States of Jersey Statistics Unit

Jersey Economic Digest 2005

States of Jersey

Foreword

Last year the States of Jersey Statistics Unit launched the Jersey Economic Digest to provide a broader perspective of developments in the Jersey Economy. By bringing together data on the performance of the economy, employment, earnings and prices the Digest looks beyond the latest set of data to see a wider picture and shows how data can be used to further our understanding of the Island's economy.

The response to the first edition was very positive and as a result we have expanded the analysis provided and included additional information about the series published so as to further assist the use of data.

The Digest focuses on economic data. A wider cross-section of data on Jersey will be published as usual in "Jersey in Figures" in the spring and as we are on a second print run of the 2004/5 edition it is pleasing to see that the appetite for statistics remains strong in Jersey.

Launching the Digest was one of a number of new statistical initiatives we undertook last year and new work has continued throughout 2005.

For the past 12 months we have been running a Household Expenditure Survey to enhance our understanding of personal expenditure and to gather information which will ensure that the RPI remains accurate. In autumn 2005 we launched the new Jersey Annual Social Survey which will allow us to provide meaningful timely data on a wide range of social issues to better inform policy making. The results of these surveys will be published in the first half of 2006.

The continuing production and development of new official statistics is only possible because individuals and companies have continued to provide us with data. I am very grateful for that and I can reassure you again that all data provided are only used for the production of aggregate statistics.

The report and all our regular reports are available through the Statistics Unit website www.gov.je/statistics.

I trust the report is both interesting and of use.

Duncan Millard

Duncan Millard
Head of Statistics, States of Jersey Statistics Unit

Contents

Summary

The Jersey Economic Digest pulls together a wide range of statistics relating to the Island's economy. This edition presents data up to the end of 2004, or the third quarter of 2005 for quarterly series.

Section 1 looks at measures of the size of the economy: Gross National Income (GNI), Gross Value Added (GVA) and Gross Value Added per Employee. This is presented in terms of the economy as a whole and also at a sectoral level. Since the Finance sector is central to the overall Jersey economy, Finance sector profits are considered separately in further detail.

Section 2 provides information on Jersey employment, including seasonality patterns, employment by sector and registered unemployment.

Section 3 covers prices and earnings. Trends in the Retail Prices Index, House Price Index and the Index of Average Earnings are reported, as well as cross-analysis of all three indices.

The situation in Jersey is compared with that of other countries and jurisdictions (such as the UK and Guernsey) where appropriate.

At a headline level official data show the following developments in the Jersey economy:

- total GVA saw the smallest real-term fall for four years;
- the profits of the Finance sector stabilised after three years of decline and the sector has expressed increased optimism for 2005;
- private sector employment increased by more than 1% compared to the previous year, representing the first increase for more than two years;
- the Finance sector saw its first increase in employment since mid-2002;
- in September 2005, the headline rate of inflation, as measured by the Retail Prices Index, stood at its lowest level since consistent data has been available, whilst the underlying rate of inflation (RPI(X)) went below the States target of 2.5% and the rate of increase has fallen in 9 out of the last 10 quarters;
- Over the last twelve months to June 2005, average earnings grew at an annual rate of 5.3%;
- the average price of dwellings in Jersey has been essentially stable during the past three years; however since mid-2004 it has been slowly rising and in Q3 2005 was 3.4% higher than in the previous quarter; and
- from June 2002 - June 2005, the annual average rate of increase of the House Price Index has slowed significantly to 2.5% and been below that of the RPI (4.2% per annum) and the Index of Average Earnings (4.4% per annum).

The remainder of the report looks in more detail at these headline figures to aid understanding of the Jersey economy.

Section 1: Economy

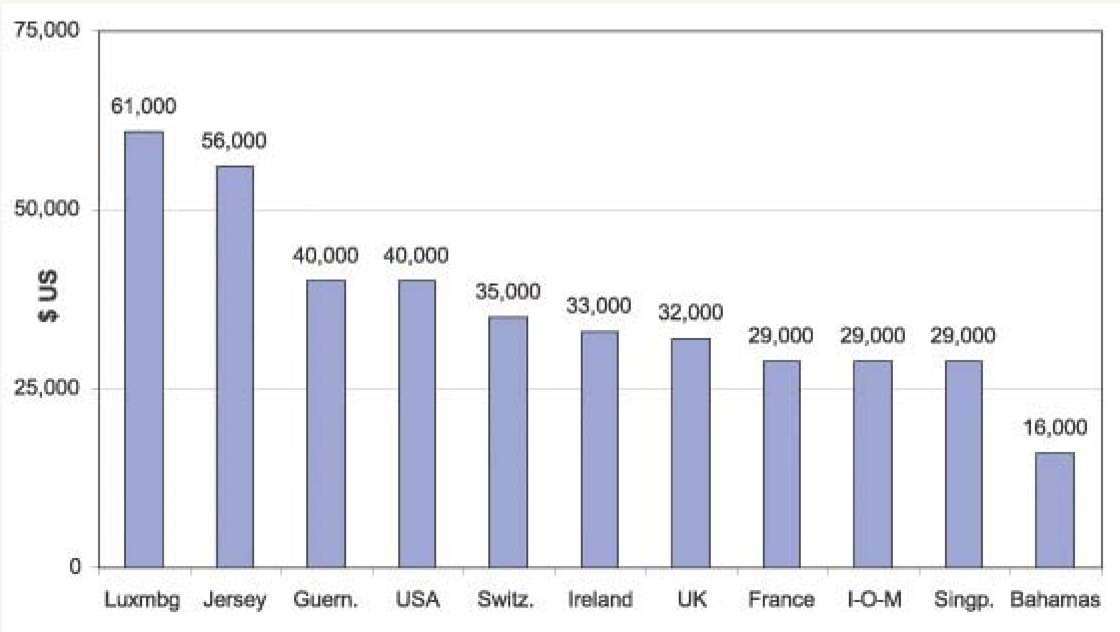
Overview

In 2004 the value of economic activity in Jersey was £3.22 billion pounds. This measure of the value of activity is the Gross Value Added (GVA) for the Island; in essence, GVA is the sum of wages and salaries and company profits.

The economic activity of Jersey can also be considered in another way, in terms of the wealth of Jersey people and Jersey-owned businesses; this measure is known as Gross National Income (GNI). GNI is derived from GVA by subtracting money earned in Jersey by businesses owned off-Island but adding back money earned abroad by Jersey residents and businesses. In 2004 GNI for Jersey was approximately £3.04 billion pounds.

Jersey's GNI per capita is amongst the highest in the world, and is shown in chart 1.1 in terms of $US for comparative purposes.

Chart 1.1: Jersey GNI per capita in 2004 (PPP $US)[1]



In 2004, only Luxembourg had a higher GNI per capita ($61,000), whilst the USA and UK stood at $40,000 and $32,000 respectively.

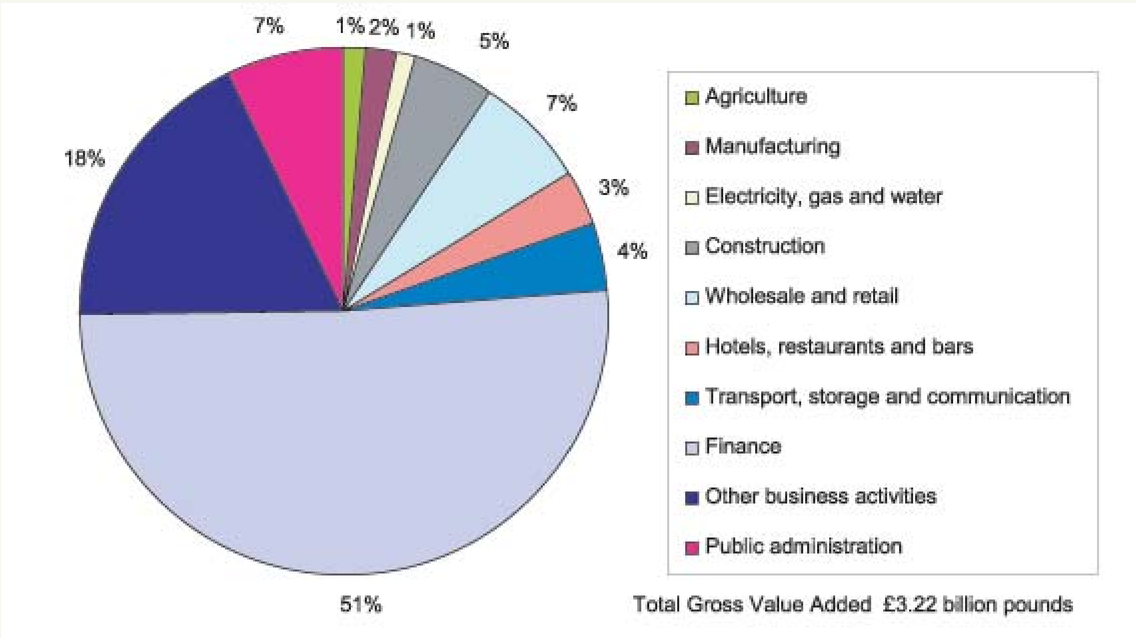
1 *Source: World Bank, calculated using OECD purchasing power parity for £ sterling.*

Development of the Jersey economy

The economy of Jersey has seen a great deal of change during the past 30 to 40 years as markets have become more international and global travel has increased. This has meant that traditional Jersey industries such as agriculture and tourism are having to operate in fiercely competitive markets and are no longer the dominant industries in Jersey.

However, the international nature of business has allowed the single-most dramatic change to the Jersey economy to take place. Over the past 20 to 30 years the Financial services sector (banking, trust and fund administration and management, accountancy and legal activities) has grown such that it now accounts for just over half of all the economic activity in Jersey (chart 1.2) and employs almost a quarter of the workforce.

Chart 1.2: Gross Value Added by sector[2], 2004



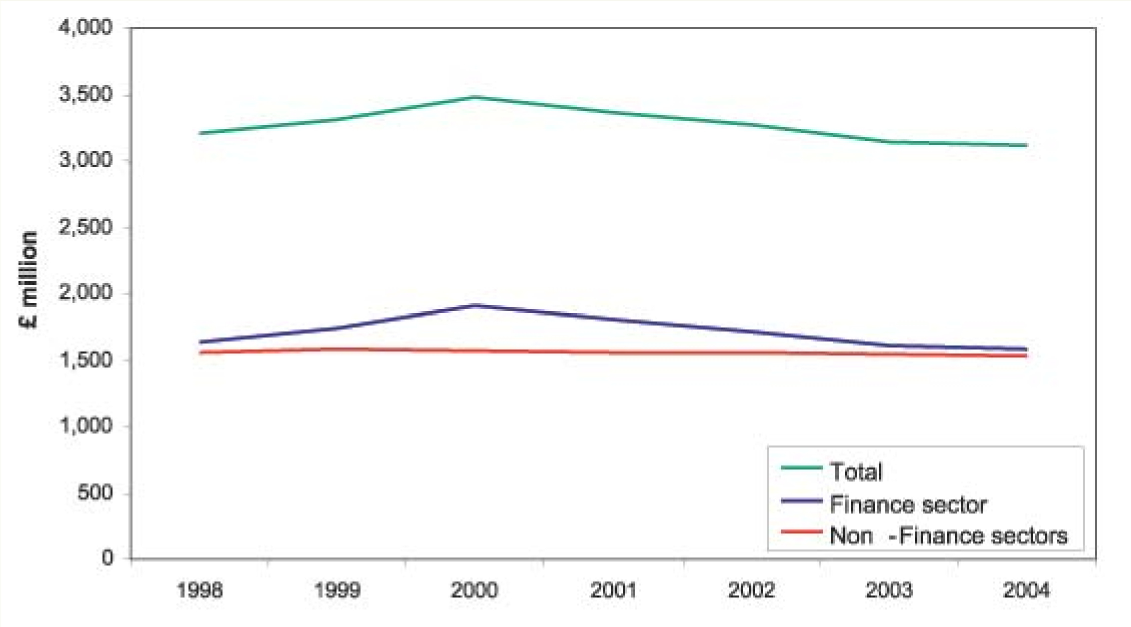
Reliable data on the size of the Jersey economy only exist from 1998 onwards, with the latest data being for 2004[3]. As such, it is difficult to track in detail the growth of the finance industry in Jersey since its inception, but we can look at more recent developments in this and other sectors.

Chart 1.3 shows GVA in real terms, split into Finance and non-Finance components.

[2] *The Other business activities sector is made up of a range of services and activities (e.g. architects, cleaning services, advertising etc.) and includes rental income. Throughout this report the value of the whole sector is shown for aggregate GVA values; however, when comparing performance of individual sectors, rental is excluded from this sector.*

[3] *Jersey Gross Value Added (GVA) and Gross National Income (GNI) 1998-2004: Statistics Unit, December 2005.*

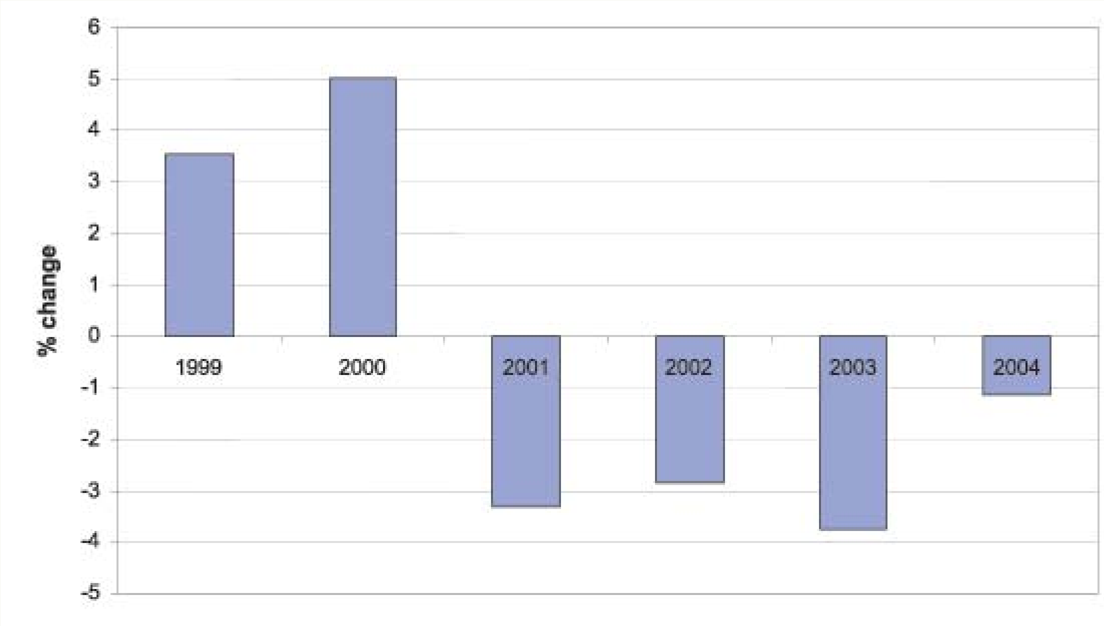
Chart 1.3: Gross Value Added in real terms: constant (2003) prices



This chart clearly shows two features. Firstly, that the past six years have seen two distinct periods of economic performance: 1998-2000 saw strong economic growth whilst 2001 to 2004 saw the economy performing less well. The second feature is the strong relationship between the finance industry and the Jersey economy overall. So as the GVA of the finance industry grew by 16% in real terms between 1998 and 2000, the overall GVA for Jersey correspondingly grew by 9%; but when the value added of the Finance sector declined by 17% total GVA correspondingly fell by 11% in the four years to 2004.

An important development in the Island's economy, evident in chart 1.4, is that whilst the value of GVA has been declining in real-terms since the peak in 2000, the rate at which this decline is occurring lessened significantly in 2004. The decline in real-term GVA was 1% between 2003 and 2004, compared with larger falls of 4% between 2002 and 2003 and 3% between both 2001 and 2002, and 2000 and 2001.

Chart 1.4: Annual percentage change in Gross Value Added (real terms)



A further element impacting strongly on the Jersey economy, but not directly visible in charts 1.3 and 1.4, is the performance of global financial markets. This point is important because the interrelation of financial markets means that it is very unlikely the sector can be performing well in one geographic region when it is falling elsewhere. However, this does not mean that an economy cannot be performing well in relative terms.

Although the finance industries in Guernsey and the Isle of Man differ from Jersey's and are only one third the size, it is informative to look at the relative performance. Finance in Guernsey is largely insurance based and the sector saw a very small real-term growth of 0.2% in 2004, following two years of 3% and 4% real-term falls. The Isle of Man's finance sector has seen greater volatility, with a real-term fall of 0.5% in 2003/04, following 6% growth and 3% declines in the previous two years. Overall the pattern in the three islands is broadly similar.

Economic sectors

Whilst the performance of the whole Jersey economy has mirrored that of the Finance sector during the past six years, there have been differences in the performance of individual sectors as measured by GVA (see table 1.1 and Annex tables A1a and A1b).

Table 1.1: GVA by sector in real-term (constant (2003) prices)

	GVA in 2003 prices, £ million				Percentage change		
	1998	2000	2003	2004	1998 - 2000	2000.- 2004	2003 - 2004
Agriculture	60	57	47	44	-5.5	-23.7	-7.5
Manufacturing	73	72	63	60	-1.5	-16.4	-4.7
Electricity, gas and water	41	41	35	34	0.6	-18.4	-2.8
Construction	161	167	164	160	3.5	-3.9	-2.2
Wholesale and retail	221	217	211	209	-1.9	-4.0	-1.2
Hotels, restaurants and bars	132	124	111	109	-6.1	-12.3	-2.5
Transport, storage and coms.	134	133	131	132	-1.0	-0.8	0.4
Financial	1,642	1,910	1,609	1,580	16.3	-17.3	-1.8
Other business activities[4]	192	200	202	208	4.4	3.8	3.1
Public administration	193	211	226	226	9.0	7.1	-0.4
Total GVA	**3,203**	**3,483**	**3,149**	**3,114**	**8.7**	**-10.6**	**-1.1**

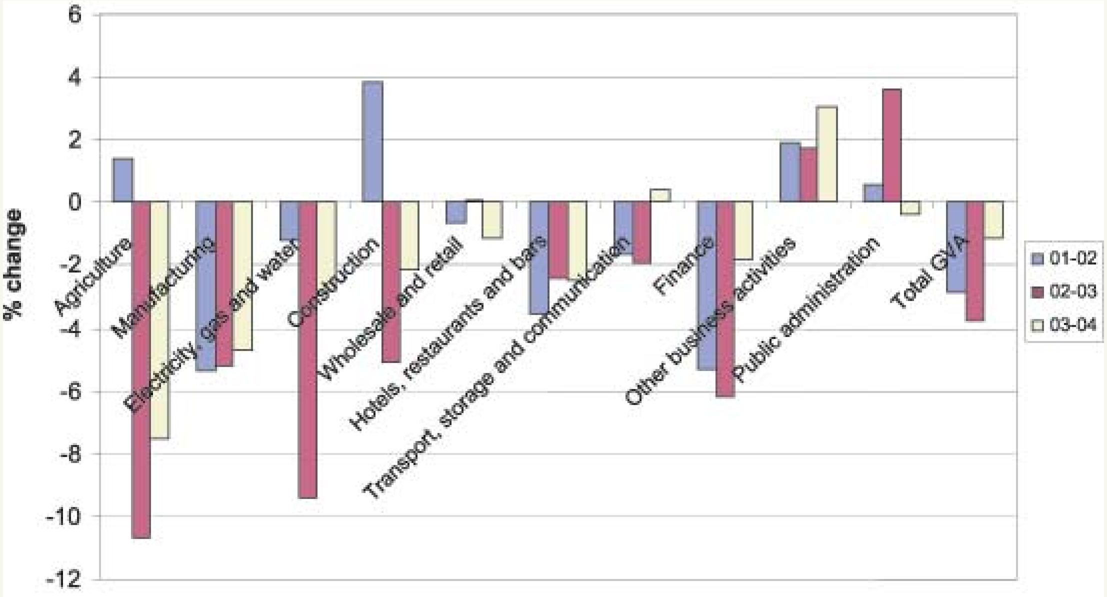
GVA data are all rounded to the nearest £Million

Over the entire period of 1998 to 2004, the most notable change in real term GVA occurred in the Agriculture sector, which has seen year on year falls and in 2004 was a quarter smaller than in 1998. The Manufacturing, Electricity, gas and water, and Hotels, restaurants and bars sectors all experienced real term falls of about a sixth over the same period. In contrast, the Other business activities and Public administration sectors saw real-term growth of 8% and 17% respectively over this six year period.

However, to understand the current state of the economy it is best to focus on the most recent years. Chart 1.5 shows the change in real-term GVA by sector for each of the past three years.

[4] *Excluding rental income of private households, which for 2004 was £353 million. This component is included in the total GVA figure.*

Chart 1.5: Real-term change in GVA, 2002 - 2003



As mentioned previously, the Jersey economy experienced a smaller real term decline in GVA in 2004 than in the previous two years. This trend (as chart 1.5 illustrates) is reflected in the performance of the individual economic sectors, with 7 out of the 10 sectors performing better in 2004 than in 2003.

The most significant changes in real-term sectoral growth between 2002 and 2003 and 2003 and 2004 occurred in the Transport, storage and communication sector which went from a 2% fall to a 0.5% increase, Electricity gas and water (-9% to -3%), Construction (-5% to 2%) and as discussed above, the Finance sector (-6% to -2%). The Agriculture and Manufacturing sectors experienced better years in 2004, although Agriculture still fell by around 7.5%.

Two sectors went against the overall trend: the Wholesale and retail sector experiencing real-term decline of 1% following very small growth in 2003; whilst the Public sector shrunk by around 0.5% in 2004 after growing by 4% in 2003. The rate of real-term decline in the Hotels, restaurants and bars sector remained relatively stable over the last two years at around 2%, lower than that seen during 2001 to 2002 (about 4%).

The one sector that has out-performed the whole economy is Other business activities which covers trades such as architects, cleaning services, advertising, security and personal services. This sector has seen three consecutive years of real term growth and in 2004 grew by 3% following two years of nearly 2% growth. The continued growth in these new services areas provides additional evidence of the changing nature of the Jersey economy towards one that is service based.

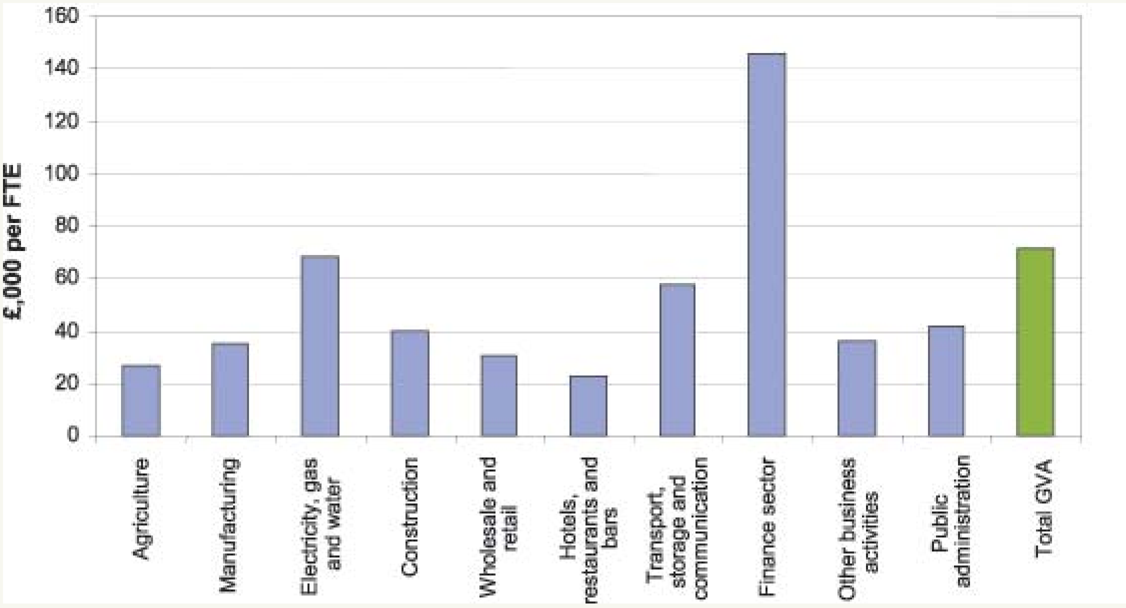
Whilst GVA, which is the sum of compensation of employees (wages, pensions, etc.) and company gross operating surplus (profits), is a good measure of the overall performance of the economy, some care is needed in interpreting changes for certain sectors. For example, between 1998 and 2004 the real GVA of the Electricity, gas and water sector fell by 18%; but this fall coincided with a period of significantly reduced employment in the sector, resulting in the compensation of employee component of GVA falling in real terms. However, as described below, real GVA per employee in this sector was about the same in 2004 as in 1998.

Similarly, by convention, the GVA of the Public sector is determined as only the compensation of its employees: the Public sector is defined to consume all of its own output. Thus the 17% growth between 1998 and 2004 in the GVA of the Public sector reflects increased employment in the sector and the extent to which wage settlements have been above RPI(X), the measure used to deflate current price GVA to real terms. These two employment factors are also pertinent for other sectors, but with the addition of changes in company profits.

Gross Value Added per employee

Another way of assessing the contribution which sectors make to the overall economy is to look at GVA per employee, derived by dividing GVA by the number of full-time equivalent[5] (FTE) employees, both at sector and whole economy level. GVA per employee is not quite an absolute measure of productivity, as it excludes capital, but it can be viewed as a proxy since it does show the value of economic output produced per employee. GVA per employee is, however, conceptually different to GNI per capita; the latter is a measure of the total value of economic activity of Jersey-owned businesses and resident individuals divided by the total Island population and as such is a smaller number than GVA per employee (which measures output per those employed only).

Chart 1.6: GVA per full-time equivalent employee in 2004 (current prices)



In 2004 GVA per employee (chart 1.6) was greatest in the Finance sector at about £147,000 per FTE. This value was approximately three and a half times the level of most other sectors. The lowest values of GVA per employee were seen in the Hotels, restaurants and bars, Agriculture and Wholesale and retail sectors, all of which had figures at or below £30,000 per FTE.

5 The number of full-time equivalent employees is calculated by assigning a full-time employee a weight of 1 and a part-time employee a weight of 0.5.

The longer term trend in GVA per employee is shown in charts 1.7 and 1.8 below, with underlying data in Annex table A2. The most dramatic changes have occurred in the Finance sector: GVA per employee in this sector grew from £156,000 in 1998 to a real-term peak of £174,000 in 2000, before falling in each subsequent year, reaching a value of about £142,000 per FTE in 2003. However in 2004, real GVA per FTE stabilised at this level reflecting the improving performance of the sector.

The only other sector to show a large real-term decline since 1998 is the Agriculture sector which fell from £31,000 per FTE in 1998 to £26,000 per FTE in 2004, a 16% decline over the whole period.

All other sectors have seen relatively small amounts of real term growth in terms of GVA per FTE, the largest of which occurred in the Transport, storage and communications sector (from £52,000 per FTE in 1998 to £56,000 per FTE in 2004) and the Construction sector (from £35,000 per FTE in 1998 to £39,000 per FTE in 2004).

Chart 1.7: GVA per FTE in constant (2003) prices

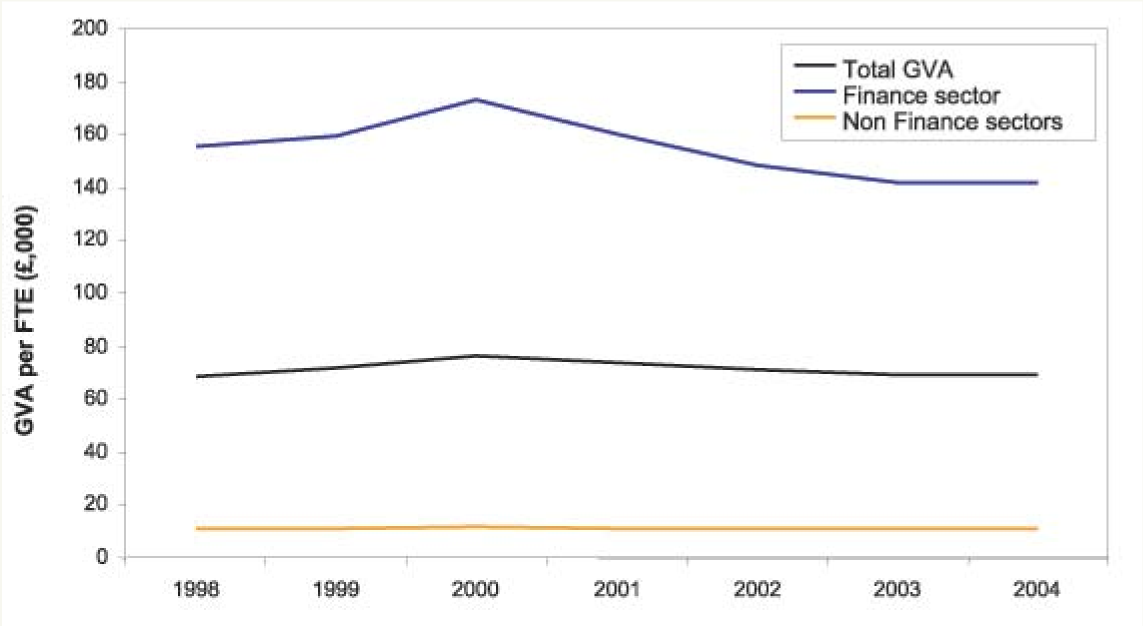
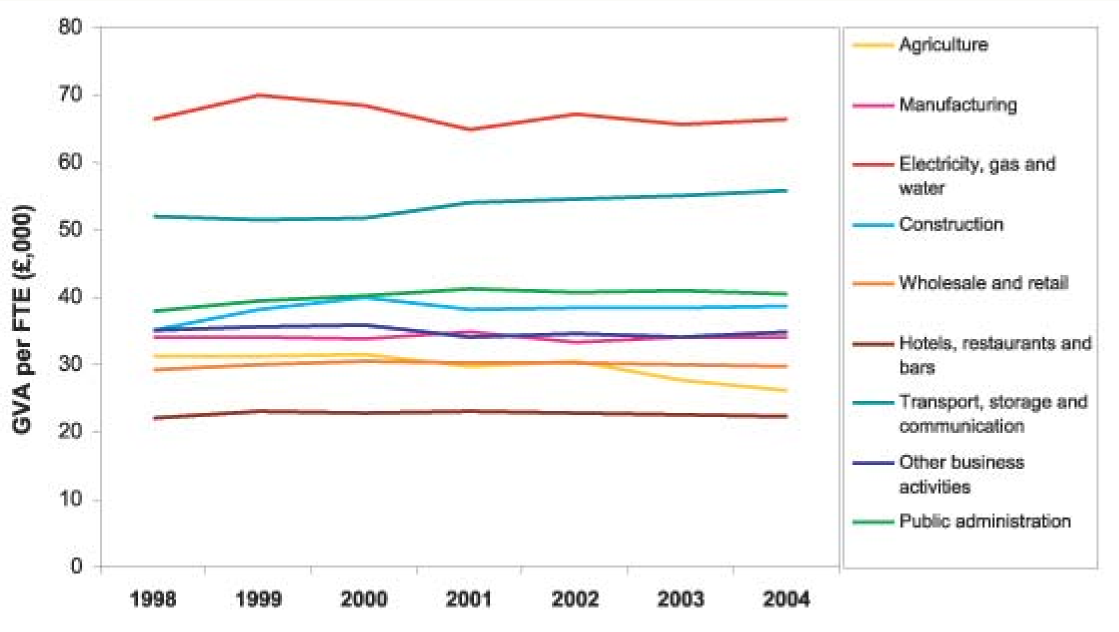


Chart 1.8: GVA per FTE in constant (2003) prices - non financial sectors



Finance sector profits

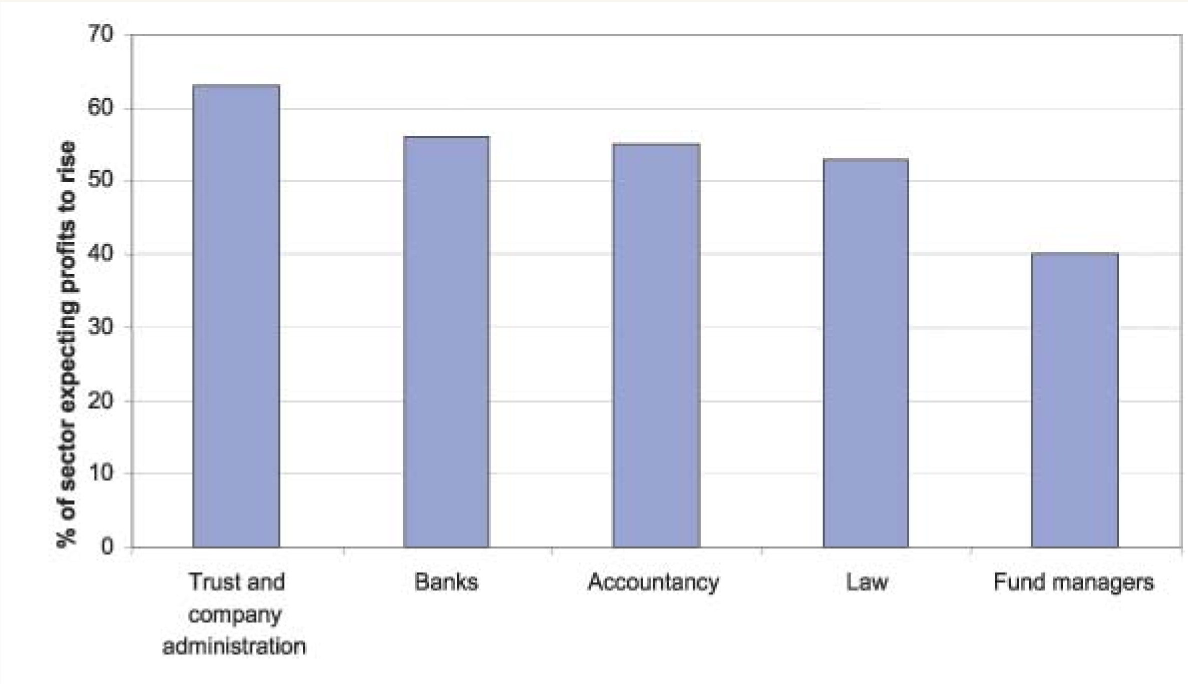
The performance of the overall Jersey economy during the past few years reflects that of the Finance sector; total profits in the sector reached a peak of £1,200 million in 2000 and subsequently declined each year until 2003, when they stood at £1,050 million. In 2004, however, total profit of the sector was the same (in current terms) as for 2003.

In terms of the various sub-sectors within the Jersey Finance industry, between 2003 and 2004 total profits for trust and company administrators (including legal firms)[6] and fund managers increased by about 5%. Over the same period, total profits for banks fell by 1%, compared to the 7% fall noted for banks between 2002 and 2003.

In addition to the improved performance in 2004, finance companies have expressed optimistic predictions for profits in 2005, as shown in chart 1.9

[6] *Results of the legal sub-sector were analysed separately for the first time in the 2004 round. Legal firms were previously included as part of the trust and company administration sub-sector.*

Chart 1.9: Expectation of profits for finance companies: 2005 relative to 2004



The level of optimism was highest for firms engaged in trust and company administration, with almost two-thirds (63%) of such firms expecting profits to rise in 2005. The proportions of firms expecting profits to rise in the other sub sectors were: banks 56%; accountancy 55%; law 53%; and fund managers 40%. Of particular significance, 14 out of the 15 largest banks (with more than 100 FTEs) forecast profits either to increase or to remain the same in 2005.

The level of optimism for 2005 is greater than that expressed for 2004. Overall, the ratio of firms with an expectation of increased profits to reduced profits is about 3 to 1 for 2005, compared to around 2 to 1 for 2004. For 2005, fewer firms expect profits to fall with more expecting profits to grow by about 10%.

To put such predictions into context, it is informative to compare the forecasts of expected profit given by firms in 2003 with the actual levels of profit achieved in 2004. Such a comparison indicates that about 80% of firms were able to correctly forecast the direction of movement of their profits for 2004, as either upward or downward[7].

[7] *Excluding companies which had predicted no change.*

Section 2: Employment

Overview

In relative terms, employment levels in Jersey are high. For example, in 2001 82% of people of working age in Jersey were economically active (i.e. in work or looking for work) compared to 78% in the UK. The same differential of 4 percentage points applied to both sexes: the economic activity rates of men and women were 87% and 76% respectively in Jersey, compared to 83% and 72% in the UK. These activity rates resulted in there being an average of 1.24 full-time equivalent employees per household in Jersey compared to 0.96 in the UK[8].

In June 2005, 52,910 people were employed in Jersey, corresponding to about 60% of the total population. This total represents an increase of 550 on June 2004 but is some 2,500 lower than 1997 which saw the last peak in employment.

Of the 52,910 employed, 46,420 (88%) were in the private sector with the remaining 6,490 (12%) employed in the public sector.

The latest annual change in employment comprises a net increase of about 600 in the private sector and a fall of 60 in the public sector. These figures represent the first increase in total employment in the private sector since 1999 and the first decrease in employment in the public sector since 2000.

On a Full-Time Equivalent basis (FTE), total employment was 44,940 in June 2005. Data on an FTE basis are given in Annex table A3.

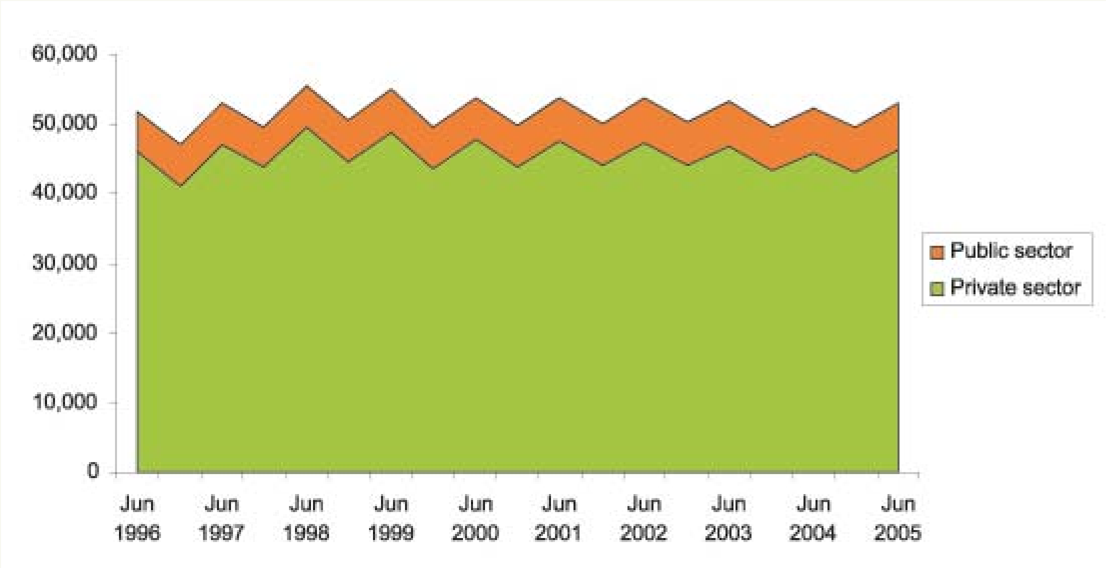
Seasonality in employment

As chart 2.1 demonstrates, there is a fair degree of seasonality in the Jersey labour market, with about 3,300 more people employed in the summer of 2005 than in the winter of 2004. The seasonal variation is largly a result of agriculture and tourism: the Hotels, restaurants and bars sector employed almost 2,000 more people in the summer; Agriculture employed about 300 more people in June 2005 than in December 2004; and Transport, storage and communication around 200 more. Some other sectors, notably the "other services" component of the Education, health and other services sector, also display some seasonal variation driven by tourism, but this is generally less marked.

The extent of the seasonal variation in employment has lessened over the past few years as the Agriculture and Hotels, restaurants and bars sectors have seen real-term economic decline (as discussed in Section 1). In 1996 the total difference between summer and winter levels was around 4,800, including differences of some 3,000 in Hotels, restaurants and bars and 700 in Agriculture alone.

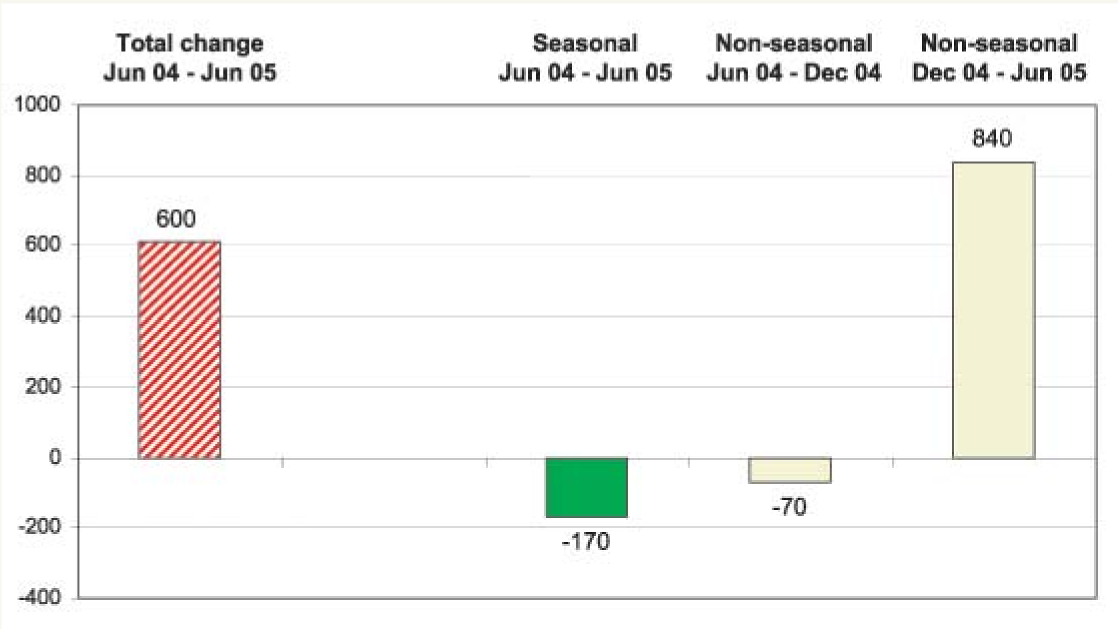
[8] *Jersey data are from the 2001 Census; UK data from UK Social Trends no 32 (2002 edition) and the Labour Force Survey (GB strictly rather than the UK).*

Chart 2.1: Number of people in employment, headcount basis



As described above, total employment grew by 550 in the year to June 2005. However, splitting the private sector into seasonal and non-seasonal activities shows a different behaviour pattern for the latter category on a shorter six monthly timescale (chart 2.2).

Chart 2.2: Change in employment in seasonal and non-seasonal private sectors, June 04 to June 05

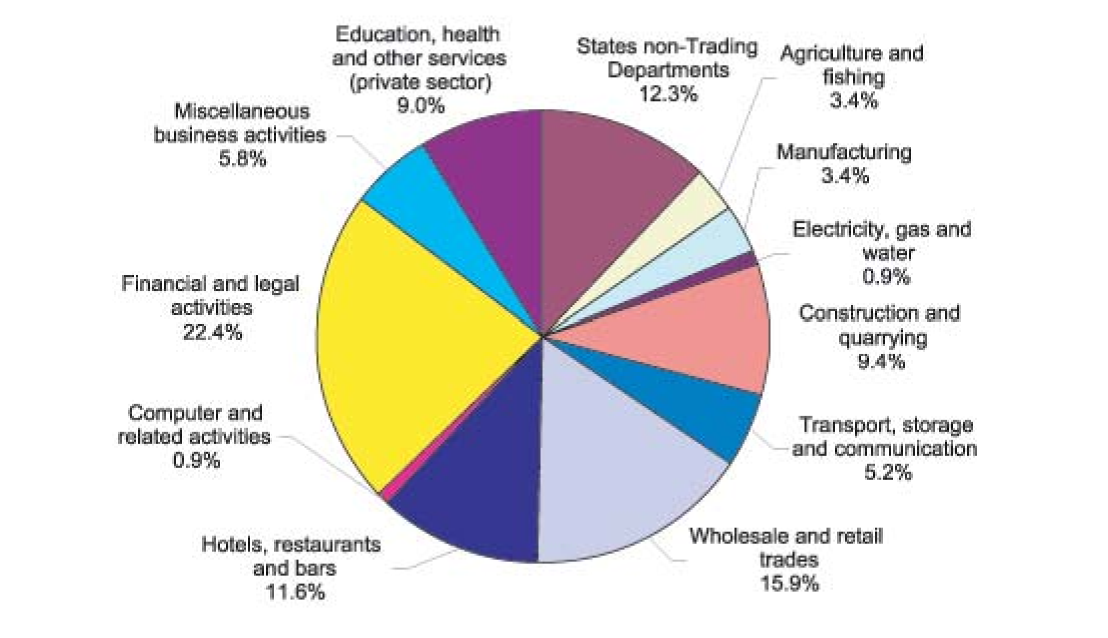


Some 170 fewer seasonal staff were employed in June 2005 compared to a year earlier, reflecting some rationalisation in both the Hotel and Agricultural sectors. However, whilst the non seasonal sectors recorded a small net decline during the final six months of 2004, particularly in the Manufacturing and Education, health and other services sectors, in the first six months of 2005 employment in these sectors grew by 840.

Employment by sector

As chart 2.3 illustrates, almost a quarter of Jersey's labour market is now employed in the Finance sector. The next largest sectors in terms of employment are Wholesale and retail, accounting for about a sixth of total employment and the Public Sector (excluding States Trading Committees[9]) and Hotels, restaurants and bars each accounting for an eighth of total employment. Less than 4% of employment was in the Agriculture sector.

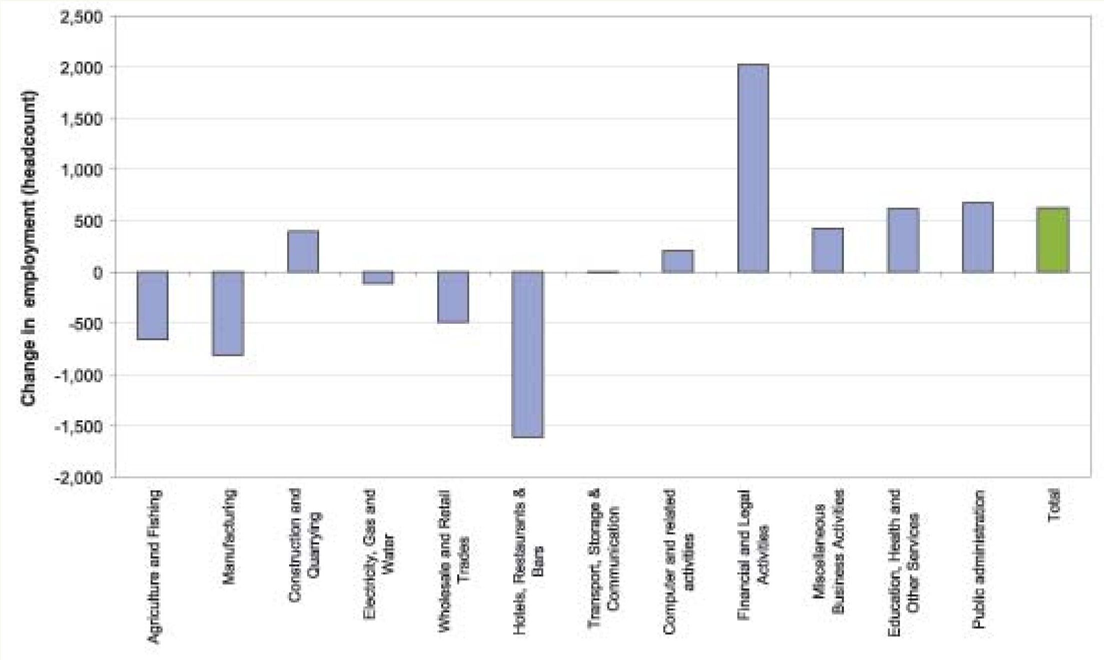
Chart 2.3: Percentage employed by sector, June 2005 – headcount basis



The change in employment in Jersey over the past eight years towards an increasingly more service-oriented economy is reflected by chart 2.4 and Annex table A3.

[9] *The Trading Committees are included under the Transport, storage and communication sector.*

Chart 2.4: Change in employment by sector, 1996 – 2005

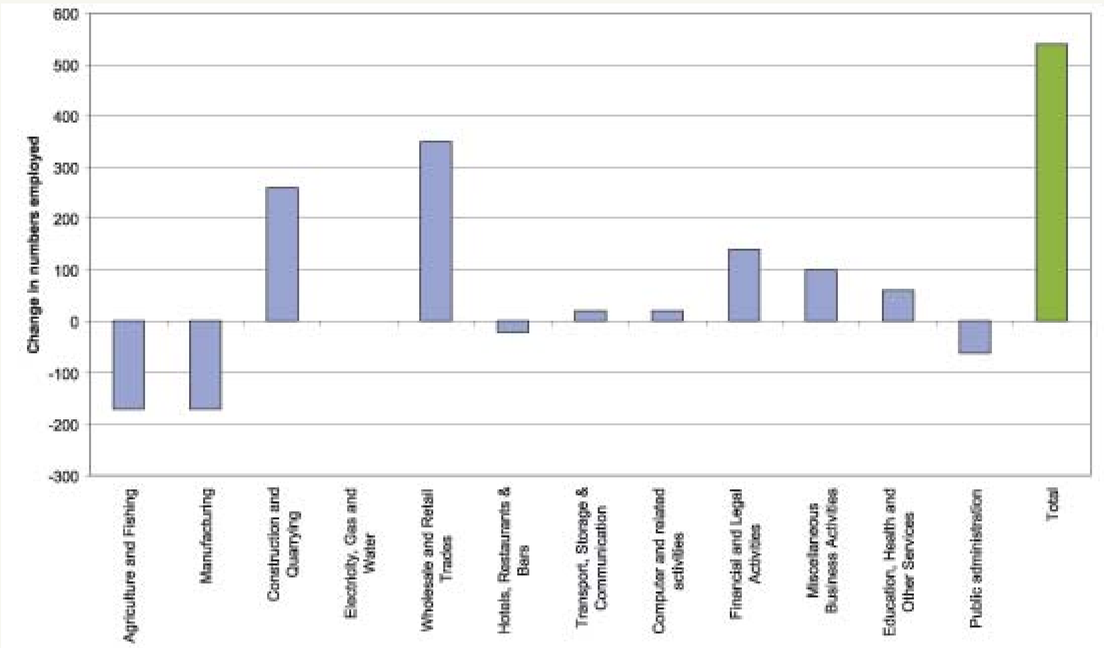


These data indicate the decline in employment in Agriculture, Manufacturing and Tourism oriented activities and the contrasting growth in Financial services and in public and private sector services / activities.

Between 1996 and 2005 employment in the Finance sector has increased by 2,020 with Other business activities (comprising private sector Education, health and other services, Computer and related activities, and Miscellaneous business activities sectors) also growing by 1,230. In contrast, over the same period, employment in Hotels, restaurants and bars fell by 1,610, whilst 660 fewer people were employed in Agriculture.

Chart 2.5 illustrates the changes in employment by sector over the past 12 months, showing that the overall trend seen in the past 8 years is continuing. Consistent data for one-person businesses have only been available since 2000, thus whilst such businesses are included in chart 2.5 they are excluded for chart 2.4.

Chart 2.5: Change in employment by sector, 2004 – 2005



In June 2005 Finance saw its first increase in employment since June 2002: banking saw a small net increase of 20 during the first six months of 2005, while the remaining sub-sectors (accounting for about half of the entire sector) saw a net increase of 140.

Agriculture recorded the largest decrease in total employment over the twelve months to June 2005, a net reduction of 170, predominantly due to the reduced employment of seasonal staff. The most recent decrease recorded in the Manufacturing sector was largely due to a reclassification of management and administrative staff into the Wholesale and retail sector by one undertaking.

The Construction sector recorded an increase of almost 6% (260 employees) compared to June 2004, the largest annual increase in this sector for more than three years. The cyclical nature of employment in Construction is apparent in Annex table A3, with previous periods of growth occurring in 1997/8 and 2001/2.

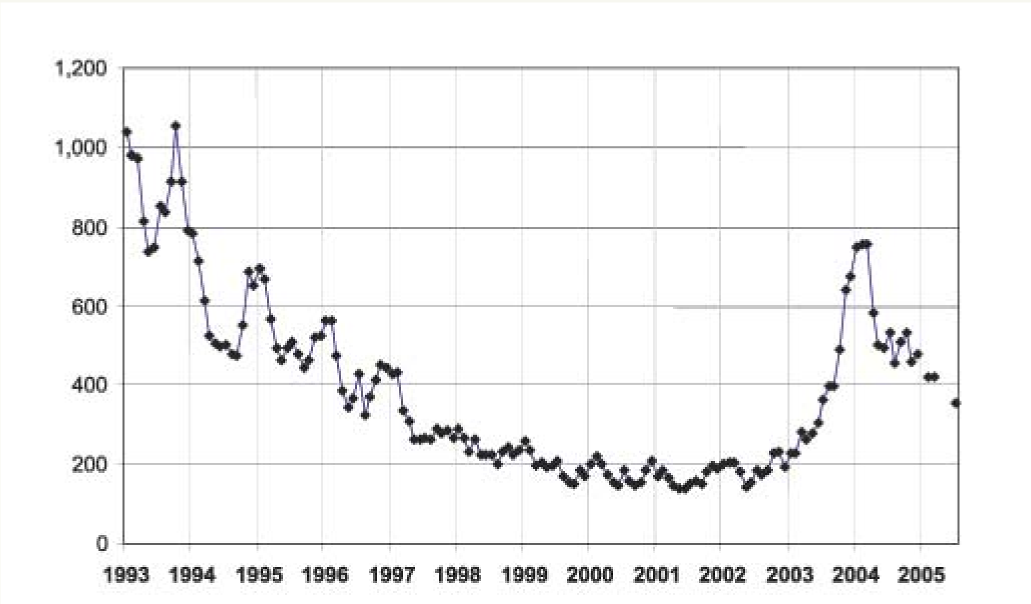
The growth in wholesale and retail was predominantly due to increased employment in the area of fulfilment during the latter part of 2004 (up by 180 employees between June 2004 and December 2004).

Unemployment

Registered unemployment in Jersey fell throughout the latter months of 2004 and during the first quarter of 2005, reaching 355 in July 2005 (see chart 2.6). It should be noted, however, that due to the absence of unemployment benefit in Jersey the number of people registered as unemployed should be regarded as an *indicator* rather than a measure of the actual level of unemployment.

Chart 2.6 shows that registered unemployment in Jersey increased during the economic slowdown of the early 1990s before declining over the subsequent years to 1999; registered unemployment was then fairly constant for three years before rising in early 2004 and then declining more recently.

Chart 2.6: Registered unemployment in Jersey: 1993 – 2005

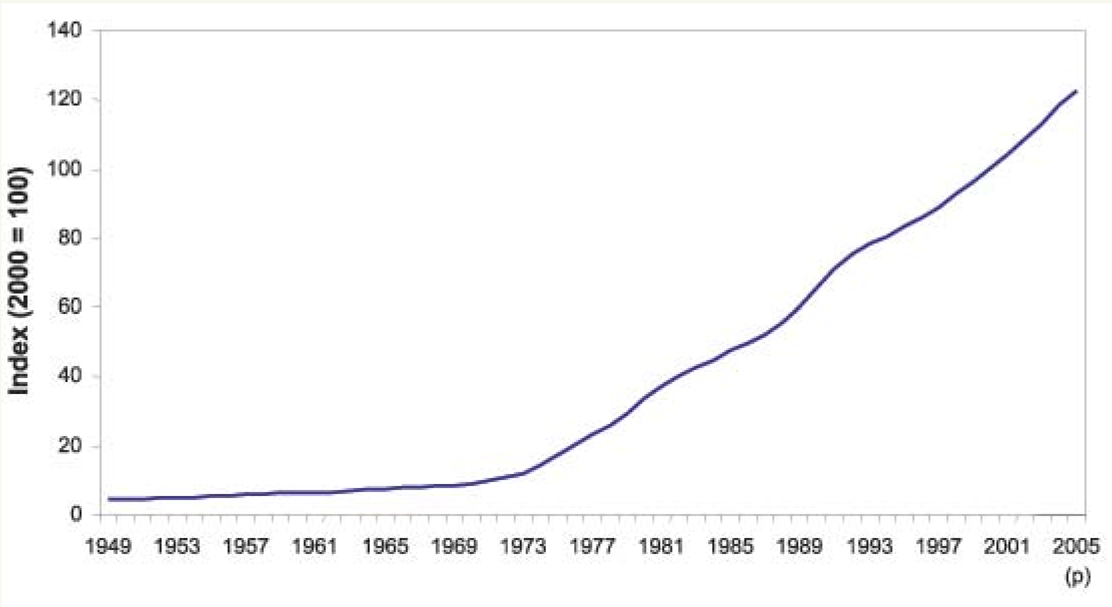


Section 3: Prices and Earnings

Retail Prices Index (RPI)

The Retail Prices Index (RPI) is one of the longest standing data series produced in Jersey, dating back to 1947. The RPI measures changes in the cost of a representative selection of goods and services bought by Jersey households. Over 500 items are included in the Index, ranging from food and drink to insurance, rent, larger goods such as TV's, and services such as hairdressing. The RPI is an index number based on a point in time (currently June 2000 being set equal to 100) and measures the *average* change in price for all these items. The rate of change in the RPI, which is quoted as a percentage, normally compares the current index to the same quarter a year previously and hence measures the average annual rate at which prices are changing (also known as the rate of inflation).

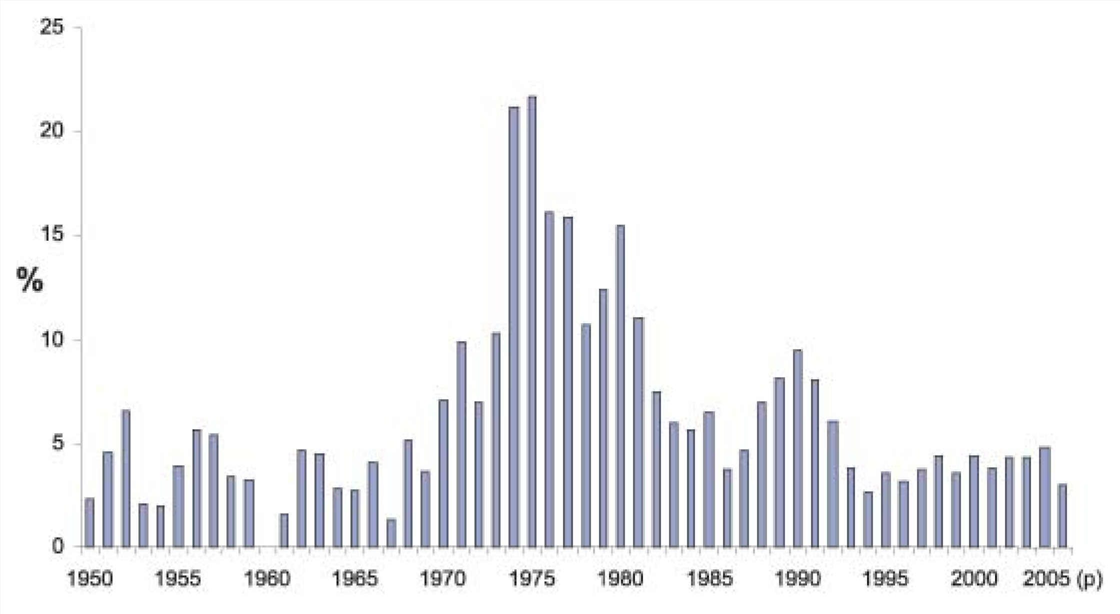
Chart 3.1: All-Items Retail Prices Index (RPI) 1948 to 2005



As illustrated by chart 3.1, the last 55 years can basically be split into two periods in terms of the Jersey RPI: a period running post-war to 1973 when prices increased by 4% per year on average, followed by a period of average annual increases of around 8% running from 1974 until the present. Many factors contribute to the rate of change in prices, but to try and find a reason that may have caused the turning point in the series it is difficult to look beyond the 1973 oil crisis (oil prices quadrupled between 1972 and 1974), especially when at this time the Jersey economy would have been heavily dependent on oil products for its energy use.

Another way to view the long-term trend in RPI is to consider the annual percentage change in each year (chart 3.2). This shows a number of distinct periods: inflation running at below 5% up till the early 1970's followed by a sustained period of high inflation of over 10% per year until the early 1980's; the late 1980's and early 1990's saw another period of high price rises, while the last 10 years have seen increases back around 3 to 5% per year.

Chart 3.2: Annual percentage change in RPI

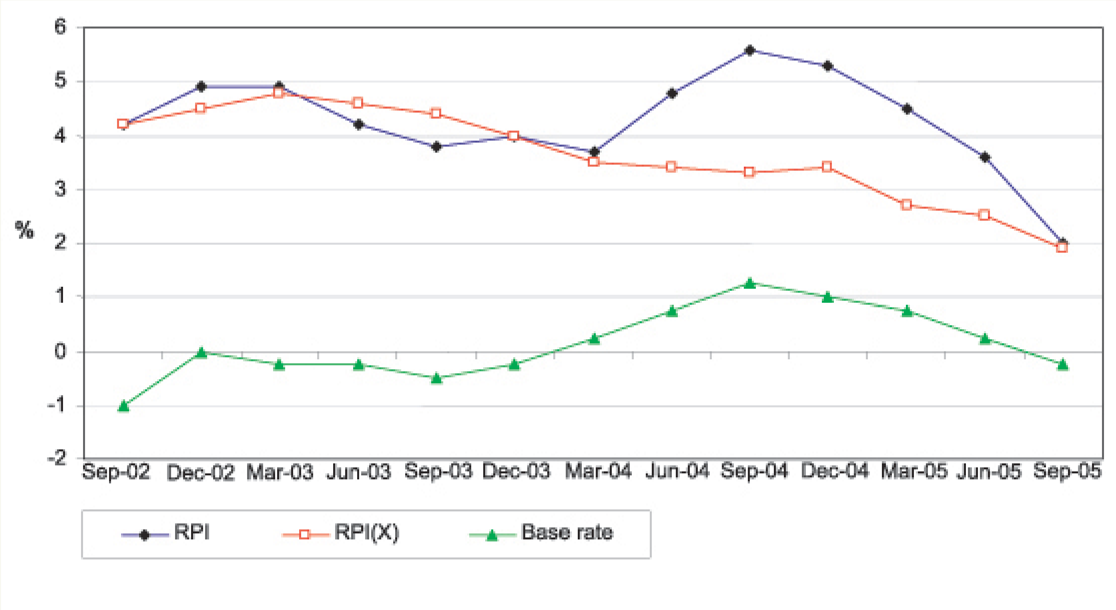


During 2005 there has been a fall in the annual rate of increase of the Jersey RPI. In September 2005, the annual increase in the RPI was 2.0%, compared to 3.6% for the twelve months to June and 4.5% for the twelve months to March. The September 2005 figure represents the lowest rate of increase since consistent data have been available. However, on a rolling four-quarter basis the annual increase in RPI is at a similar level to that seen for most of the past ten years.

To understand the changes in the RPI seen in 2005 it is necessary to consider the two main RPI series, RPI and RPI(X). The RPI is often known as the All-Items or Headline RPI because it comprises a representative selection of all the elements of a household budget whereas RPI (X), where the X stands for eXcluding house purchase costs (measured by interest paid on an average mortgage), is known as the "underlying rate of inflation".

Chart 3.3 shows how the two series have moved over the past three years, along with changes in the Bank of England base rate. This clearly illustrates that whilst overall the average rate of increase of most items has been falling (the downward trend in the RPI(X) series), the headline RPI has moved in direct correlation with changes in base rates with recent changes reflecting the lower base rate and the underlying smaller increases. It is important to note that whilst changes in the RPI are at lower levels, the positive values do still reflect price increases.

Chart 3.3: Annual % changes in RPI, RPI(X) and Bank of England Base rate



There are three main drivers that explain why the annual increase in the RPI for September 2005 was 1.6 percentage points lower than that for the twelve months to June 2005 and 3.6 percentage points lower than in September 2004.

The main downward influence in the headline figure is due to changes in the Bank of England base rates. Between September 2003 and September 2004 the rate increased from 3.50% to 4.75% and likewise between June 2004 and June 2005 the rate rose from 4.50% to 4.75%. However, between September 2004 and September 2005 the base rate fell from 4.75% to 4.50%.

Changes in the Bank of England base rate have a direct influence on the cost of house purchase. The fact that rates have stopped rising, and indeed have started to fall, explains 1.2 of the 1.6 fall seen between the annual change in the RPI in June 2005 (3.6%) and September 2005 (2.0%) and explains 2.6 of the 3.6 percentage points change between September 2004 (5.6%) and the current rate in September 2005. However, changes in base rates have no direct impact on the RPI(X).

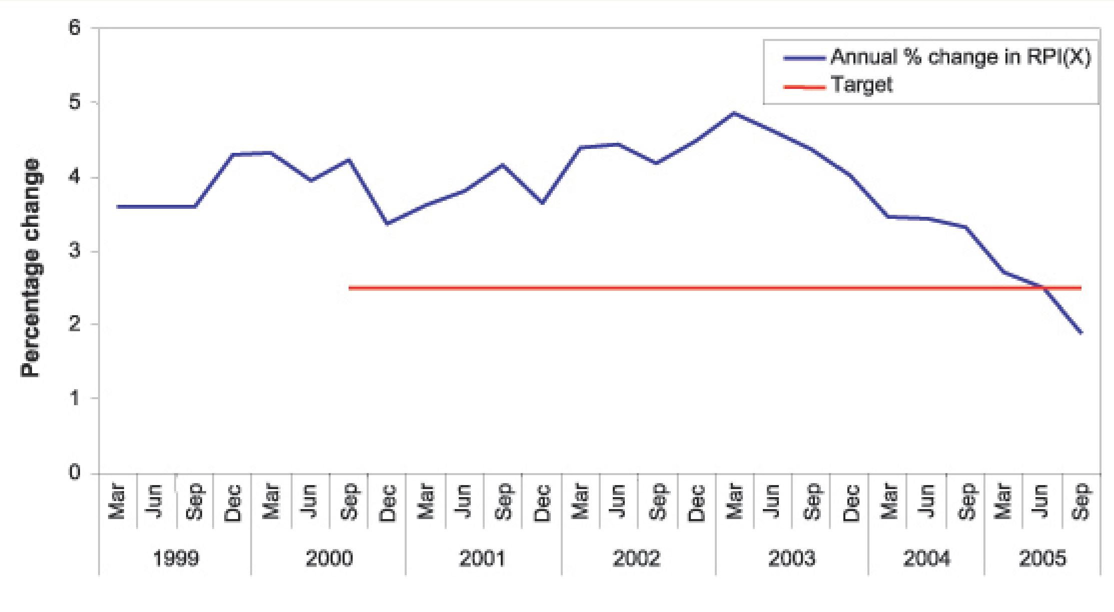
The main upward driver in the current RPI and RPI(X) is the rise in global oil prices. This rise has pushed up the costs of petrol and heating oil, such that the increases in the Motoring and Fuel and light groups account for 0.7 percentage points of the total rise of 2.0%.

Elsewhere, a range of smaller increases have been seen and in the case of the Food group, an overall average price decrease. An important element contributing to the smaller increases seen in other groups results from those items such as rents, fees and subscriptions being up-rated by RPI itself. The lower levels of RPI seen thus far in 2005 means that such items have increased by less, resulting in a smaller increase in the overall RPI.

The final element to note is that the annual change in the RPI measures the rate of change over the past twelve months; this means that the increases in prices which occurred prior to September 2004 are no longer relevant to the latest twelve month change.

In 2000 the States of Jersey agreed a target for underlying inflation of 2.5%. As chart 3.4 shows, this target has been achieved in 2005; in June of this year the annual change in RPI(X) was 2.5% and in September it stood at 1.9%. The September 2005 figure represents the smallest rate of increase since the series was introduced in 1999. The annual rate of increase in RPI(X) has fallen in nine out of the last ten quarters.

Chart 3.4: Annual percentage change in RPI(X)

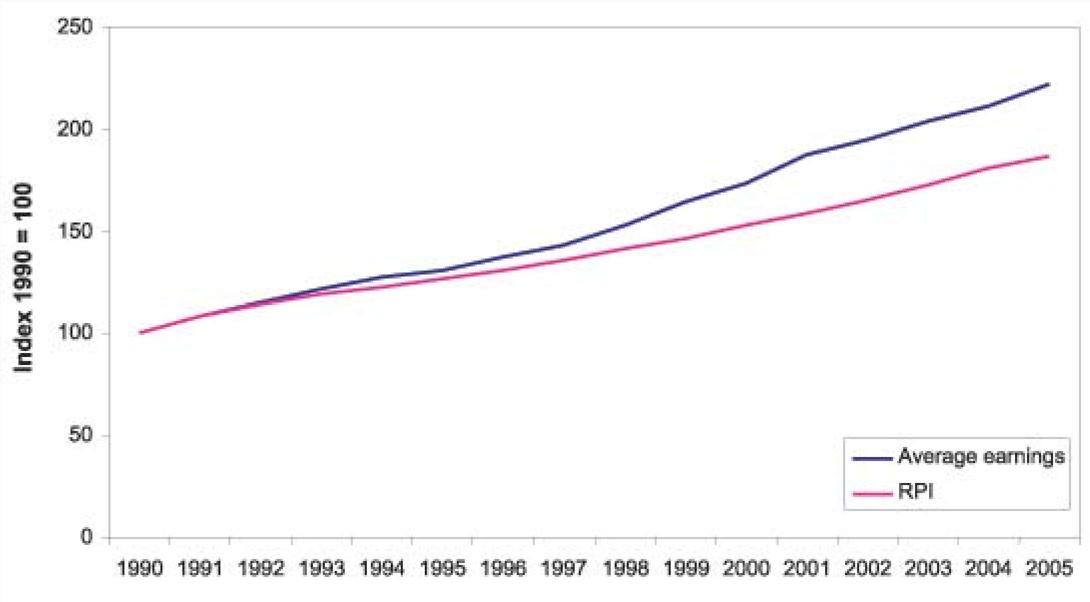


Earnings and prices

The RPI is one of the key economic indictors for Jersey, not only because until very recently it had been one of relatively few economic indicators available, but also because other payments such as wage agreements, rents, leases and maintenance payments are often linked directly to the RPI or RPI(X).

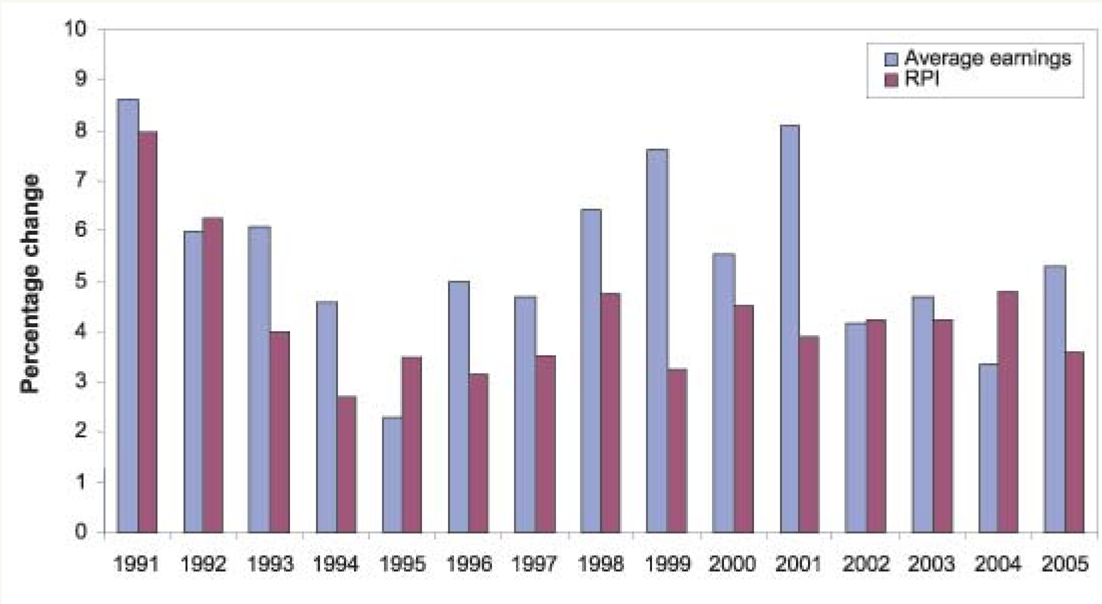
However, in examining the change in the RPI and in average earnings, it is clear that often in the past, most likely because of economic growth, earnings have on average increased at a faster rate than prices (chart 3.5). Between 1990 and 2005 the RPI increased by 86% (or an average of 4.2% per year) whilst average earnings increased by 122% (i.e. more than doubled and at an average rate of about 5.5% per year). More recently the increases have been closer, over the past five years the RPI has increased by 22% (4% per annum on average) and average earnings by 28% (5% per annum on average).

Chart 3.5: Index of Average Earnings and the RPI



This trend has continued in 2005 with earnings increasing by 5.3% and RPI by an average of 3.4%. This continuing difference is highlighted in chart 3.6 which shows that in 12 of the past 15 years, earnings have increased faster than prices.

Chart 3.6: Annual percentage changes in the Index of Average Earnings and in the RPI at June each year



Given that the average earnings data relate to changes in the year to June, it is also informative to compare changes in average earnings which occurred throughout the period June to June with the average of the annual changes in the RPI published between each June[10].

[10] *For any organisation on an annual pay cycle who wishes to reference an RPI figure it is correct to look at a single 12-month change.*

On this basis, the time-weighted average change in the RPI was 5.0%. Thus, average earnings over the twelve months to June 2005 increased by slightly more (0.3 percentage points) than the average annual change in the published RPI during this period. The corresponding increase in the underlying rate of inflation (the change in the Retail Prices Index excluding house purchase costs, RPI (X)) was 3.3%. The Index of Average Earnings thus increased by 2.0 percentage points more than the published RPI(X) during the 12 months to June 2005.

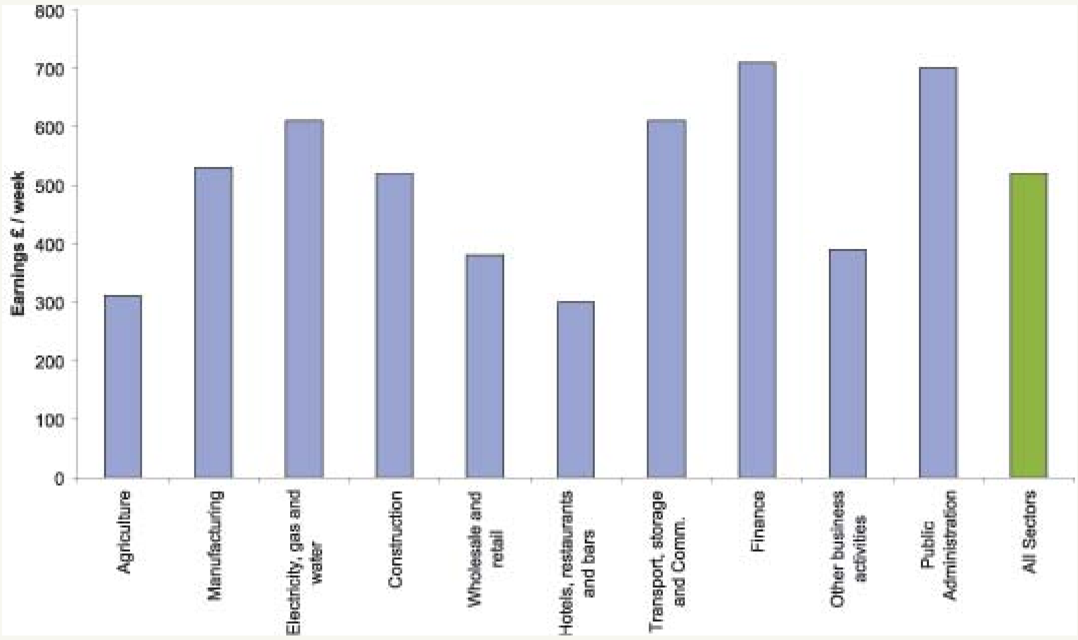
From a slightly longer perspective, during the last two years the average annual growth in earnings (4.3% per annum) has been similar to the average relevant annual rate of inflation (4.5%).

Average Earnings

The principal role of the Index of Average Earnings is to measure the average *rate of change* of earnings in order to up-rate old age pensions. The Index is compiled using data from a matched pairs sample survey of employers who provide data on the monthly or weekly earnings paid to their employees, and the number of FTEs covered by those earnings.

From the data collected it is also possible to estimate levels of average pay. Such figures are informative in that they illustrate the difference in levels of pay across sectors, with a standard error of around £20. Hence, the figures for weekly earnings shown in chart 3.7 should be considered as reasonable approximations, but with not quite the same degree of accuracy attributable to the annual percentage changes shown in charts 3.5 and 3.6.

Chart 3.7[11]: Average earnings by sector in June 2005



11 *In chart 3.7 the category "Other business activities" comprises private sector "Miscellaneous business activities" and "Education, health and other services" and "Computer and related activities". Trading Committees are included in Transport and communications sector.*

It is equally important to note, that the average levels of pay are per full-time equivalent employee (FTE). Therefore, someone working part-time would receive about half the levels indicated, on average.

The approach used does provide robust data to produce an overall index, but it does not provide a full distribution of earnings for each employee and as such it is not possible to determine median rates of pay. The only way to do this annually would be to add significantly to the burden on companies who provide data. Other sources of data are too out of date or do not cover the whole distribution of earnings. However, periodically we do collect earnings data from individuals to produce a complete distribution. The last such survey was in 2002.

The median figure is the best measure of the mid-point for an income distribution, if household data on individuals' earnings are available. In 2002 the median equivalised pre-benefit household income (of the active population, not just those in employment) was £547 a week. This 2002 figure may be up-rated by the annual rates of change in earnings measured between 2002 and 2005, to produce a figure of £625 per week for 2005.This latter figure is per household; dividing by the average number of FTEs per household (1.24) produces a median earnings of £505 per FTE[12].

The median thus derived is very similar to the mean earnings quoted previously; supporting the idea that using the mean rates as a broad indication of differences between sectors is indeed meaningful.

Analysis of the 2004/5 Household Expenditure Survey, which includes questions on incomes, will provide an updated distribution of earnings for individuals, from which the mean and median can be calculated. This information will then be able to be taken into account when analysing the annual data.

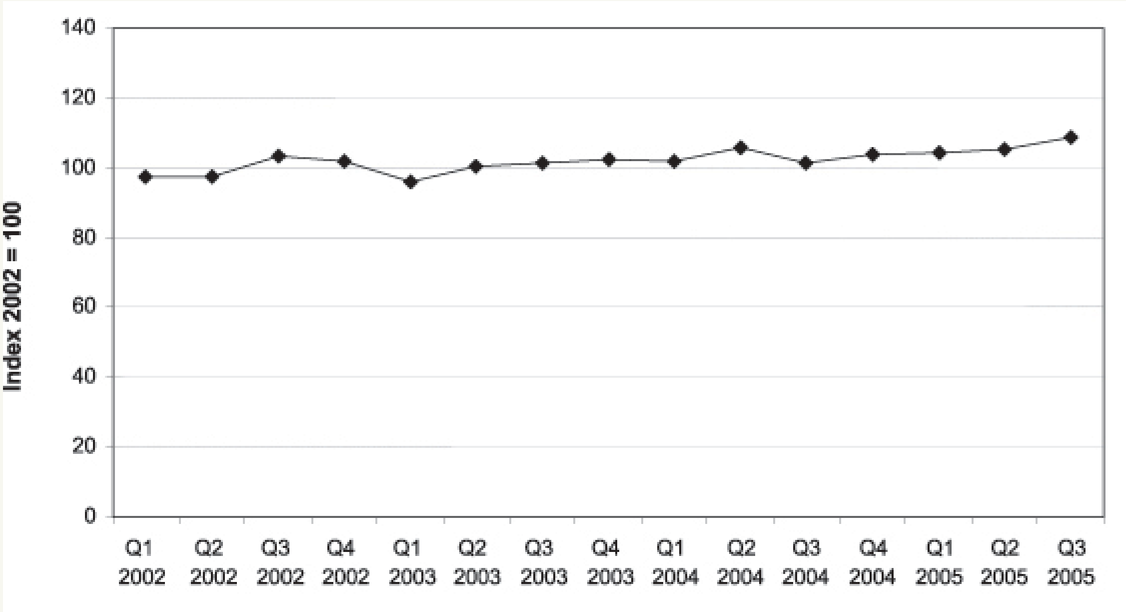
In June 2005, the average weekly earnings for full-time equivalent employees at the sectoral level ranged from less than £300 per week in Hotels, restaurants and bars to about £710 per week in Finance (chart 3.7; underlying data are shown in Annex table A5). The average weekly earnings over all sectors was approximately £520 per week.

House Prices

The measurement of dwelling prices in Jersey underwent a thorough review in 2002, resulting in a far more extensive measure which includes both flats and houses, as well as enabling a breakdown by size of property.

12 *Figures taken from the Jersey Income Distribution Survey 2002*

Chart 3.8: Jersey House Price Index (average for 2002=100)



As chart 3.8 indicates, the mix-adjusted average price of dwellings has been fairly level (within ± 5%) since the beginning of 2002 and very stable in comparison with prior periods. However, following four quarters of slight increases, the figure for the third quarter of 2005 has shown a larger increase with the index value standing at 108.8. This latest figure represents the largest quarter on quarter increase since the second quarter of 2004, though one observation is insufficient to say whether or not the housing market has changed. Indeed, the increase observed in quarter two 2004 was followed by a similar size decrease.

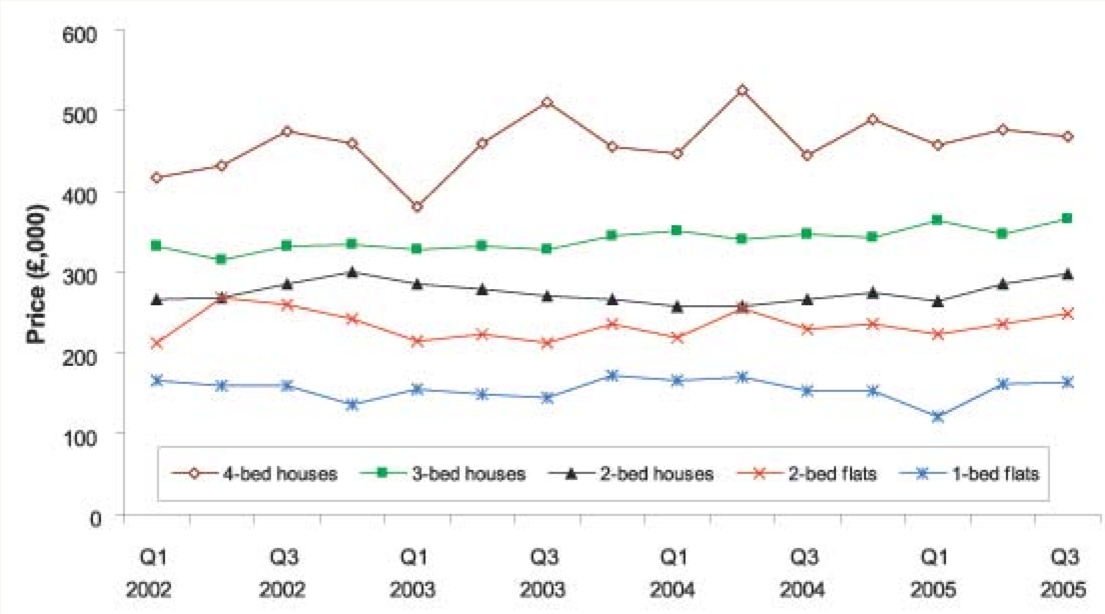
The average (mix-adjusted) price of dwellings sold in Jersey during the third quarter of 2005 was £345,000 an increase of £23,000 or 7% between the third quarters of 2004 and 2005.

Property type specific movements can be seen in chart 3.9. Although a degree of volatility can occur quarter-on-quarter in the mean prices of individual property types, the mean price of one bedroom flats in quarter three of 2005 was £164,000, a similar level to that seen in the previous quarter and in early 2004, though the number of property transactions recorded was the lowest for more than three years.

The mean price of two bedroom-flats (£250,000) showed an increase compared with the previous four quarters but is similar to levels seen in mid-2002 and mid-2004.

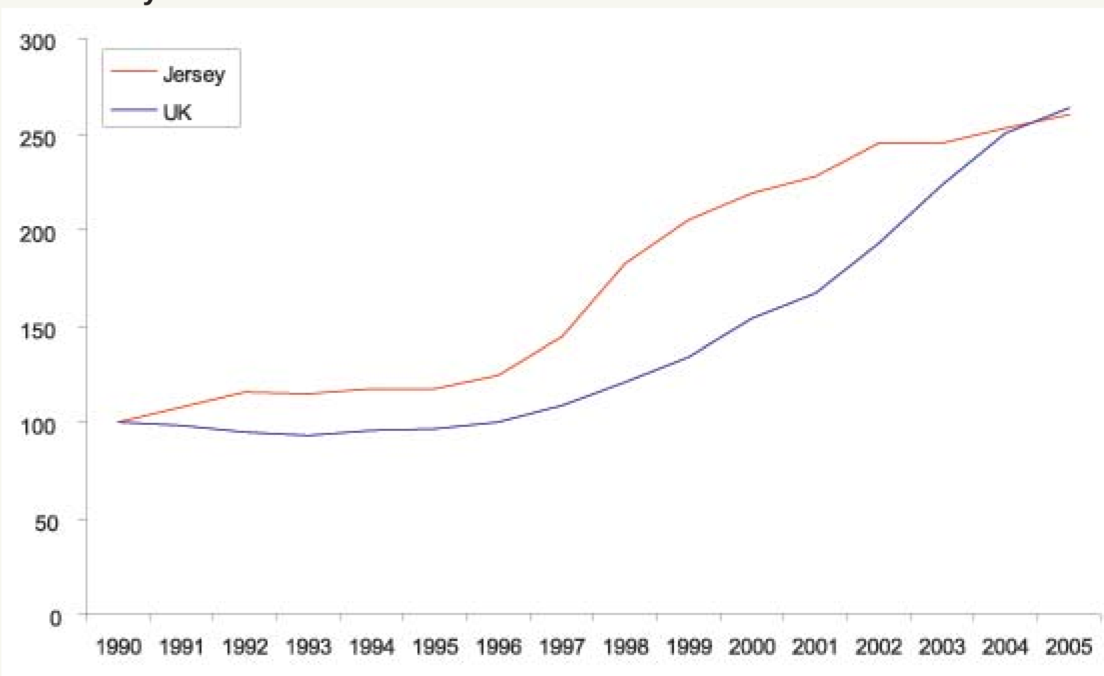
The trend in prices for two bedroom houses has been upward for the past 18 months. In the third quarter of 2005 the mean price for this category (£298,000) was the highest recorded since 2002. The three bedroom houses category accounts for almost half of all residential transactions in Jersey and has seen prices increasing gradually over the past three years. The third quarter of 2005 figure (£366,000) is similar to that recorded at the start of the year.
The four bedroom houses category is the most volatile, being somewhat sensitive to the broad range of characteristics encompassed within this size of property. However, the mean price recorded in the third quarter of 2005 (£467,000) is about average for the current year and of a similar level to the average seen over the previous three and a half years.

Chart 3.9: mean prices (£,000) for individual property types



The price of property in Jersey can be compared to that in the UK. Chart 3.10 demonstrates long term house price movements in Jersey and the UK, comparing the Jersey and UK House Price Indices from 1990 to date.

Chart 3.10 Jersey and UK House Price Indices 1990 - 2005



Historically, the price of property in Jersey has been increasing at a greater rate than that in the UK, with the largest difference between the two rates occurring in 1999. However, since 2001, the UK rate of increase has surpassed that for Jersey resulting in a very similar overall change over the past 15 years. This trend is further demonstrated in table 3.1.

Table 3.1 Mixed adjusted average house prices £,000

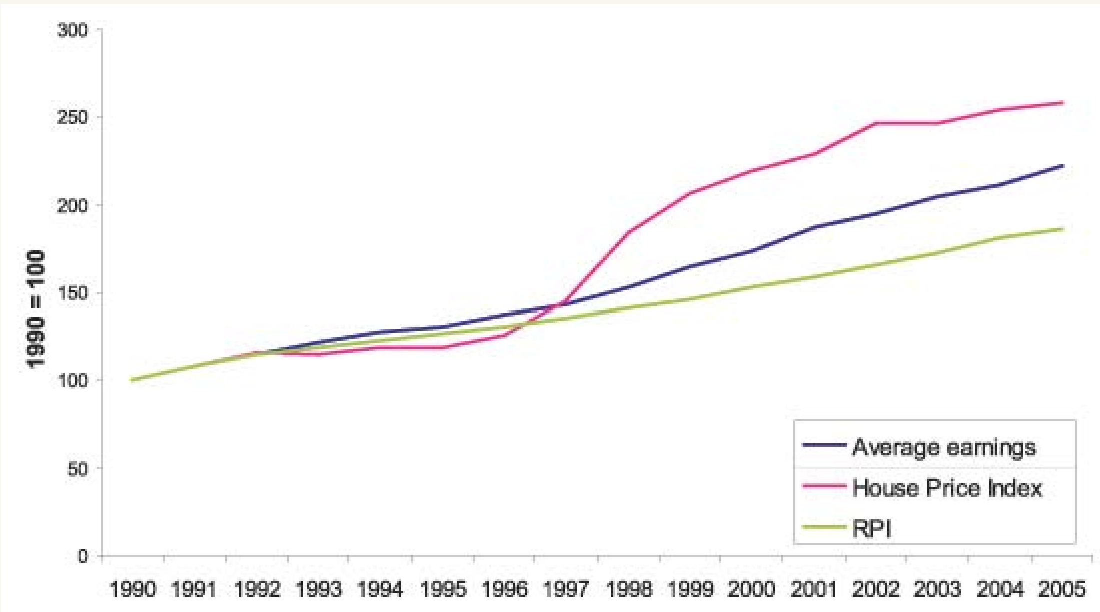
Year	Jersey	UK	England	Scotland	Wales Ireland	Northern	Ratio Jersey/UK
2002	317	136	144	84	90	96	2.3
2003	317	155	166	92	104	102	2.0
2004	328	173	185	110	131	109	1.9
2005	337	183	193	123	145	127	1.8

Although the mixed adjusted average prices have been consistently higher in Jersey than the UK, the ratio between the two has been decreasing since 2002. In 2002, the difference in average prices between Jersey and the UK was £181,000 (ratio of 2.3) but in 2005 the difference was £154,000 (ratio of 1.8).

RPI, earnings and house prices

In the early 1990s retail prices, house prices and average earnings initially increased at similar rates (chart 3.11). However, the economic slowdown between 1993 and 1996, and concurrent tightening of the labour market, saw earnings increase at a faster rate than both retail and house prices. Earnings continued to grow at a faster rate than retail prices in the subsequent recovery, which was driven locally by the growth of the finance sector. House prices, however, underwent a considerable increase at the end of the last decade, such that the average annual growth rate in house prices since 1990 of 6.6% is greater than that of earnings (5.5%) and retail prices (4.2%) for the same period. This is comparable to the UK, where average annual growth rates in house, earnings and retail prices were 6.1%, 4.6% and 3.1% respectively.

Chart 3.11: Indices of retail prices, average earnings and house prices



Over the last three years (June 2002 - June 2005), the annual average rate of increase of the House Price Index (2.5%) has been below that of the RPI (4.2%) and the Index of Average Earnings (4.4%).

Annex

Table A1a GVA by sector in **current** prices; £ million.

	Agriculture	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail	Hotels, restaurants and bars	Transport, storage and communication	Finance	Other business activities	Public administration	**Total**
1998	49	59	33	131	180	107	109	1,335	442	157	**2,603**
1999	51	62	36	142	187	113	115	1,474	463	174	**2,817**
2000	50	64	37	147	192	109	117	1,687	486	186	**3,076**
2001	48	65	36	153	195	109	125	1,662 (r)	500 (r)	199	**3,090**(r)
2002	50	64	37	165	202	109	128	1,642 (r)	540 (r)	209	**3,143**(r)
2003 (r)	47	63	35	164	211	111	131	1,609	551	226	**3,149**
2004 (p)	45	62	35	166	216	112	136	1,633	580	233	**3,218**

Table A1b GVA by sector in real terms (**constant** prices, 2003); £ million.

	Agriculture	Manufacturing	Electricity, gas & water	Construction	Wholesale & retail	Hotels, restaurants & bars	Transport and communication	Financial services	Other business activities	Public admin.	**Total**
1998	60	73	41	161	221	132	134	1,642	544	193	**3,203**
1999	60	73	42	167	220	133	135	1,735	545	205	**3,316**
2000	57	72	41	167	217	124	133	1,910	551	211	**3,483**
2001	52	70	39	166	212	118	136	1,811 (r)	545 (r)	217	**3,368**(r)
2002	53	67	38	173	211	114	134	1,716 (r)	548 (r)	218	**3,272**(r)
2003 (r)	47	63	35	164	211	111	131	1,609	551	226	**3,149**
2004 (r)	44	60	34	160	209	109	132	1,580	561	226	**3,114**

(r): revised; (p): provisional

Table A2 GVA per FTE employee in real terms (**constant** prices, 2003); £ thousand.

	Agriculture	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail	Hotels, restaurants and bars	Transport, Storage and communication	Finance	Other business activities	Public administration	**All sectors**
1998	31	34	66	35	29	22	52	156	35	38	**69**
1999	31	34	70	38	30	23	52	160	36	39	**72**
2000	32	34	68	40	30	23	52	173	36	40	**76**
2001	30	35	65	38	30	23	54	160	34	41	**74**
2002	31	33	67	39	30	23	55	148	34	41	**71**
2003	28	34	66	39	30	23	55	142	34	41	**69**
2004	26	34	66	39	30	22	56	142	35	41	**69**

Table A3 Employment by sector; FTE employees.

	Agriculture	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail	Hotels, restaurants and bars	Transport, storage and communication	Finance	Other business activities	Public administration	**Total**
1998	1,920	2,150	620	4,600	7,580	5,980	2,580	10,550	5,460	5,100	**46,550**
1999	1,920	2,140	610	4,370	7,320	5,770	2,620	10,870	5,510	5,210	**46,330**
2000	1,810	2,130	610	4,190	7,130	5,440	2,570	11,010	5,590	5,220	**45,690**
2001	1,750	2,020	600	4,360	7,040	5,150	2,520	11,330	5,710	5,270	**45,750**
2002	1,730	2,000	570	4,480	7,000	4,990	2,450	11,550	5,750	5,350	**45,880**
2003	1,710	1,850	530	4,250	7,020	4,920	2,380	11,340	5,900	5,510	**45,400**
2004	1,660	1,760	510	4,140	7,030	4,870	2,360	11,120	5,940	5,550	**44,940**

Table A3 combines the more detailed sectors shown in Chart 2.3 as follows: Other business activities include the private sectors Education, health and other services, Computer and related activities, and Miscellaneous business activities. Transport, storage and communication includes States Trading committees and the Transport, storage and communication sector. Public administration in table A3 is the States non-trading departments in chart 2.3.
Numbers in table A3 are rounded independently to the nearest 10, and are weighted averages for each year.

Table A4 RPI group level indices and RPI(X), quarterly 2000 - 2004

	Food	Catering	Alcohol Drink	Tobacco	Housing	Fuel & Light	Household goods	Household service	Clothing	Personal G&S	Motoring	Fares & travel	Leisure goods	Leisure service	**All Items**	RPI(X)
Jun-00	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	**100.0**	100.0
Sep-00	100.7	99.6	100.0	100.2	101.9	107.5	100.2	101.4	101.5	100.5	98.6	101.3	98.7	103.2	**101.1**	101.1
Dec-00	99.8	100.6	98.9	101.9	103.5	107.3	100.4	102.5	100.8	100.9	98.1	104.1	100.9	104.3	**101.6**	101.4
Mar-01	103.5	100.8	104.5	111.0	104.7	101.5	101.1	103.6	97.2	104.5	98.8	109.7	99.8	105.5	**103.0**	102.8
Jun-01	105.1	101.6	106.3	111.0	105.3	103.9	99.6	107.0	95.1	102.7	100.2	118.4	97.6	107.1	**103.9**	103.8
Sep-01	105.4	103.2	106.2	111.9	107.1	104.5	100.8	107.5	97.2	104.7	101.0	120.0	97.8	111.2	**105.3**	105.3
Dec-01	105.8	104.2	105.2	112.1	105.5	96.8	99.2	106.7	94.3	104.5	99.1	128.6	99.9	111.9	**104.7**	105.1
Mar-02	106.6	104.8	111.6	121.7	108.0	98.3	101.2	110.5	98.3	106.4	102.7	122.6	99.9	114.1	**107.1**	107.3
Jun-02	107.3	106.5	112.0	121.7	109.5	99.4	101.1	112.0	96.1	108.2	103.6	128.5	98.6	117.8	**108.3**	108.4
Sep-02	108.0	107.2	111.8	123.5	112.0	102.0	101.3	113.3	99.1	108.7	104.2	124.0	98.1	121.8	**109.7**	109.7
Dec-02	107.6	107.2	111.2	123.5	113.3	101.7	102.0	114.0	92.7	108.1	105.1	127.7	97.7	123.0	**109.8**	109.8
Mar-03	108.8	107.7	118.3	133.2	114.0	111.4	102.0	116.1	96.7	111.2	110.7	128.3	98.3	124.1	**112.4**	112.5
Jun-03	109.6	109.9	117.7	133.2	114.3	102.0	102.8	117.4	94.5	113.3	112.3	150.0	96.7	123.5	**112.9**	113.4
Sep-03	111.0	111.3	118.0	133.1	114.8	102.5	101.9	119.4	97.3	112.6	112.9	156.7	98.0	124.9	**113.9**	114.5
Dec-03	111.8	110.8	117.6	133.2	117.8	106.1	102.1	119.4	93.9	112.6	114.1	141.2	98.7	124.5	**114.2**	114.2
Mar-04	112.9	111.9	123.6	149.2	121.0	106.1	102.0	122.3	93.0	115.6	117.3	151.4	98.4	124.9	**116.6**	116.4
Jun-04	114.0	113.9	123.0	151.1	125.9	108.6	102.7	123.0	92.4	116.8	118.5	151.8	98.4	125.8	**118.3**	117.3
Sep-04	114.8	115.9	122.8	151.1	132.1	114.4	102.3	124.3	93.1	116.7	121.7	142.4	97.4	128.0	**120.3**	118.3
Dec-04	114.6	116.6	119.8	151.1	133.4	113.3	102.4	124.6	90.2	116.2	121.9	141.6	97.3	129.0	**120.3**	118.1
Mar-05	114.6	116.6	123.7	160.2	135.2	120.5	103.5	125.9	90.3	119.0	122.4	146.1	96.6	130.0	**121.9**	119.6
Jun-05	114.4	118.8	122.1	162.1	136.9	124.9	103.7	125.3	90.3	119.7	122.9	153.1	95.7	129.7	**122.6**	120.2
Sep-05	114.2	119.0	122.6	162.2	136.2	130.1	103.5	125.8	90.8	119.2	125.2	147.4	94.0	130.2	**122.7**	120.6

Table A5 Average earnings by sector; £ per week

Sector	1998	1999	2000	2001	2002	2003	2004	2005 (p)
Agriculture	260	270	280	300	290	290	290	310
Manufacturing	390	400	420	450	460	480	500	530
Electricity, gas and water	420	450	470	490	520	540	570	610
Construction	370	410	420	450	470	480	500	520
Wholesale and retail	270	290	310	320	340	350	360	380
Hotels, restaurants and bars	210	230	240	260	270	280	290	300
Transport, storage and communication	410	460	480	520	540	570	600	610
Finance	470	500	540	580	630	660	680	710
Other business activities	260	280	300	320	340	360	370	390
Public administration	490	530	570	600	620	640	670	700
All sectors	**360**	**380**	**400**	**440**	**460**	**480**	**490**	**520**

Numbers are rounded to the nearest £10.

The figures shown for 1998-2204 are weighted averages for each calendar year, compiled from six monthly manpower data for the whole year in question and the June snapshot of earnings data provided by the Index of Average Earnings survey. The figures for 2005 are preliminary estimates based on June 2005 employment data only.

Figures shown for "Public administration" have been smoothed to remove the effect of the two-year structure of recent pay awards in this sector.

Table A6 2005 Statistics Unit Publications

January	19	RPI – December 2004
February	2	RUDL Licences
	16	House Price Index – Q4 2004
	23	Results of 2004 Housing Needs Survey
March	16	Jersey in Figures
April	13	Labour Market (Public & Private Sectors) – Dec 2004
	20	RPI – March 2005
May	11	House Price Index – Q1 2005
June	1	Population update 2004
	15	Jersey Energy Trends
July	13	Financial Institutions Survey – 2004
	20	RPI – June 2005
August	3	RUDL Licences
	17	House Price Index – Q2 2005
	31	Average Earnings Index – June 2005
September	7	UK/Jersey Price Comparisons – June 2005
	28	GVA and GNI - 2004
October	5	Labour Market (Public & Private Sectors)– June 2005
	19	RPI - September 2005
November	16	House Price Index – Q3 2004
December	14	Jersey Economic Digest

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