Guernsey Quarterly Inflation Forecast

Quarter 1 2019
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States of Guernsey

1.1 Introduction

The Inflation Forecast Bulletin provides 12 month forecasts for the primary inflation measures used in Guernsey: RPIX and RPI. Forecasts are based on historical trends, expectations of inflation in the UK, and forecast movements in the price of key commodities. Forecasts are revised and published on a quarterly basis in the month following the publication of the Guernsey Inflation Bulletin.

NB - Forecasts are presented with statistical confidence (or error) bands (the shaded area). These represent the range of possible outcomes with a 30%, 60% and 90% statistical certainty.

1.2 Forecasts

- The annual change in RPIX decreased to 2.3% in December 2018 compared to 2.8% in September 2018. This was a larger decrease than anticipated and follows an increase in interest rates from 0.5% to 0.75% by the Bank of England in August 2018 and a fall in global oil prices.

- The current expectation is that the annual change RPIX will fall further in the first half of 2019 before rising later in the year.

- The Bank of England, in their November inflation forecast, continue to maintain that should conditions progress as they have forecast, they may tighten monetary policy further. However, it is not anticipated that there will be another increase in interest rates before the middle of 2019 and any increases will be gradual and of limited extent.

- Forecasts are made under the assumption of limited disruption to trade as a result of Brexit in the coming quarter. A significant disruption to the flow of goods into and out of the UK could push inflation above the central forecasts. A significant weakening of the pound could also add further upward pressure to forecasts.
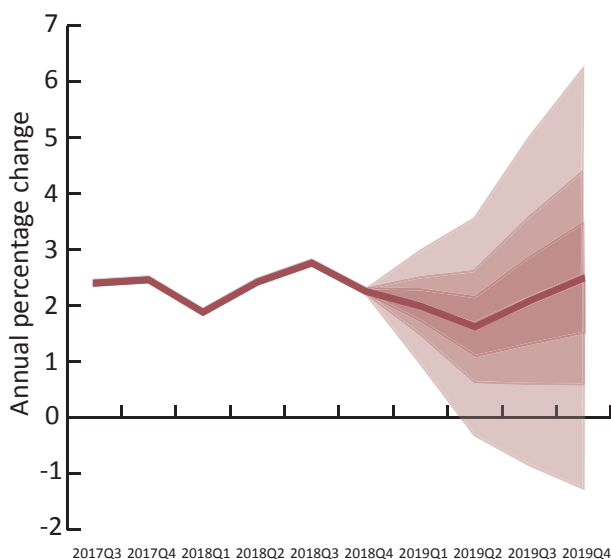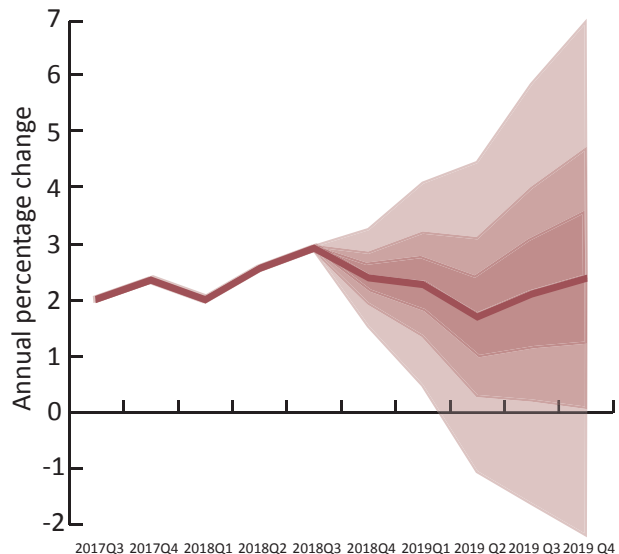
Figure 1.1: Forecast Guernsey RPIX

Figure 1.2: Forecast Guernsey RPI

1.3 Forecast assessment

Table 1.1 below presents an overview of the performance of the RPIX forecasts against actual data three, six, nine and twelve months ahead of publication. For example, T+3 months presents a summary of how accurate the forecasts are one quarter before publication of the actual data, detailing how many of the actual observations fall within 30%, 60% and 90% confidence intervals of the forecasts represented by the coloured bands in **Figure 1.1.**

Table 1.1: Summary of RPIX forecast performance

	t +3 months	t +6 months	t +9 months	t +12 months
Total number of observations	15	14	13	12
Within 30% confidence interval	40%	29%	62%	58%
Within 60% confidence interval	60%	64%	77%	75%
Within 90% confidence interval	93%	86%	85%	83%
Outside 90% confidence interval	7%	14%	15%	17%

1.4 Contact Details

For more information on this and other publications issued by the States of Guernsey Strategy and Policy Unit, please contact:

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Routine statistical publications, including quarterly publication of inflation statistics, are issued by the States of Guernsey Data and Analysis Services. These publications are available online at **www.gov.gg/data**.