

Jersey Retail Prices Index – December 2006

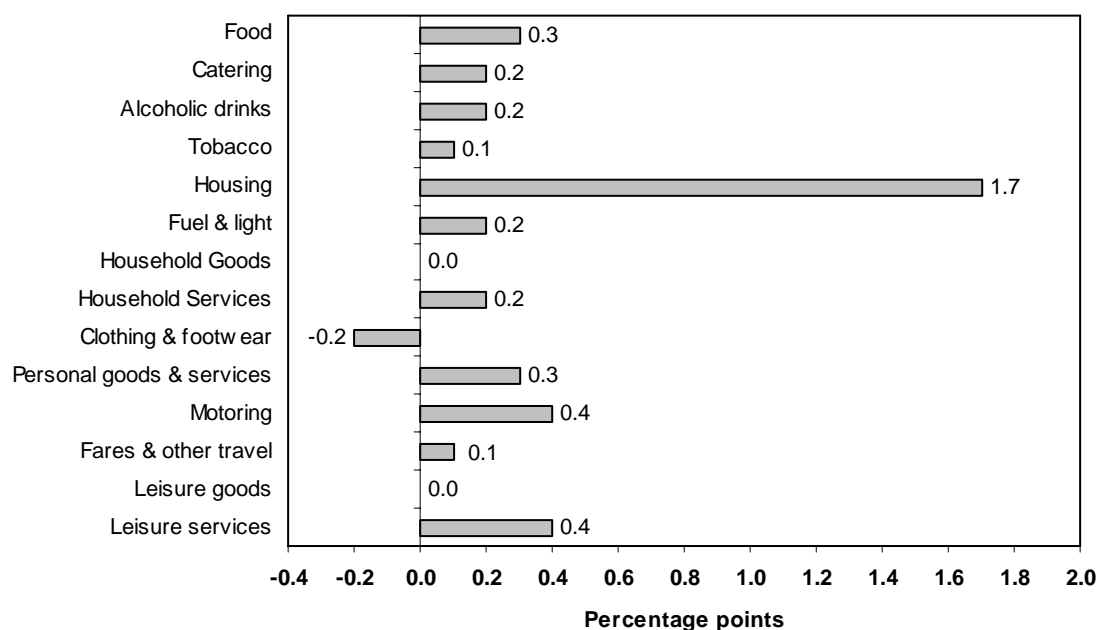
Headlines

- During the twelve months to December 2006 the All-Items Retail Prices Index (RPI) for Jersey rose by 3.7% to stand at 127.5 (June 2000 = 100).
- RPI(X), the Retail Prices Index excluding the cost of house purchase, **increased by 2.5% during the twelve months to December 2006.**
- **Increased mortgage costs**, largely resulting from recent rises in the Bank of England base rate¹, was the key driver and accounted for 1.5 percentage points of the total annual increase in the headline RPI.
- The increase in the RPI during the twelve months to September 2006 was 3.6%, implying that Jersey's **annual rate of inflation rose by 0.1 percentage points** in the latest quarter.
- The annual rate of increase in RPI(X) of 2.5% was 0.3 percentage points lower than in September 2006, mainly due to smaller increases seen for several groups, notably **Fares and other travel**, offsetting a greater increase in **Motoring**.
- The annual change in RPI(X) has been within 0.5 percentage points of the States' target of 2.5% for seven of the past eight quarters.

Annual change

Figure 1 shows the contribution to the overall annual change of 3.7% for each group of the RPI.

Figure 1 - Contribution of each group to annual change in the RPI.



Individual contributions do not sum to the total annual change due to rounding.

¹ See Note 4.

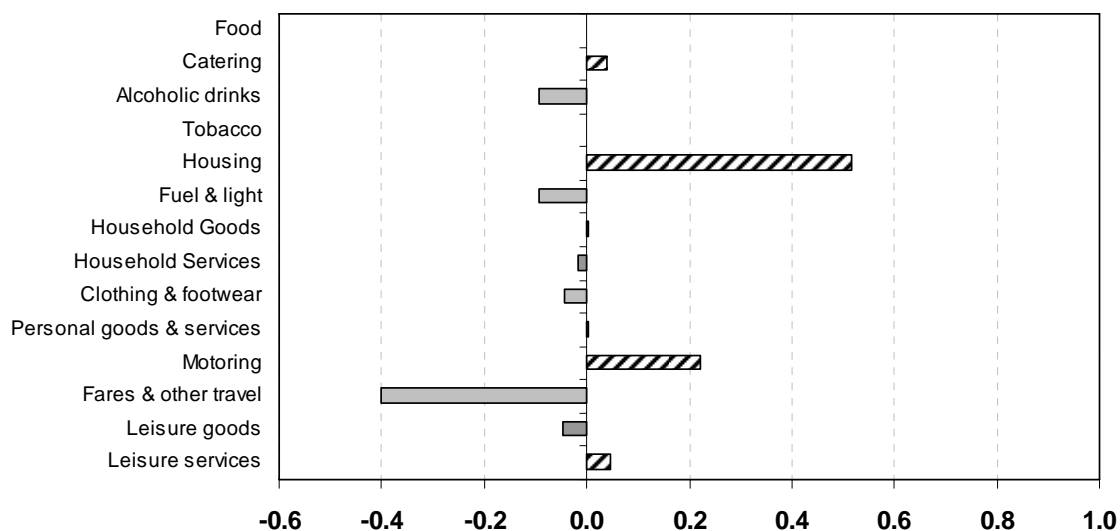
On an **annual** basis the largest contributors to the change in the Retail Prices Index were:

- **Housing** costs: the whole Housing group increased by almost 8% during the twelve months to December 2006 and accounted for almost half (46%) of the overall annual increase in the RPI. The main factor was increased house purchase costs, predominantly due to two rises in the Bank of England base rate (August and November 2006) which, combined with the ongoing growth in Jersey house prices, accounted for 1.5 percentage points of the overall increase in the RPI. The remainder of the Housing group contributed just 0.2 percentage points to the overall increase in the RPI.
- **Motoring** costs: increased by 4% over the previous twelve months and accounted for 0.4 percentage points of the overall increase in the RPI. Increases were seen across the group, except for petrol prices which were of a similar level to a year earlier.
- **Leisure Services**: increased by 3.3% over the twelve months to December 2006, contributing 0.4 percentage points to the overall change. This group includes television licences, school fees and entertainment costs, which all showed increases during the year.
- **Personal goods and services**: increased by around 6% over the last twelve months, mainly as a result of changes in previous quarters, and contributed 0.3 percentage points to the overall change.
- **Food** costs: increased by 3% compared to December 2005, contributing 0.3 percentage points of the overall annual increase in the RPI. Price rises were seen across the group, notably for bread, meat and fresh fish, whilst fruit prices saw a small decrease.

Increases were seen in the majority of the other groups, each contributing around 0.1 to 0.2 percentage points to the overall annual change (see figure 1). Increases in impôts (effective in January 2006) accounted for less than 0.2 percentage points of the overall increase in the RPI. In contrast, prices of **Household** and **Leisure goods** were of a similar level to a year earlier, on average, with falls in furniture, audio visual equipment and toys balanced by increases in gardening products, pet care and newspapers. Prices in **Clothing & footwear** decreased by about 5% on average, with reductions particularly in women's and children's outerwear

Largely as a result of the increases in mortgage interest rates, the **Housing** group was the largest contributor (see figure 2) to the overall increase of 0.1 percentage points in the annual rate of change of Jersey's RPI between September and December 2006, from 3.6 to 3.7%.

Figure 2 - Contribution of each group to change of +0.1 percentage points in annual rate of increase of RPI from Sept to Dec 2006



The **Motoring** group saw a larger annual rate of increase in December than in September and hence contributed upward pressure to the overall change of the RPI. In contrast **Fares & other travel costs** saw a considerably lower annual rate of increase in December (less than 2% compared to 15% for the twelve months to September) and was the greatest downward influence. **Alcoholic drinks**, **Fuel and light** and **Leisure goods** also saw lower annual increases compared to September and were thus also downward influences, whilst **Clothing and footwear** saw a larger annual fall than in September thereby also exerting downward pressure.

Individual group indices are presented in table 1, which also includes the most recent annual and quarterly *percentage changes*.

Table 1: Jersey Retail Prices Index – Group Indices (June 2000 = 100) **and Percentage Changes**

GROUP	2005 Dec	2006 Mar	2006 Jun	2006 Sep	2006 Dec	Annual	Quarterly
						change (per cent)	change (per cent)
Food	115.3	114.8	117.0	117.5	118.6	2.9	0.9
Catering	118.9	120.0	120.2	121.8	122.7	3.2	0.7
Alcoholic drinks	122.6	127.5	127.7	128.4	126.4	3.1	-1.6
Tobacco	162.1	165.8	166.2	166.4	166.4	2.7	0.0
Housing	137.3	138.2	140.0	143.4	147.7	7.6	3.0
Fuel & light	131.8	139.5	142.4	140.6	139.0	5.5	-1.1
Household goods	103.5	105.2	102.6	102.5	102.6	-0.9	0.1
Household services	127.1	128.9	129.2	130.0	130.9	3.0	0.7
Clothing & footwear	91.9	90.7	90.0	86.8	86.9	-5.4	0.1
Personal goods & services	119.4	123.0	124.6	125.7	126.0	5.5	0.2
Motoring	122.0	125.2	127.4	127.2	126.7	3.9	-0.4
Fares & other travel	148.2	156.6	174.3	169.7	150.7	1.7	-11.2
Leisure goods	95.2	95.7	96.4	95.7	95.7	0.5	0.0
Leisure services	130.0	130.9	131.9	134.0	134.3	3.3	0.2
All items	123.0	124.8	126.2	127.1	127.5	3.7	0.3

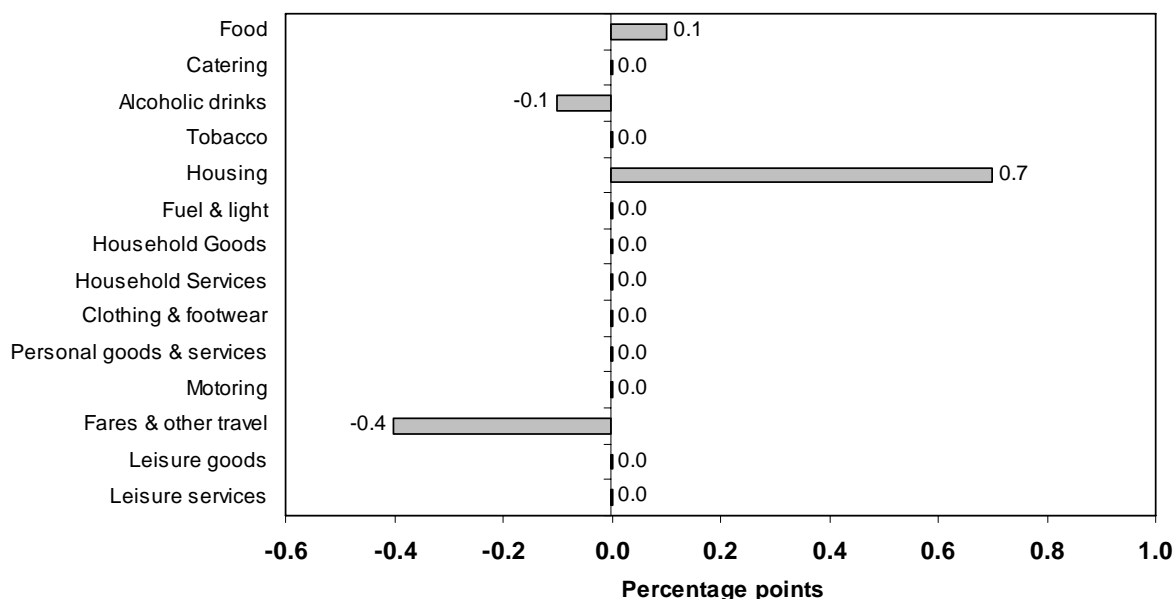
Quarterly changes

As observed in almost all years since 1999, the quarterly change in the RPI in December has been smaller than in the other quarters of the year. The key group contributing to the net increase of 0.3% for December 2006 was **Housing**, accounting for 0.7 percentage points (figure 3). The key driver was the increase in the Bank of England base rate in the latest quarter. **Food** prices also increased on average over the quarter and contributed 0.1 percentage points.

These increases were partially offset by the **Fares & other travel** group which saw a decrease in average prices over the quarter of 11%, following increases in both June and September, and contributed -0.4 percentage points to the overall quarterly change. The **Alcoholic drinks** group

was also a downward influence as a result of special offers on off-premises wines and spirits in the latest quarter.

Figure 3 - Contribution of each group to quarterly change in the RPI.



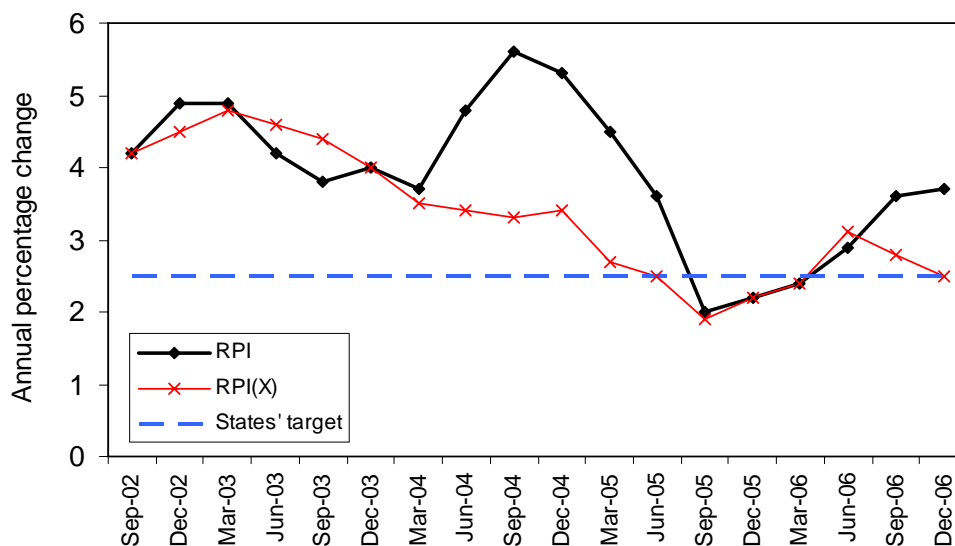
Excluding house purchase: RPI(X)

RPI(X) is the RPI excluding the cost of mortgage interest payments and interest on States loans, and is the measure against which Jersey's inflation target rate of 2.5% is set.

In the twelve months to December 2006 **RPI(X) increased by 2.5%** to 123.7. This annual rate of increase of RPI(X) was 0.3 percentage points less than in the previous quarter (see figure 4). The key downward driver was the significantly lower rates of increase in **Fares & other travel**. **Alcohol, Fuel and light** and **Leisure goods** also experienced lower annual rates of increase than in the previous quarter, whilst greater reductions in **Clothing and footwear** were similarly a downward influence. Upward pressures were from **Motoring** and **Leisure services**.

On a quarterly basis, between September and December 2006, RPI(X) decreased by 0.2%.

Figure 4 - Annual percentage changes in RPI and RPI(X).



As figure 4 shows, the annual change in RPI(X) has been within 0.5 percentage points of the States' target for seven of the past eight quarters (i.e. since March 2005).

Comparison with other jurisdictions

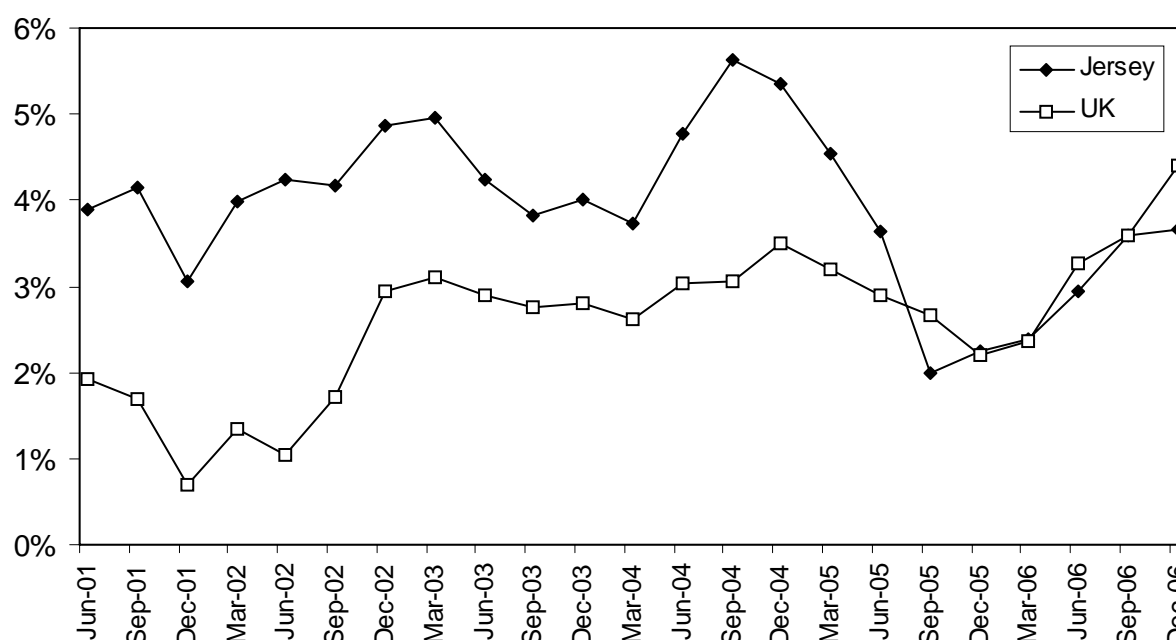
Increases in the Bank of England base rate was the key driver to the changes in the annual rates of increase of the RPI in all jurisdictions shown in table 2. However, local trends and issues in each location dictate the full extent of these effects and thus the differences between the relative rates of inflation. The longer term comparison of annual percentage changes in the RPI for Jersey and the UK, based on the data contained in the Annex, is shown in figure 5.

Table 2: Annual percentage increases in RPI and RPI(X) for September and December 06

	RPI		RPI(X)	
	Sep 06	Dec 06	Sep 06	Dec 06
Jersey	3.6	3.7	2.8	2.5
Guernsey	3.5	4.4	2.5	2.8
Isle of Man	3.3	3.1	3.5*	2.6*
UK	3.6	4.4	3.2	3.8

**Excluding the Housing group, rather than RPI(X) strictly.*

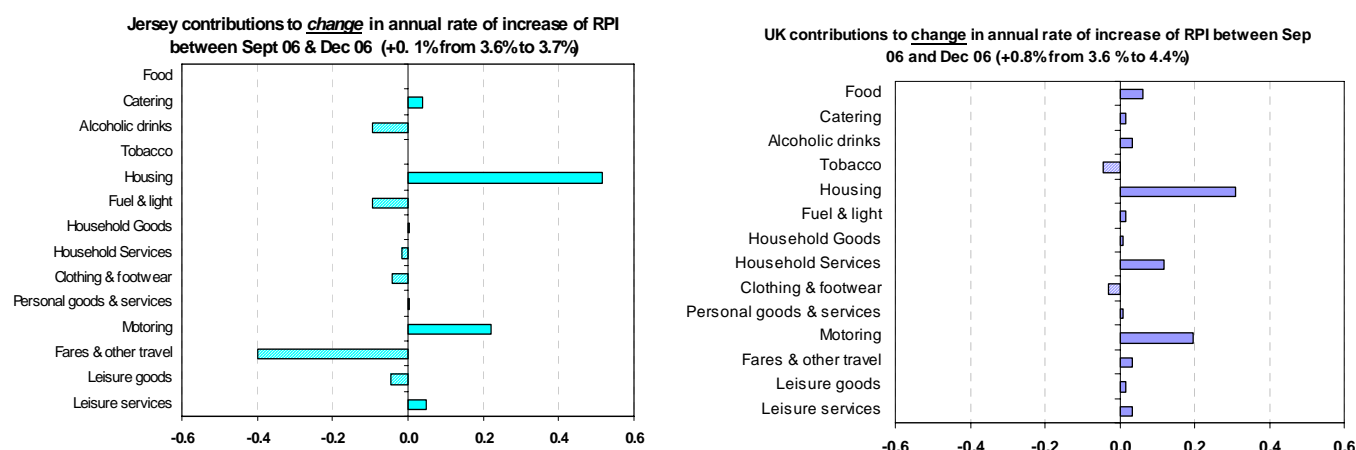
Figure 5 - Annual percentage change in RPI: Jersey and UK 2001-2006



Higher house purchase and motoring costs were the key drivers in the rates of increase of both the Jersey and UK RPI. However there were important differences, notably in fuel costs where the UK saw a 30% increase (as gas and electricity prices rose) compared to less than 6%, overall, in Jersey, and also in furniture costs which increased in the UK, pushing up household goods by 2.5% on the year compared to a fall of 1% in Jersey.

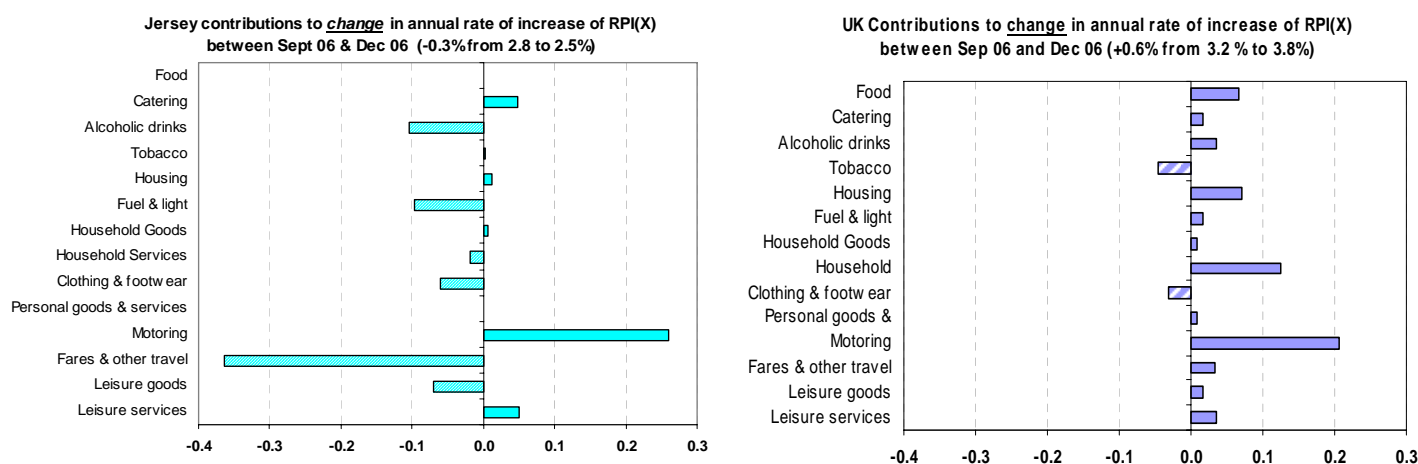
The respective contributions to the changes of +0.1 and +0.8 percentage points in the Jersey and UK RPI between September and December 2006 are shown in figure 6. Most groups in the UK saw greater annual rates of increase in December than in September and thus exerted upward pressure to the overall annual rate of change. In contrast, groups contributed a mix of upward and downward pressures in Jersey. Notably the **Fares & other travel** group was a considerable downward influence in Jersey but an upward influence in the UK, as were (though to a lesser extent) **Fuel and light**, **Alcoholic drinks**, **Household services** and **Leisure goods**.

Figure 6 - Contributions to change in annual rates of increase of RPI between September and December 2006 for Jersey and the UK



The rate of increase of RPI(X) fell by 0.3 percentage points in Jersey but rose by 0.6 percentage points in the UK compared to the annual rates of September 2006. As figure 7 shows this difference in change is due to the different behaviour of the groups reported above, though with the effect magnified due to removing the contribution of house purchase costs. A further notable difference is apparent in figure 7: the **Housing** group (excluding house purchase costs) constituted a greater upward influence in the UK due to rising council taxes (up almost 5%) whilst rates fell in Jersey (down by 4%, on average).

Figure 7 - Contributions to change in annual rates of increase of RPI(X) between September and December 2006 for Jersey and the UK



Increased house purchase costs were also the key reason for the latest increase in the RPI in Guernsey. The difference between the headline rates of inflation in Jersey and Guernsey was largely due to the Housing group overall, which contributed 2.6 percentage points in Guernsey and 1.7 in Jersey. For the remainder of the groups the annual percentage changes and contributions to overall change were similar in both jurisdictions.

BACKGROUND NOTES

1. The Retail Prices Index (RPI) is the main measure of inflation in Jersey. It measures the change from quarter to quarter in the price of the goods and services purchased by an average household in Jersey. The spending pattern on which the index is based is revised at intervals, using information from the Household Expenditure Survey (HES). The HES was conducted in 1998-99 and a further round of the survey was conducted in 2004-05, the results of which were published in July 2006.
2. The RPI is compiled using a large and representative selection of over 500 separate goods and services. The price movements for each of these are measured at a representative range of outlets. About 2,500 separate price quotations are used each quarter in compiling the index. Prices are measured on or around the 15th day of March, June, September and December.
3. Full details of the Jersey Retail Prices Index and its movements for the past seven years, together with the comparable UK and Guernsey indices, are set out in the Annex, along with details of the Jersey and UK figures for RPI(X) from 1999 to date. The movements of the 85 individual section indices which comprise the Jersey RPI are published on the website www.gov.je/statistics.
4. The Bank of England base rate stood at 3.75% in December 2003. The rate then increased four times to: 4.00% on 5 February 2004; 4.25% on 6 May 2004; 4.50% on 10 June 2004; and 4.75% on 5 August 2004. The rate then decreased on 4 August 2005 to 4.50%, remained stable for twelve months and then increased on 3 August 2006 to 4.75% and again on 9 November 2006 to 5.00%. The movement in the base rate over the twelve months to December 2006 was thus an increase from 4.50% to 5.00%, compared with an increase from 4.50% to 4.75% over the twelve months to September 2006.
5. **The March 2007 Index will be released on Wednesday 25th April 2007.**
6. The Jersey Retail Prices Index is compiled by the Statistics Unit, The Parade, St Helier, JE4 8QT; (enquiries to Kim Guegan– 01534 440423 and Nicky Johnson– 01534 440425; e-mail: statistics@gov.je).

Statistics Unit
24 January 2007

Annex**All items Retail Prices Index: 1999 - 2006**

		<u>Jersey RPI</u> <u>(June 2000=100)</u>	<u>Annual Movements %</u>			<u>Quarterly Movements %</u>		
			<u>Jersey</u>	<u>UK</u>	<u>Guernsey</u>	<u>Jersey</u>	<u>UK</u>	<u>Guernsey</u>
1999	Dec	(97.7)	4.4	1.8	2.4	1.1	0.7	1.1
2000	Mar	(99.0)	4.6	2.6	3.8	1.3	0.3	1.2
	Jun	100.0	4.4	3.3	4.4	1.0	1.6	1.6
	Sep	101.1	4.6	3.3	4.5	1.1	0.4	0.7
	Dec	101.6	4.0	2.9	3.9	0.5	0.3	0.5
2001	Mar	103.0	4.0	2.3	3.3	1.4	0.0	0.6
	Jun	103.9	3.9	1.9	2.3	0.9	1.3	0.8
	Sep	105.3	4.2	1.7	2.6	1.3	0.1	0.8
	Dec	104.7	3.1	0.7	1.9	-0.6	-0.7	-0.1
2002	Mar	107.1	4.0	1.3	2.9	2.3	0.6	1.6
	Jun	108.3	4.2	1.0	3.3	1.1	1.0	1.0
	Sep	109.7	4.2	1.7	3.9	1.3	0.8	1.4
	Dec	109.8	4.9	2.9	4.4	0.1	0.5	0.4
2003	Mar	112.4	4.9	3.1	4.7	2.4	0.8	1.9
	Jun	112.9	4.2	2.9	4.3	0.4	0.8	0.6
	Sep	113.9	3.8	2.8	3.3	0.9	0.7	0.4
	Dec	114.2	4.0	2.8	3.9	0.3	0.5	1.0
2004	Mar	116.6	3.7	2.6	4.2	2.1	0.6	2.2
	Jun	118.3	4.8	3.0	4.5	1.5	1.2	0.9
	Sep	120.3	5.6	3.1	5.2	1.7	0.7	1.1
	Dec	120.3	5.3	3.5	4.9	0.0	1.0	0.7
2005	Mar	121.9	4.5	3.2	4.6	1.3	0.3	1.9
	Jun	122.6	3.6	2.9	4.6	0.6	0.9	0.9
	Sep	122.7	2.0	2.7	3.8	0.1	0.5	0.3
	Dec	123.0	2.2	2.2	3.3	0.2	0.5	0.2
2006	Mar	124.8	2.4	2.4	3.1	1.5	0.5	1.7
	Jun	126.2	2.9	3.3	3.4	1.1	1.7	1.2
	Sep	127.1	3.6	3.6	3.5	0.7	0.8	0.4
	Dec	127.5	3.7	4.4	4.4	0.3	1.3	1.1

Retail Prices Index eXcluding house purchase costs

RPI(X) 1999 - 2006

		<u>Jersey RPI(X)</u>	<u>Annual Movements %</u>			<u>Quarterly Movement %</u>
		(June 2000 = 100)	<u>Jersey</u>	<u>UK</u>	<u>Guernsey</u>	<u>Jersey</u>
1999	Mar	(95.1)	3.6	2.7	2.6	1.1
	Jun	(96.2)	3.6	2.2	3.1	1.2
	Sep	(97.0)	3.6	2.1	3.0	0.8
	Dec	(98.1)	4.3	2.2	2.8	1.1
2000	Mar	(99.2)	4.3	2.0	3.1	1.1
	Jun	100.0	4.0	2.2	3.6	0.8
	Sep	101.1	4.2	2.2	3.5	1.1
	Dec	101.4	3.4	2.0	3.8	0.3
2001	Mar	102.8	3.6	1.9	2.9	1.4
	Jun	103.8	3.8	2.4	2.7	1.0
	Sep	105.3	4.2	2.3	3.1	1.4
	Dec	105.1	3.6	1.9	2.9	-0.2
2002	Mar	107.3	4.4	2.3	3.8	2.1
	Jun	108.4	4.4	1.5	3.6	1.0
	Sep	109.7	4.2	2.1	3.8	1.2
	Dec	109.8	4.5	2.7	3.8	0.1
2003	Mar	112.5	4.8	3.0	4.3	2.5
	Jun	113.4	4.6	2.8	3.8	0.8
	Sep	114.5	4.4	2.8	3.1	1.0
	Dec	114.2	4.0	2.6	3.4	-0.3
2004	Mar	116.4	3.5	2.1	3.2	1.9
	Jun	117.3	3.4	2.3	3.1	0.8
	Sep	118.3	3.3	1.9	2.9	0.9
	Dec	118.1	3.4	2.5	2.9	-0.2
2005	Mar	119.6	2.7	2.4	3.2	1.3
	Jun	120.2	2.5	2.2	3.3	0.5
	Sep	120.6	1.9	2.5	3.6	0.3
	Dec	120.7	2.2	2.0	3.0	0.1
2006	Mar	122.5	2.4	2.1	2.8	1.5
	Jun	123.9	3.1	3.1	3.1	1.1
	Sep	124.0	2.8	3.2	2.5	0.1
	Dec	123.7	2.5	3.8	2.8	-0.2