

## Jersey Retail Prices Index December 2007

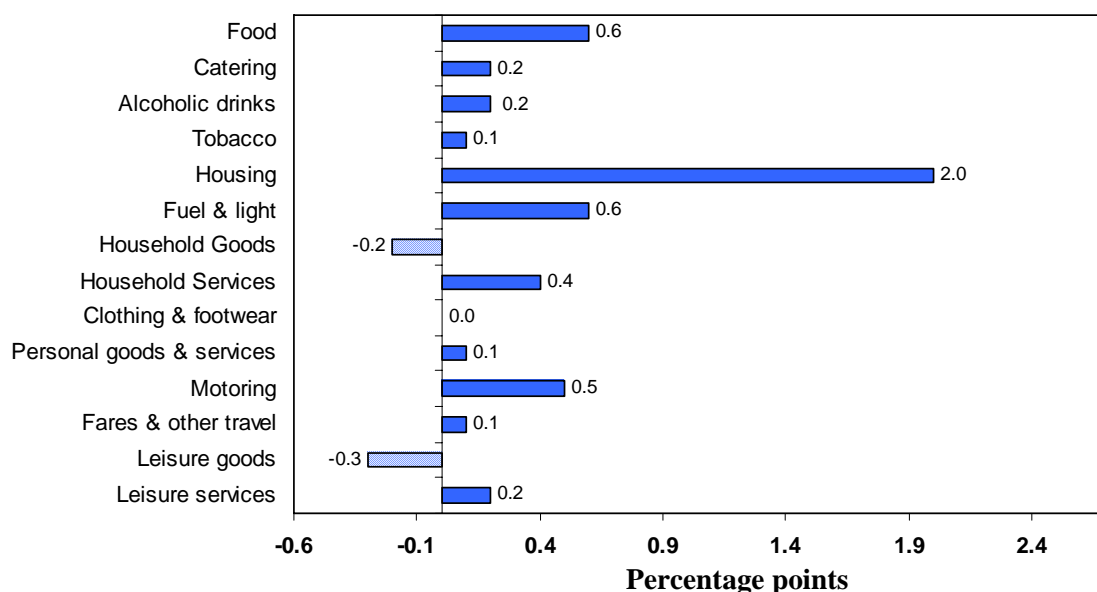
### Headlines

- During the twelve months to December 2007 the All-Items Retail Prices Index (RPI) for Jersey rose by 4.5% to stand at 133.3 (June 2000 = 100).
- Increased house purchase costs, predominantly due to annual changes in mortgage interest rates, was the key driver and accounted for 1.6 percentage points of the overall increase. The increased cost of Food, Fuel & light and Motoring was also significant.
- The increase in the RPI during the twelve months to September 2007 was 3.9%, implying that Jersey's annual rate of inflation rose by 0.6 percentage points in the latest quarter.
- RPI(X), the Retail Prices Index excluding the cost of house purchase, increased by 3.2% during the twelve months to December 2007. The annual rate of increase in RPI(X) was 1.0 percentage points higher than in September 2007.
- The quarterly increases in RPI and RPI(X) represent the largest December quarterly increases in the RPI since 1999 and in RPI(X) since its introduction in 2000.
- Three new retail price indices have been introduced this quarter: RPI Pensioners: RPI Low Income and RPI(Y). The annual rates of increase of these indices over the twelve months to December 2007 were 3.5%, 3.7% and 3.5%, respectively.

### Annual change

Figure 1 shows the contribution to the overall annual change of 4.5% by 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.*

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

- **Housing** costs: the Housing group as a whole increased by 9% during the twelve months to December 2007, contributing 2.0 percentage points to the overall annual increase in the RPI. The key driver was increased house purchase costs, predominantly due to annual changes in mortgage interest rates<sup>1</sup> which, combined with the ongoing growth in Jersey house prices, accounted for 1.6 percentage points of the overall increase in the RPI. The dominant factor was mortgage interest rates, accounting for approximately two-thirds of the latter 1.6 percentage points.
- **Food** costs: increased by about 6% compared to December 2006, contributing 0.6 percentage points of the overall annual increase in the RPI. Price rises were seen across the majority of the group, notably for dairy products such as eggs, butter and milk products, as well as for processed vegetables.
- **Fuel and light:** increased by 20% on average over the last twelve months contributing 0.6 percentage points. This was mainly the result of a 20% increase in electricity prices in January 2007, as well as an increase of 27% in the cost of heating oil over the last year, reflecting the rise in global oil prices.
- **Motoring costs:** increased by about 5% compared to December 2006, contributing 0.5 percentage points to the overall RPI. The key driver in this group was the price of motor fuels (petrol and diesel), up by more than 10p per litre compared with December 2006 and, again reflecting the higher global oil prices seen recently.
- **Household services:** this group including school fees, postal charges and domestic services increased by 4% on average in the twelve months to December 2007, contributing 0.4 percentage points to the overall annual increase.

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 2007) accounted for less than 0.2 percentage points of the overall increase in the RPI.

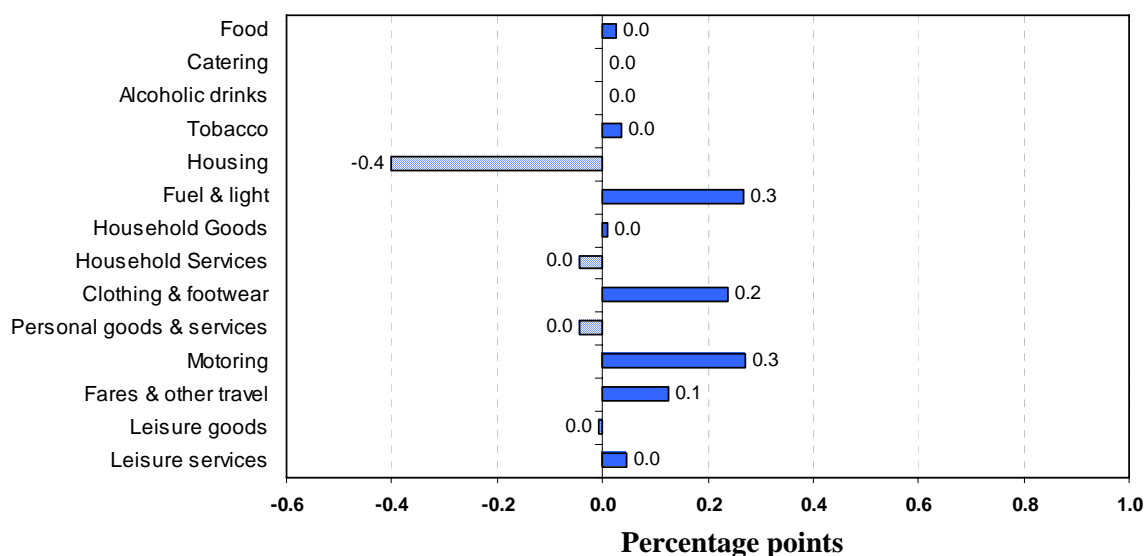
In contrast, average prices in **Leisure goods** were lower than a year earlier, with falls seen for audio-visual equipment, toys and gardening products. The price of **Household goods**, notably furniture, furnishings and electrical appliances were also lower overall than a year earlier and contributed -0.2 percentage points to the overall change. The cost of **Clothing & footwear** (particularly footwear and children's outerwear) was also slightly lower, and this group contributed -0.1 percentage points to the overall annual change.

Overall, there was an increase of 0.6 percentage points in the annual rate of change of Jersey's RPI between September and December 2007, from 3.9% to 4.5% (see Figure 2).

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<sup>1</sup> The quarter point reduction in the Bank of England base rate in November 2007 was not passed on to mortgage customers by the majority of the main clearing banks.

**Figure 2 - Contributions to *change* in annual rate of increase of RPI between Sept 07 and Dec 07 (+0.6% from 3.9% to 4.5%)**



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

A lower rate of increase (9%) was seen in the **Housing** group in the twelve months to December 2007 compared with the twelve months to September 2007 (11%) resulting in this group being the main downward influence on the change in the annual rate (see Figure 2). In contrast, the cost of **Fuel & light** and of **Motoring** rose by faster rates (around double) from December 2006 to December 2007 compared with the twelve months to September 2007. These groups were thus upward influences on the overall annual rate of increase. The **Clothing & footwear** group also applied upward pressure since prices fell by a lower rate in the twelve months to December 2007 compared with the twelve months to September 2007.

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

**Table 1: Group indices (June 2000 = 100) and percentage changes**

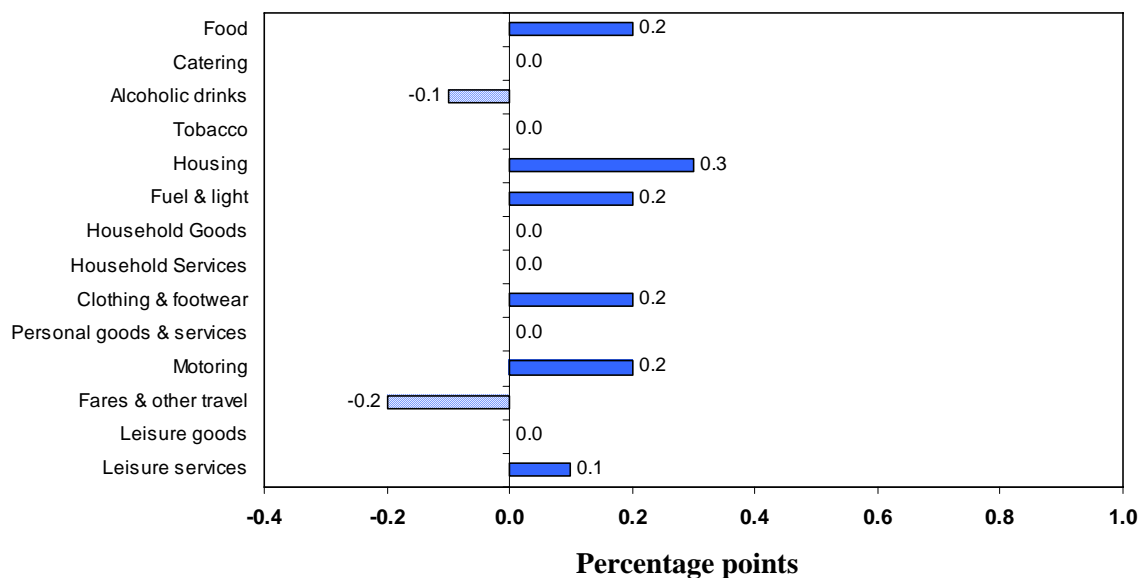
GROUP	2006	2007	2007	2007	2007	Annual change (percent)	Quarterly change (percent)
	Dec	Mar	Jun	Sep	Dec		
Food	118.6	120.5	122.1	124.0	125.8	6.1	1.4
Catering	122.7	124.3	125.3	127.4	128.7	4.9	1.1
Alcoholic drinks	126.4	131.2	131.2	132.8	131.3	3.9	-1.0
Tobacco	166.4	170.9	172.8	172.9	174.8	5.0	1.1
Housing	147.7	151.9	156.0	159.4	161.3	9.2	1.3
Fuel & light	139.0	154.0	157.0	156.2	167.0	20.1	6.9
Household goods	102.6	103.1	101.9	98.9	99.1	-3.4	0.2
Household services	130.9	133.6	134.9	136.8	136.3	4.1	-0.3
Clothing & footwear	86.9	85.6	87.0	82.2	86.0	-1.0	4.7
Personal goods & services	126.0	127.9	129.3	128.5	128.9	2.3	0.3
Motoring	126.7	130.6	132.5	129.7	132.5	4.6	2.1
Fares & other travel	150.7	164.7	165.0	169.7	156.8	4.0	-7.6
Leisure goods	95.7	93.2	89.7	90.3	90.2	-5.7	-0.2
Leisure services	134.3	135.0	134.9	136.3	137.4	2.3	0.8
<b>All items</b>	<b>127.5</b>	<b>130.3</b>	<b>131.6</b>	<b>132.1</b>	<b>133.3</b>	<b>4.5</b>	<b>0.9</b>

### Quarterly changes

The RPI increased by 0.9% between September and December 2007. The **Housing** group contributed an upward 0.3 percentage points (see Figure 3) to the overall net increase whilst **Food, Fuel & light, Clothing & footwear** and **Motoring** each contributed about 0.2 percentage points to the overall quarterly change.

Downward contributions came from **Fares & other travel** (which saw prices decrease, overall, during the quarter) and **Alcoholic drinks** (due to pre-Christmas off-premises sales) and accounted for -0.2 and -0.1 percentage points to the overall quarterly change, respectively.

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



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

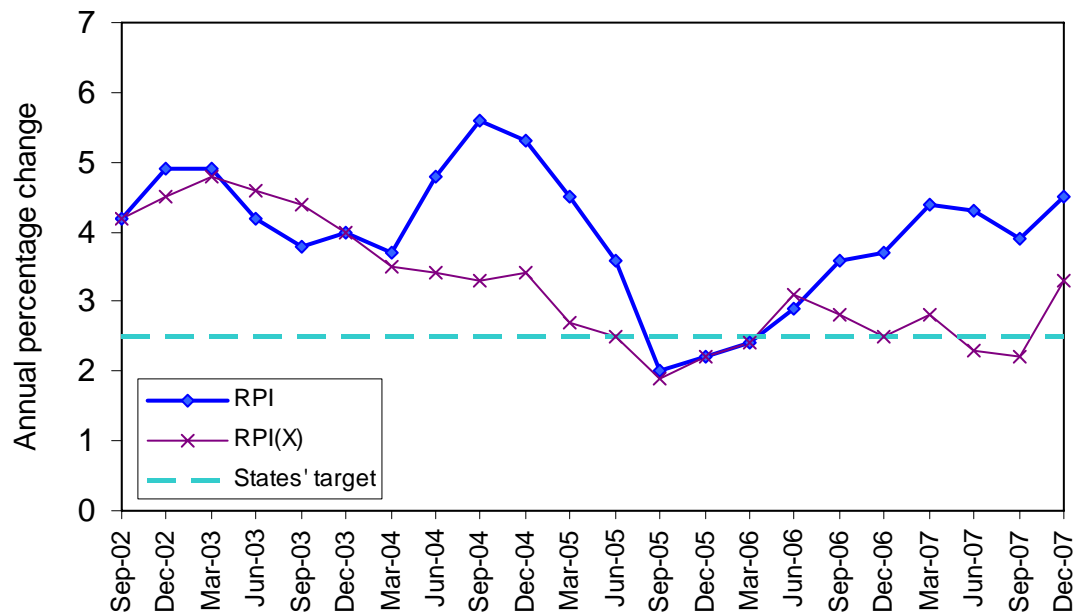
### Excluding house purchase costs: RPI(X)

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

In the twelve months to December 2007 **RPI(X) increased by 3.2%** to 127.7. This annual rate of increase of RPI(X) is 1.0 percentage points higher than that for September 2007 (see Figure 4). The **Food, Fuel & light, Motoring** and **Household services** groups were upward influences, as described for the RPI itself.

On a quarterly basis, RPI(X) increased by 0.8% between September and December 2007, with key upward drivers being increased **Food, Fuel & light, Clothing & footwear** and **Motoring** costs.

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



As Figure 4 shows, the annual change in the RPI(X) for December 2007 exhibits the greatest variation from States target for three years.

**Comparison with other jurisdictions**

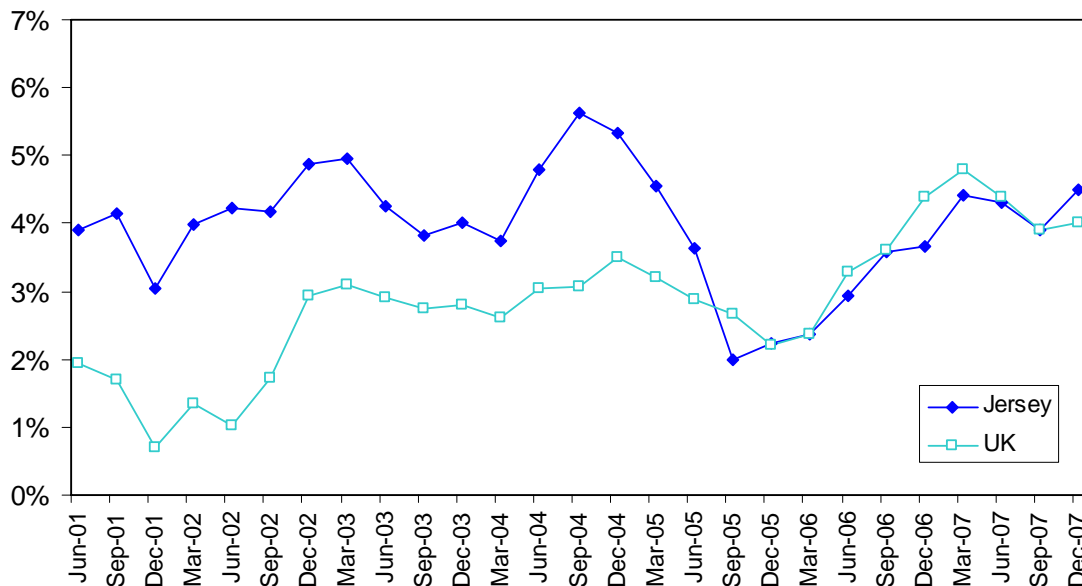
Although the annual changes in mortgage interest rates have a large influence on the rates of increase of the RPI in all jurisdictions shown in Table 2, local trends and issues in each location dictate the full extent of these effects and thus the differences between the relative rates of inflation. 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 % increases in RPI and RPI(X) for Sept. and Dec. 2007**

	RPI		RPI(X)	
	Sep 07	Dec 07	Sep 07	Dec 07
<b>Jersey</b>	3.9	4.5	2.2	3.2
<b>Guernsey</b>	4.9	4.9	2.9	3.9
<b>Isle of Man</b>	3.9	4.0	2.7*	3.8*
<b>UK</b>	3.9	4.0	2.8	3.1

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

Figure 5 - Annual percentage change in RPI: Jersey and UK 2001-2007



**Housing** was also the major contributor to the annual change in the UK but exerted downward pressure to the change in the overall rate, as in Jersey. The **Food** group was a key upward driver in both jurisdictions with a similar rate of increase (6%) seen in Jersey and the UK. In contrast to Jersey, **Fuel & light** was a key downward driver to the annual change in the UK, with gas and electricity bills remaining essentially unchanged in the UK, whilst **Household goods** increased in price on average in the UK but fell, overall, in Jersey.

The increased cost of **house purchase** was the key driver behind the annual increase of the Guernsey RPI, with the **Housing** group contributing 1.9 percentage points overall. The **Food** group contributed similarly to the annual changes in both jurisdictions (0.6 and 0.8 percentage points in Jersey and Guernsey, respectively). In contrast, the change in the price of **Alcoholic drinks** contributed 0.5 percentage points in Guernsey compared to 0.2 percentage points in Jersey, whilst **Household services** contributed 0.1 percentage points in Guernsey but 0.4 percentage points in Jersey. The change in the cost of **Household goods** was an upward driver in Guernsey (contributing 0.3 percentage points) whereas it had a downward influence in Jersey (contributing -0.2 percentage points).

### Other inflation measures<sup>2</sup>

It is well recognised that particular types of household may experience different rates of retail price inflation, and that summary inflation measures such as the change in the all-items RPI may not meet all users' needs. Therefore, it is useful that government statistical offices, such as the States of Jersey Statistics Unit, produce other inflation measures which may be more suitable for particular users.

The Statistics Unit in Jersey introduced the RPI(X) in 2000; this measure excludes mortgage interest payments and is often referred to as the 'underlying' rate of inflation. It is currently used to define the States of Jersey's inflation target.

<sup>2</sup> Reference ONS Technical Manual 2007

This quarter, a further three retail price indices have been introduced for Jersey, namely for pensioner households, RPI Pensioners, for low income households (defined as those in the lowest quintile of household income) RPI Low income, and RPI(Y), which provides a further measure of underlying inflation by removing the effect not only of mortgage interest payments but also of indirect taxes.

### **RPI Pensioners**

A separate price index has been produced for households in which the head of the household is a pensioner. These households therefore include single pensioner households as well as households where there are more than one pensioner present.

Group and section weights are derived from information on expenditure by pensioner households collected by the 2004/05 Household Expenditure Survey (HES). Some items are excluded in principle from this index, for example bus fares (since pensioners are entitled to free bus passes in Jersey).

Item weights differ from those of the Jersey RPI itself, particularly in the following sections for which expenditure patterns within the section are very different for pensioners compared to all households:

Telephone charges	Motor Vehicles
Domestic Services	Fares
Fees and Subscriptions	Toys, photographic & sports goods
Chemist goods	Books, newspapers & magazines
Personal Services	

In contrast to the pensioner price index produced in the UK, the Housing group is included in the Jersey pensioner index. The rationale for this is that housing costs (including rents, rates, DIY, repairs and maintenance, and dwelling insurance) make up a significant proportion of expenditure for pensioner households in Jersey. Another difference between the Jersey and UK pensioner indices is the exclusion of some health related items from the UK index which are not paid by UK pensioners.

**During the twelve months to December 2007 the RPI Pensioners for Jersey rose by 3.5% to stand at 103.5 (December 2006 = 100).**

### **RPI Low Income**

This index has been produced for households within the lowest income quintile, as recorded by the Household Expenditure Survey (HES) and relates to households with an annual total household income (earned and unearned) of less than £17,500<sup>3</sup>. The HES expenditure information was used to calculate the group and section weights for these households.

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<sup>3</sup> 2004/5 values. This quintile boundary now corresponds to approximately £19,000.

In the following sections, item weights differ from those in the Jersey RPI due to the different expenditure patterns for low income households compared to all households:

Personal Services

Wines & Spirits – off premises

Household consumables

Telephone Charges

Domestic Services

Fares

Books, newspapers & magazines

Fees & Subscriptions

Chemists Goods

**During the twelve months to December 2007 the RPI Low income index for Jersey rose by 3.7% to stand at 103.7 (December 2006 = 100).**

### **RPI(Y)**

This index is designed to measure movements in core prices, excluding price changes which are directly due to changes in indirect taxation and mortgage interest rates. The purpose of this index is to provide a better indication of inflationary pressures at times when other price indices are directly influenced by governmental and central bank driven factors.

*RPI(Y) excludes mortgage interest payments and indirect taxes.* For Jersey, the indirect taxes excluded are Parish rates and all taxes and duties that directly affect retail prices, namely impôts (on tobacco, alcohol and motor fuels), Vehicle Registration Duty (VRD) and Air Passenger Duty. After its introduction (due in May 2008) the effect of the Goods and Services Tax (GST) will subsequently be excluded from RPI(Y).

The methodology used to construct RPI(Y) is the same as that used for the RPI. However, the prices used for RPI(Y) are the residual prices left after excluding the relevant level of applicable taxation in that quarter. The weights used for RPI(Y) thus differ from those used in the RPI. For example, goods such as tobacco, which has high levels of tax, has a considerably reduced weight in RPI(Y).

Due to the differing weights involved, RPI(Y) can move differently from RPI even if taxes are unchanged. For example, the Food group has a higher weight in RPI(Y) (because there is currently no tax on food); so if food prices rise more than other prices, RPI(Y) will increase faster than RPI.

RPI(Y) item indices are the same as RPI item indices for items not subject to taxes and for items subject only to proportional taxes (e.g. GST), as long as there are no changes in tax rates. For items subject to flat rate taxes, such as alcohol or tobacco duty, the RPI(Y) and RPI item indices can differ even when there are no tax changes. This is because underlying price changes represent a greater proportion of the price excluding taxes used in RPI(Y) than the price including tax used in the RPI.

**During the twelve months to December 2007 the RPI(Y) for Jersey rose by 3.5% to stand at 103.5 (December 2006 = 100).**



## 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 most recent HES was conducted in 2004-05 the results of which were published in July 2006 and used to conduct the RPI commodity review in March 2007.
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 2000 to date. The movements of the 85 individual section indices which comprise the Jersey RPI are published on the website [www.gov.je/statistics](http://www.gov.je/statistics).
4. The Bank of England base rate stood at 4.50% in August 2005 and remained stable for twelve months. It then increased five times: to 4.75% on 3 August 2006; to 5.00% on 9 November 2006; to 5.25% on 11 January 2007; to 5.50% on 10 May 2007 and to 5.75% on 5 July 2007. The base rate then decreased to 5.50% on 6 December 2007. However, the main clearing banks had not passed on this most recent cut in the base rate to mortgage customers by mid-December 2007.
5. **The March 2008 Index will be released on Wednesday 16<sup>th</sup> April 2008.**
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](mailto:statistics@gov.je)).

*Statistics Unit*  
*23rd January 2008*

**All items Retail Prices Index: 2000 - 2007**

		<u>Jersey RPI</u> (June 2000=100)	<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>
<b>2000</b>	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
<b>2001</b>	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
<b>2002</b>	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
<b>2003</b>	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
<b>2004</b>	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
<b>2005</b>	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
<b>2006</b>	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	1.8	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
<b>2007</b>	Mar	130.3	4.4	4.8	4.8	2.2	0.8	2.1
	Jun	131.6	4.3	4.4	4.7	1.0	1.4	1.1
	Sep	132.1	3.9	3.9	4.9	0.4	0.3	0.6
	Dec	133.3	4.5	4.0	4.9	0.9	1.4	1.1

**Retail Prices Index eXcluding house purchase costs**

**RPI(X) 2000 - 2007**

		<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>
<b>2000</b>	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
<b>2001</b>	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
<b>2002</b>	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
<b>2003</b>	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
<b>2004</b>	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
<b>2005</b>	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
<b>2006</b>	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
<b>2007</b>	Mar	125.9	2.8	3.9	3.1	1.8
	Jun	126.7	2.3	3.3	3.1	0.6
	Sep	126.7	2.2	2.8	2.9	0.0
	Dec	127.7	3.2	3.1	3.9	0.8