond registrations can be attributed to residential sales. Loans may also be secured on property when owners choose to move or extend their mortgages for reasons other than a purchase. Bonds are also registered for commercial development or other investments. 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 (**Figure 2.6.4**).

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 2.6.5**).

Figure 2.6.5 Mortgage market concentration index



There are currently five principal lenders in Guernsey who together provide lending services for between 80% and 90% of mortgages registered each quarter. The time series now available suggests that periods during which a single lender becomes dominant for a short period are relatively common and, to date, temporary. The mortgage market became more concentrated during 2020, but activity in 2021 has become more dispersed across the principal lenders, reducing the concentration index.

3. Business sector indicators

3.1 Financial services

Financial services (not including accountancy and legal services) is the largest sector in the Guernsey economy and comprises 18% of employment in Guernsey and 40% of GVA.

Employment in this sector declined during the second half of 2019 and early 2020 but employment numbers had stabilised year on year by the second quarter of 2021 (**Figure 3.1.1**). This contraction is largely focused within banking.

Median earnings increased through 2020, which suggests the loss of employment from this sector may be concentrated among lower paid positions. Again this would appear to have stabilised by the second quarter of 2021.

Data on total remunerations, which is the best available quarterly indicator for the total output of the sector, shows a strong second quarter of 2021 with receipts 5.4% higher in real terms than the previous year, despite little change in median earnings or employment. However, remunerations for the third quarter were 4.8% lower than a year earlier. Total remunerations for this sector for the year to date are about equal to the previous year in real terms and the source of this volatility remains unclear.

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 means that these sectors, in terms of employment, have become closer in size. Banking activity in June 2021 accounted for 26% of employment in the sector, fiduciaries comprised 28%, funds comprised 23% and insurance 13%. Other finance sector employment, which includes brokerage activity and money service providers, comprise 9% 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 £276bn in June 2021.

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

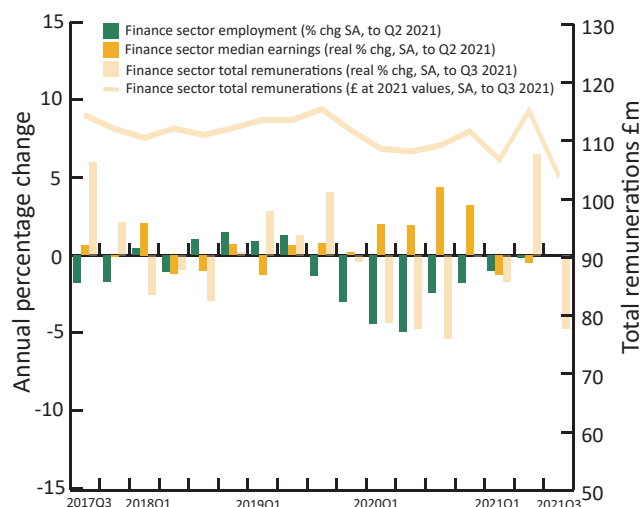


Figure 3.1.2 Finance: distribution of employment

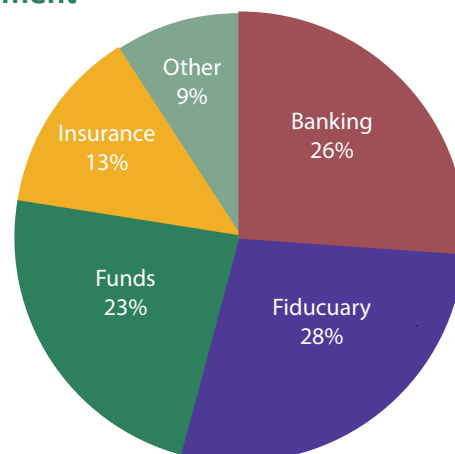
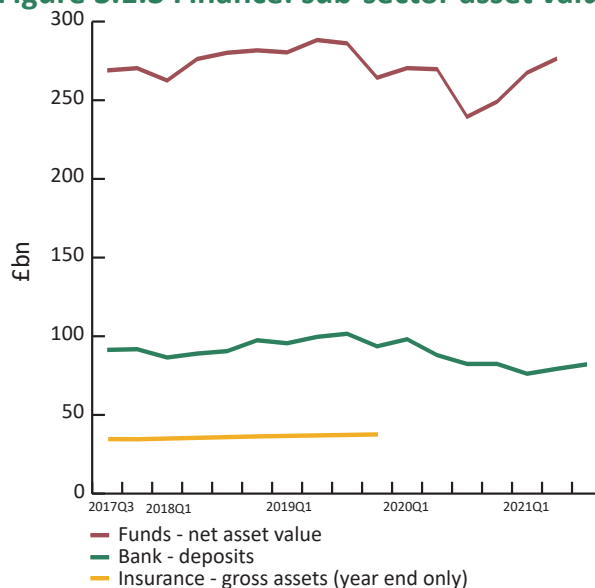


Figure 3.1.3 Finance: sub-sector asset values[#]



3. Business sector indicators

The banking sector holds deposits of £82bn and the insurance sector gross assets of £31m.

The underlying performance across the four primary sub-sectors differs and is covered in more detail in the following sections.

Banking

Employment in banking is estimated to have reduced by 7% over the year ending June 2021, and is the primary drive of the contraction in employment in the finance sector since 2019.

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.

In September 2021 there were 20 banks licensed in Guernsey holding a nominal sterling value of totalling £104bn. Interbank loans represented 66% of banking assets in Guernsey and this high proportion of interbank lending reflects the up-streaming model employed in many Guernsey institutions. However, the scale of this activity has declined.

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 £2.2bn 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.

Note that statistics on banking activity does not capture domestic lending by financial service providers without a banking licence.

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
Sept 20	20	45.4	37.0	82.4	104.7	70.0	4.1	10.0	20.6	104.7
Dec 20	20	45.7	36.7	82.4	103.6	68.6	4.3	10.6	20.1	103.6
Mar 21	20	38.9	37.3	76.2	98.1	63.7	4.3	10.7	19.2	98.1
Jun 21	20	39.3	40.0	79.3	101.7	66.9	4.5	10.5	21.3	101.7
Sept 21	20	40.7	41.4	82.2	103.9	68.8	4.6	10.7	19.8	103.9

3. Business sector indicators

Fiduciaries

Over the year ending June 2021 employment in fiduciaries is estimated to have declined by 1.7%. In December 2021, there were 697 authorised fiduciary licences in Guernsey (**Figure 3.1.5**). This number includes 144 primary licences, two fewer than in October the previous year.

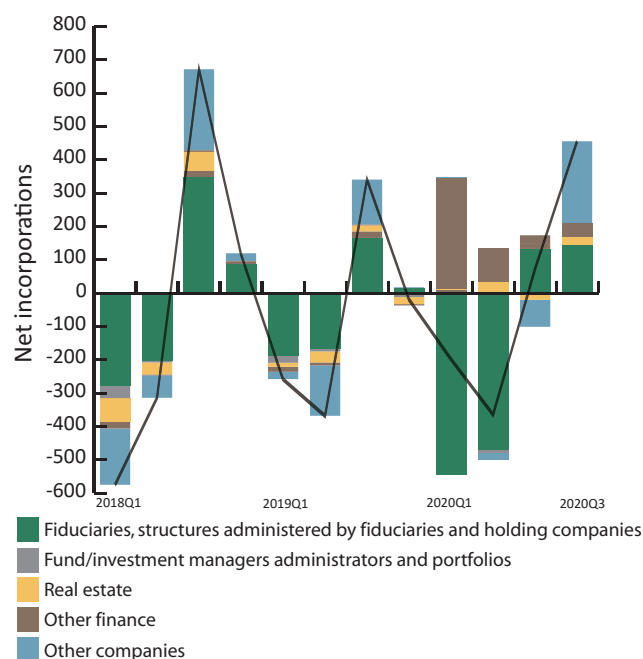
Fiduciaries in Guernsey offer a wide range of services to international clients, from private trust and wealth management to the provision of corporate services. A significant proportion of company formations in Guernsey are operated by corporate service providers. Net changes in company registrations 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**).

Figure 3.1.5 Fiduciary licences[#]

	Oct 18	Oct 19	Oct 20	Dec 21*
Primary (lead) licences	150	150	146	144
Secondary (joint) licences	570	557	532	510
Personal licences	43	41	42	43
Total	763	748	720	697

* The classification of licences was amended from 1 November 2021 when the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2020 (the 2020 Fiduciaries Law) was brought into force. Primary and secondary licences are broadly comparable to the former lead and joint licences but are not directly equivalent.

Figure 3.1.6 Net company incorporations



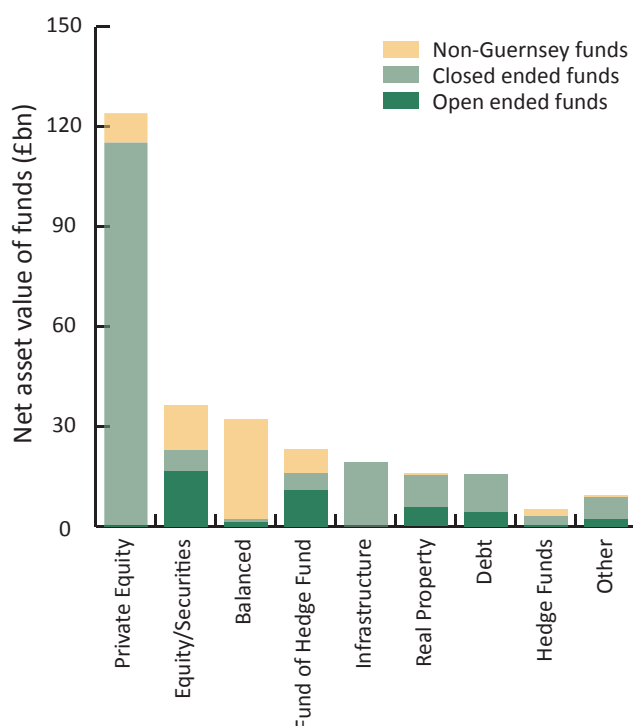
Data source: www.gfsc.gg

3. Business sector indicators

Figure 3.1.7 Fund statistics#

	No. funds			Net asset value (£bn)		
	Open ended schemes	Closed ended schemes	Guernsey Green funds	Open ended schemes	Closed ended schemes	Guernsey Green funds
Dec-18	148	655	na	43	176	na
Dec-19	140	679	5	46	181	3
Dec-20	136	697	7	48	179	3
Jun-21	123	699	10	50	223	4

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



Funds

Over the year ending June 2021 employment in funds and investments is estimated to have increased by 7% and is the largest area of growth in the finance sector.

The net asset value of funds under management or administration in Guernsey has declined by £7bn (2.5%) over the year ending June 2021, bringing the total value of funds managed or administered in Guernsey to £276.5bn.

Closed ended funds comprise the majority of fund activity in Guernsey (**Figure 3.1.7**) and represent the largest growth both in terms of the number of registered funds and their net asset value. 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**).

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. Open ended funds in Guernsey operate primarily as equity and securities funds or funds of hedge funds.

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. Ten funds have been accredited, with a net asset value of £4bn.

Data source: www.gfsc.gg

3. Business sector indicators

Insurance

Employment in insurance activity in Guernsey increased by an estimated 2.3% over the year ending June 2021. This points to a continuing expansion of this sector but there is a lag in the availability of other data for this sub-sector.

The total gross value 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 2020 the number of authorised managers in Guernsey reduced by four and the number of intermediaries increased by one (**Figure 3.1.9**). The number of vehicles under management decreased over 2020 (**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.

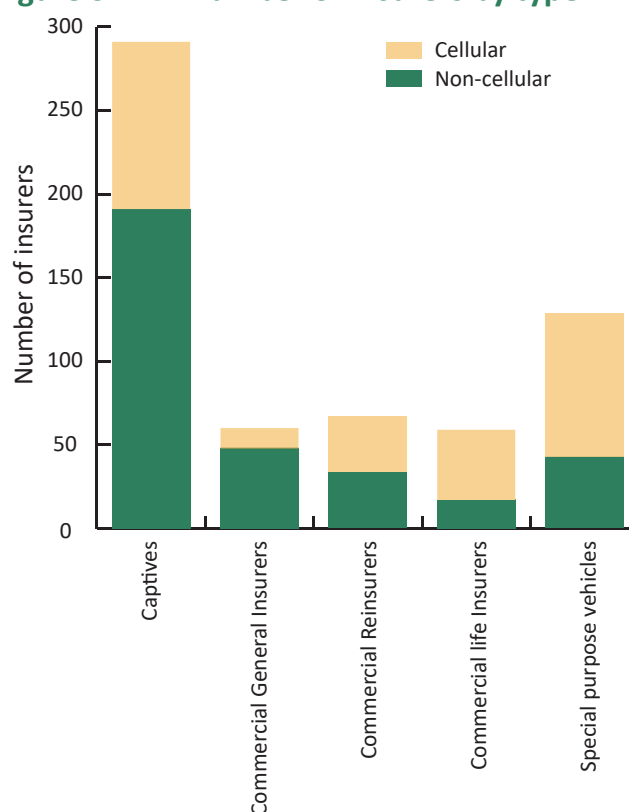
Figure 3.1.9 Insurance managers, intermediaries and domestic insurers[#]

	Dec 19	Additions	Surrenders	Dec 20
Authorised managers	20	1	5	16
Insurance intermediaries	28	2	1	29
Domestic insurers	8	0	1	7

Figure 3.1.10 Insurance vehicles[#]

	Dec 19	Additions	Surrenders	Dec 20
Companies	217	6	13	211
PCCs	58	1	6	53
PCC Cells	280	9	16	273
ICCs	15	1	1	15
ICC Cells	54	3	2	55
Total	624	20	38	606

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

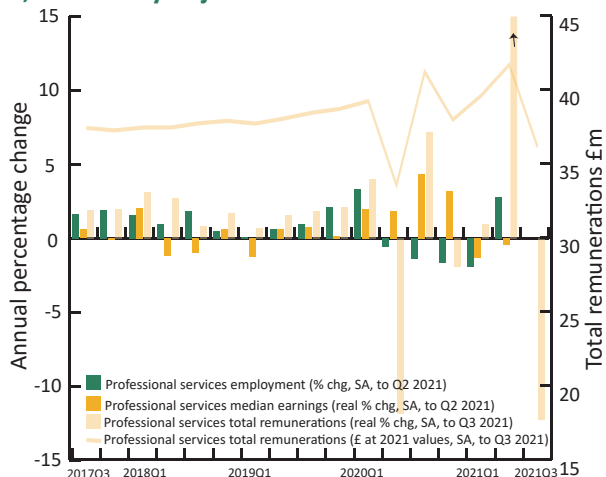


Figure 3.2.2 Information and communications services: employment and earnings growth real, seasonally adjusted

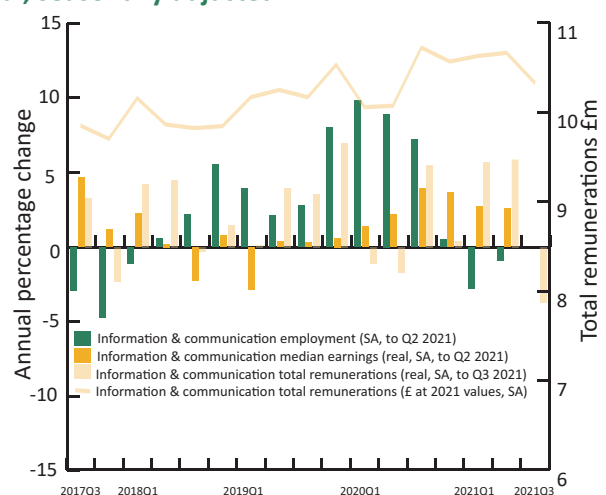
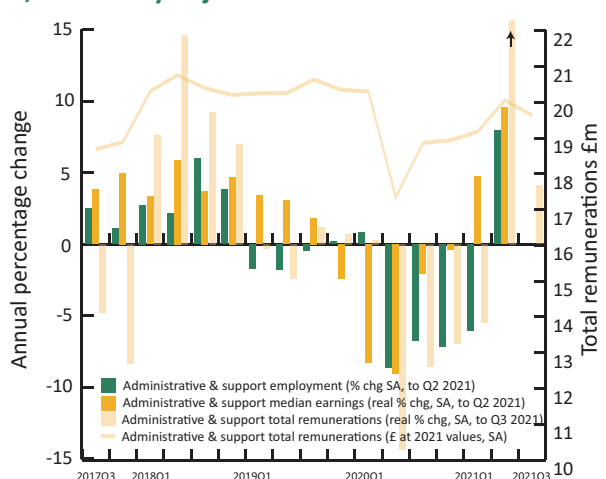


Figure 3.2.3 Administrative and support services: employment and earnings growth real, seasonally adjusted



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 year on year increase in employment in the second quarter of 2021 of 2.8% and a slight decline in median earnings in real terms (Figure 3.2.1). Similar to the finance sector, remuneration in this sector was very strong in the second quarter of 2021, but fell in the third quarter.

Information and communications

This is one of the few sectors to show little impact from either lockdown (Figure 3.2.2). Median earnings and total remunerations increased in the first two quarters of 2021 despite a modest decrease in employment. On a seasonally adjusted basis, total remuneration had fallen in the third quarter.

Administrative and support service activities

This sector was particularly impacted by the first lockdown. It includes a wide range of service activities such as security, cleaning and gardening. While it appears to have been less impacted by the second lockdown, recovery in this sector has been slower than others (Figure 3.2.3). Remunerations for the third quarter are still approximately 5% lower in real terms than in the same quarter of 2019.

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 distinct contraction during both lockdowns but recovered within a single quarter (**Figure 3.3.1**). The strength of the housing market is likely to have had a positive impact on construction activity. It is also likely that a significant proportion of the money that islanders would have otherwise spent on off island travel has been diverted to home improvements.

The sector has grown in terms of employment, median earnings and total remunerations when compared against 2019. Total remunerations in the sector for Q3 2021 were 10% higher in real terms than the same quarter in 2019.

The net gain in domestic property units recorded in 2020 is lower than in 2019, but to some extent this is likely to have been reduced by the delays caused by lockdown measures in March 2020.

Wholesale, retail and repairs

Wholesale, retail and repairs showed a similar pattern of contraction and recovery in response to periods of lockdown but, while recovery has been good, it has not been as strong as that in the construction sector (**Figure 3.3.3**). Total remunerations data shows that while total remunerations data for the second quarter of 2021 equalled 2019 in real terms, those for the third quarter were 4% lower than the same quarter in 2019.

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

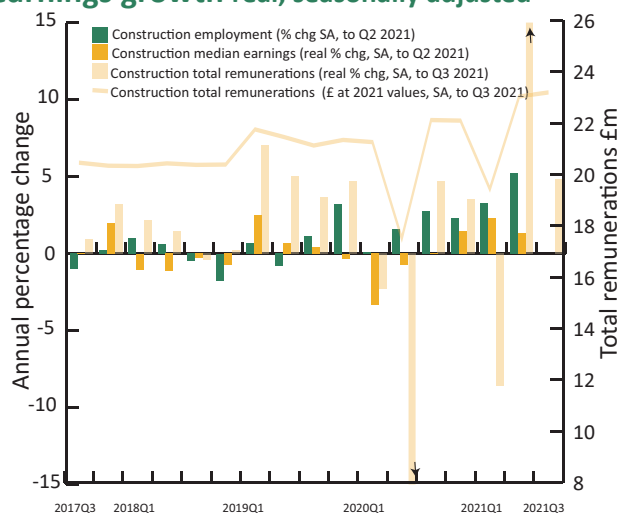
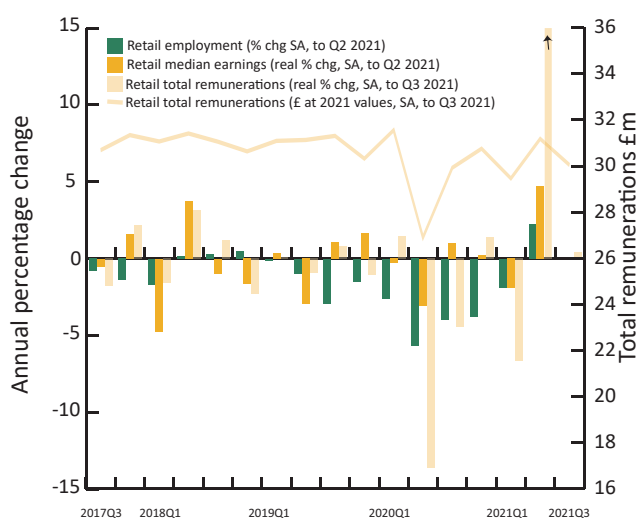


Figure 3.3.2: Net change in residential property units

Net change in domestic units	
2013	+171
2014	+296
2015	+144
2016	+43
2017	+90
2018	+229
2019	+110
2020	+83

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



3. Business sector indicators

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

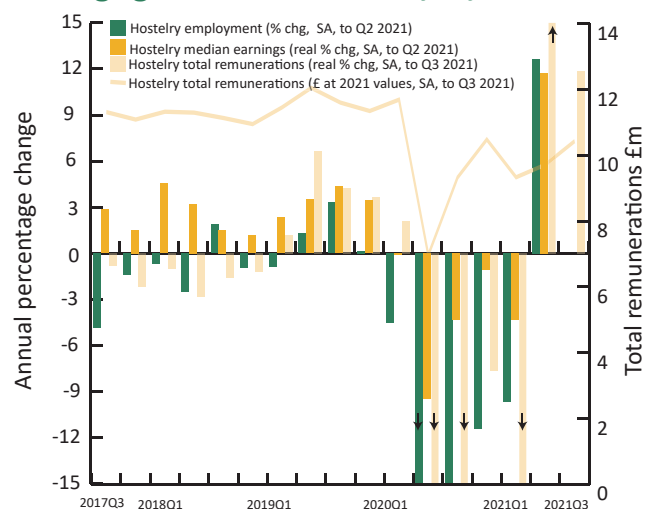


Figure 3.4.2 Visitor departures and cruise passengers

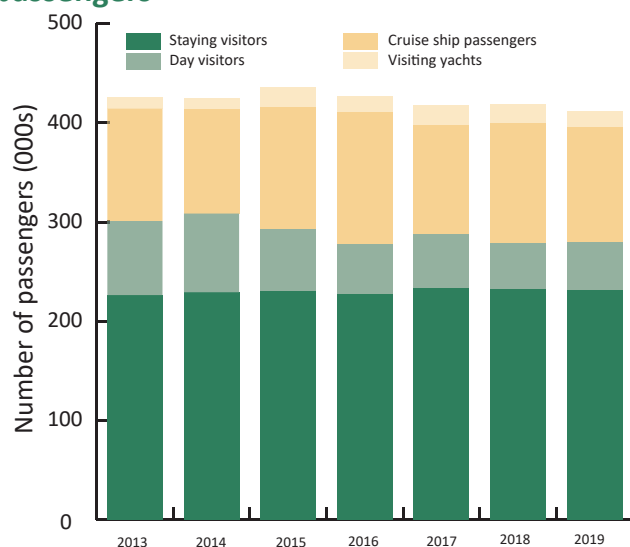
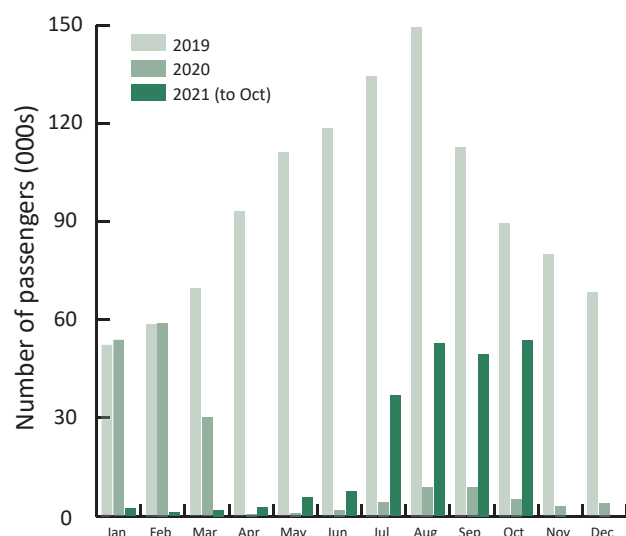


Figure 3.4.3 Air and sea passengers by month



3.4 Hostelry and visitor movements

Employment in hostelry had the most significant reduction in response to the first lockdown, with remunerations reducing by 40% (**Figure 3.4.1**). While the sector has made a partial recovery, the reduction in activity has been more sustained in this sector than any others. Total remunerations for the sector in Q3 2021 were 10% lower in real terms than in Q3 2019.

Figure 3.4.2 shows the number of visitors to Guernsey each year up to 2019 (visitor numbers have not been collected for either 2020 or 2021 because of the disruption caused by the pandemic) and **Figure 3.4.3** shows a comparison, month by month, of passenger movements in 2019, 2020 and 2021. The data suggests that there has been almost a complete loss of visitor activity from March 2020, with the number of passenger movements reflecting only a small fraction of the number of those arriving during the equivalent period in 2019. The relaxation of restrictions during the summer of 2020 means that there has been some recovery of passenger movements, but these are still significantly lower than the pre-Covid average.

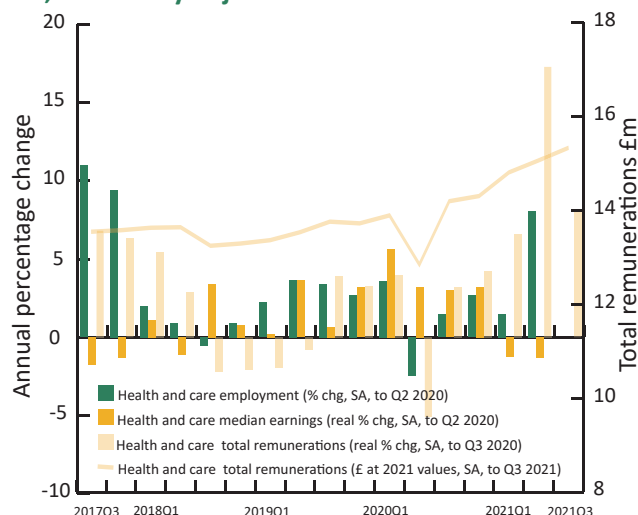
3. Business sector indicators

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 of 2020, likely in areas such as non-essential private health and medical services which were under restrictions between March and June (**Figure 3.5.1**). Since then the sector has returned to its previous upward trajectory.

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 and company profits), 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 2020 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.

5. 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. A voluntary pilot was issued in 2021 to inform the production of GVA estimates for 2020. The Census will become mandatory for selected businesses in 2022.

For more information please contact dataandanalysis@gov.gg.

6. Contact details and other information

This bulletin is presented by the States of Guernsey. For more details please contact:

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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 are available at www.gfsc.gg.

