

# Guernsey Economic Overview

Quarter 1 2016: Issue date Friday 22 April 2016



## POLICY COUNCIL

THE STATES OF GUERNSEY

### Introduction

The outlook below presents an overview of the Guernsey economy and the most recent statistics together with how these statistics reflect on States Policy and prospects for the near future. The report presents the analysis and interpretation of the author and is intended to combine the available information to provide a broader view of conditions in Guernsey.

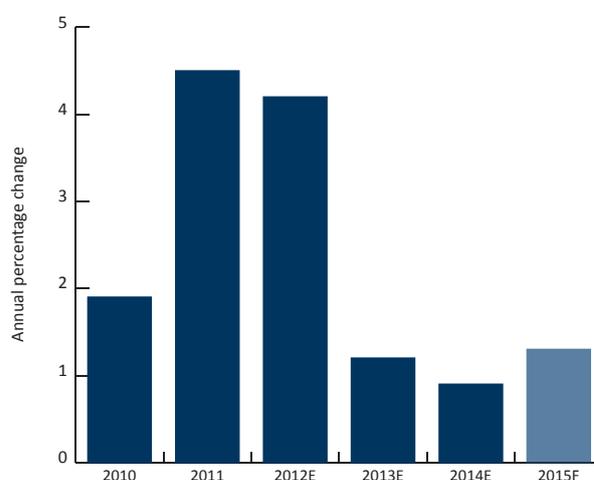
### 1. Growth, employment and people

In the context of the downward revision of the UK's growth expectations in the Budget in March, expectations of growth in Guernsey for 2015 and 2016 remain modest (**figure 1.1**). Oil prices are keeping inflation at minimal levels but there has not been the level of consumer confidence needed for this to translate into a clear boost to the economy.

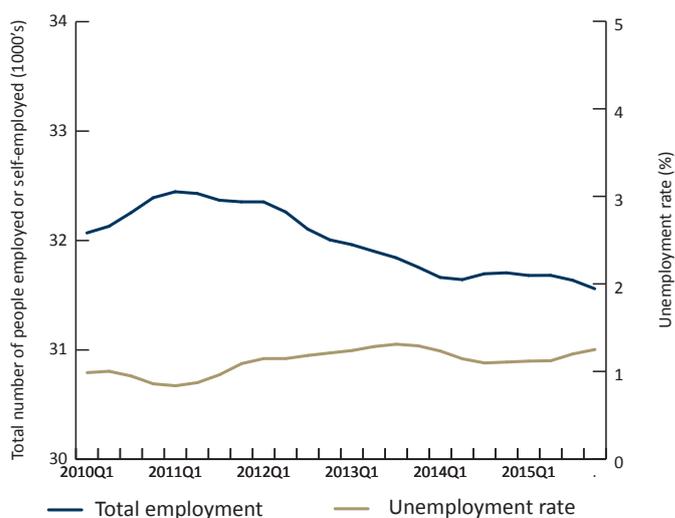
While conditions are relatively stable, the economy has yet to reach a definite turning point. Statistics from the fourth quarter of 2015 show that the small amount of employment growth seen in the second quarter has not continued and the size of the workforce declined a little at the end of the year (**figure 1.2**). Unemployment has increased slightly over the winter months and, based on anecdotal evidence, this appears to be being driven by a lack of large scale construction projects. However, statistics show a slight increase in earnings in real terms during 2015 for the second successive year.

As usual, the position is not uniform across the economy. While the data for the fourth quarter shows a year-on-year decline in employment in those sectors largely domestic in nature (such as utilities, construction and retail), the more export based sectors and the professional and administrative services that support them have grown (**figure 1.3**). Professional and business services continued a steady growth and for the third successive quarter the financial services sector has also shown a modest amount of employment growth.

**Figure 1.1: Real GDP growth**

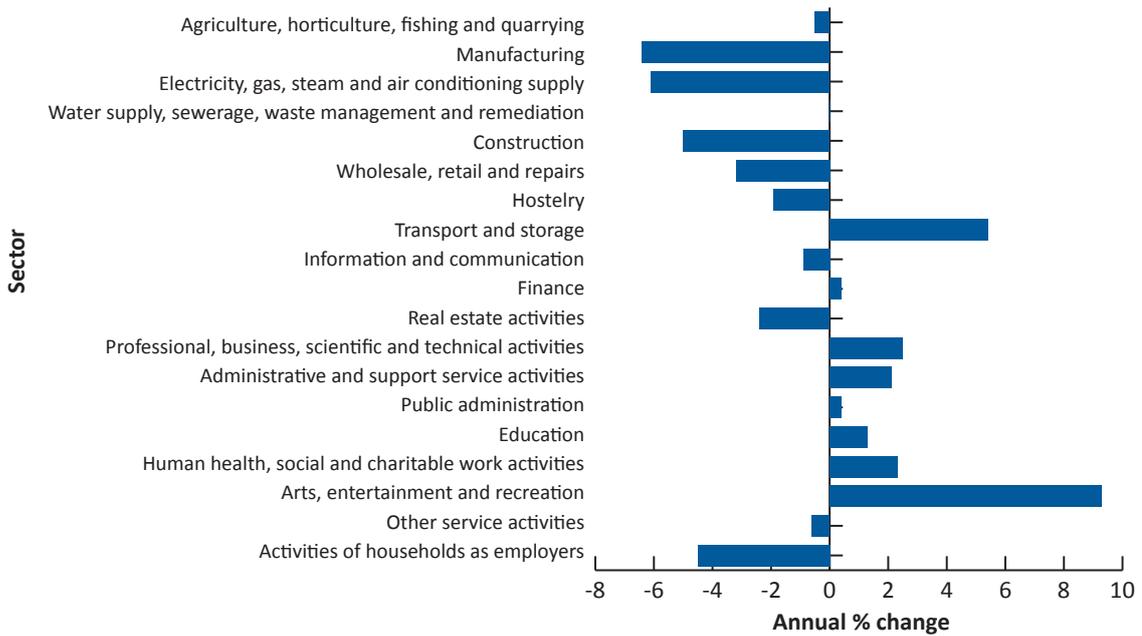


**Figure 1.2: Employment and unemployment (seasonally adjusted and smoothed)**

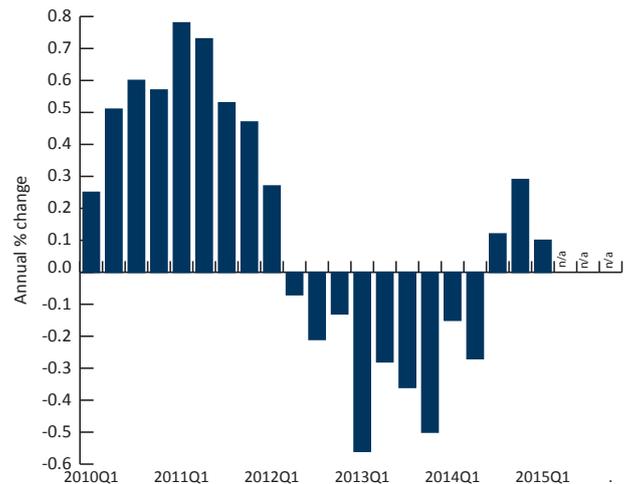


# 1. Growth, employment and people

**Figure 1.3: Annual percentage change in employment by sector (Dec 2015)**



**Figure 1.4: Annual percentage change in population**

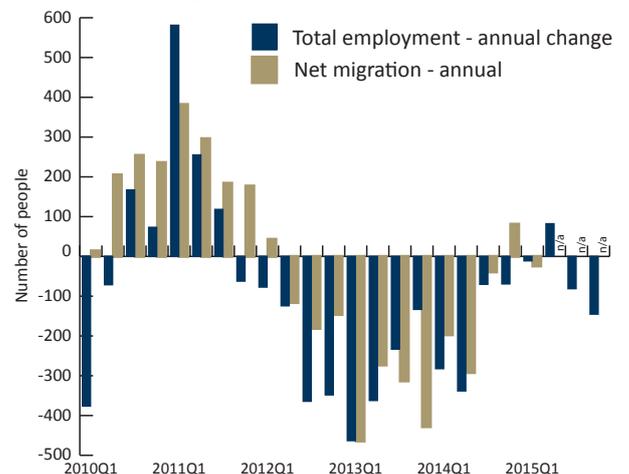


Population data (available up to March 2015) shows a similar pattern to employment. After two years of population decline net population growth resumed in the third quarter of 2014 and has continued (*figure 1.4*). However, the current rate of population growth is significantly less than that experienced during 2010 and 2011.

Net migration is responsible for most of the volatility in population growth rates and like the annual change is closely related to changes in employment (*figure 1.5*).

Given the strength of the correlation between the two measures, the pattern of marginal changes in employment through 2015 is a reasonable predictor that, when data becomes available, net migration patterns may also show only marginal changes over this period.

**Figure 1.5.: Annual changes in employment and annual net migration**



## 2. Prices and Property

Inflation remains low, although RPIX had increased to 1.0% by the close of 2015. The primary driver for the global low inflation environment is falling oil prices, at only \$33 a barrel at the close of the year compared to \$50 a barrel three months earlier and \$140 a barrel at the peak in 2008. Beyond the direct impact on energy and motoring costs, the knock-on effects on the cost of transport and production are reflected in prices almost across the board. Food prices, for example, have fallen by 1.3% over the year ending December 2015.

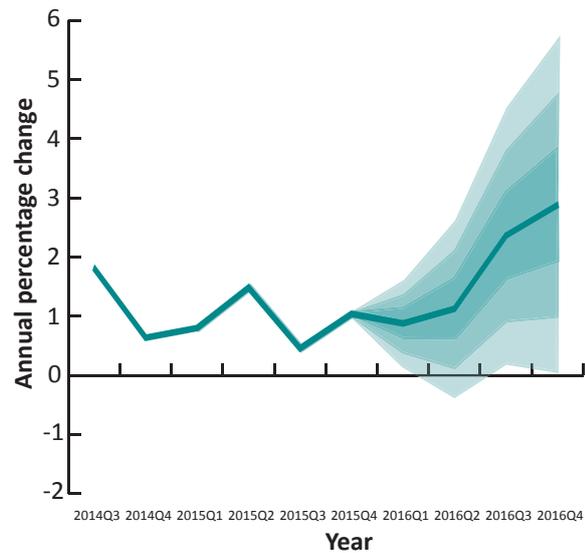
As the International Monetary Fund projected, there was a further drop in oil prices in the first quarter of 2016, although these have risen again in early March. Current expectations are that inflation measures will remain low until the middle of the year, rising towards the end of the year as the effects of the fall in oil prices during 2015 drop out of the annual change (*figure 2.1*).

Low energy prices through the winter months and a mild winter should have eased household spending pressures, enabling greater expenditure in other areas. However, while data on consumer spending is not available, industry groups report little increase in consumer spending and the small real year-on-year increase in currency in circulation at the end of 2015 would support this. It may be that households are choosing to reduce their debt or increase their saving rather than spending more.

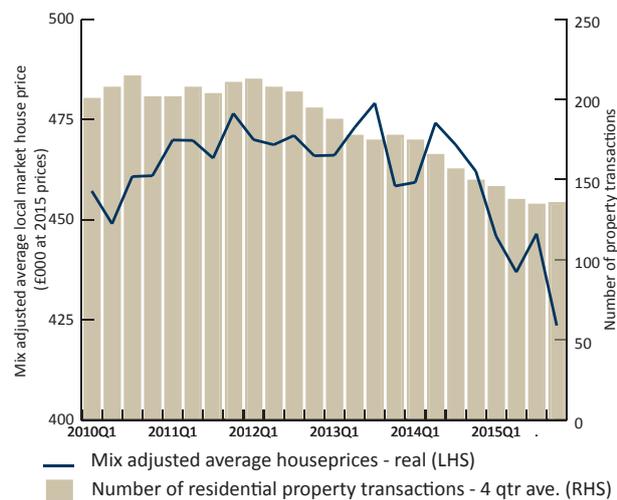
House prices continued to fall in real terms to the end of 2015 (*figure 2.2*). This is an uncomfortable position for property owners. However, combined with generally positive movements in earnings the fall is improving the affordability of housing in Guernsey for those not already on the property ladder (*figure 2.3*).

Property transaction volumes are also low, which is a particular issue for estate agents. There is some cautious feedback from industry representatives reporting that activity has increased since the new year but the time lag in the conversion of activity to completed sales means this is unlikely to be reflected in official transaction numbers until the first or second quarter of 2016. An immediate return to increasing prices is not anticipated.

**Figure 2.1.: Forecast annual change in RPIX**



**Figure 2.2: House prices and transactions**



**Figure 2.3.: House price to earnings ratio**



### 3. Sector specific highlights

#### Construction and retail

The construction and retail sectors are the largest employers in the domestic economy (the areas of the economy which provide goods and services internally). Based on employment statistics, retailers appear to have had a difficult year. Data for the key Christmas period shows a year on year reduction in retail employment (*figure 3.1*) and data on the currency in circulation over the period suggests that, as previously referenced, the level of consumer spending is at least partially responsible. However, currency statistics for February show increased real growth and are more encouraging.

In recent quarters employment in construction has contracted reflecting the completion of large projects. Feedback from industry suggests the work available in the immediate future is limited. This may be the root cause of the increase in unemployment shown in the monthly unemployment statistics released by Social Security in early March.

#### Hostelry

The performance of the hostelry sector is the simplest proxy available for the performance of tourism in Guernsey (although activity is also captured in retail and transport sectors). Employment is highly seasonal but in general hostelry employment in 2015 is comparable year on year despite a 5% fall in the total number of visitors to Guernsey in 2015. The reliability of transport links is an issue for the sector but it would appear that the growth in cruise line passengers between 2012 and 2013 has boosted employment in this sector.

#### Business, administration and IT services

These sectors cover a broad range of activities and typically offer services to other businesses. As such they have been viewed historically as acting in support of the local finance sector. However, over the course of 2014 and 2015 the professional, business, scientific and technical activities and administrative and support service sectors have expanded with a greater amount of activity and export of services in their own right. The former of these, which incorporates creative, marketing and consultancy activities as well as legal and accountancy services, has shown particularly strong and consistent performance in the last eighteen months.

Figure 3.1: Construction and retail

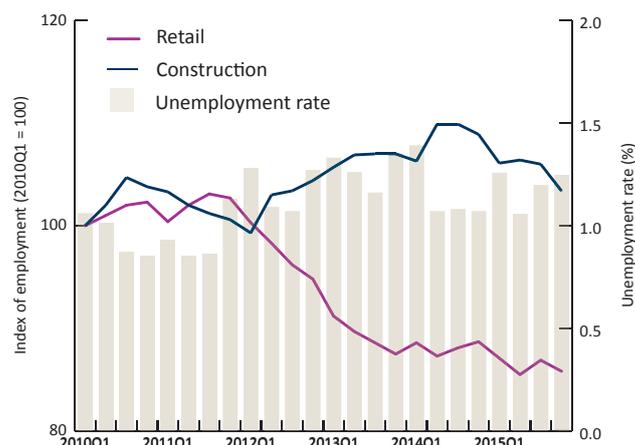


Figure 3.2: Hostelry

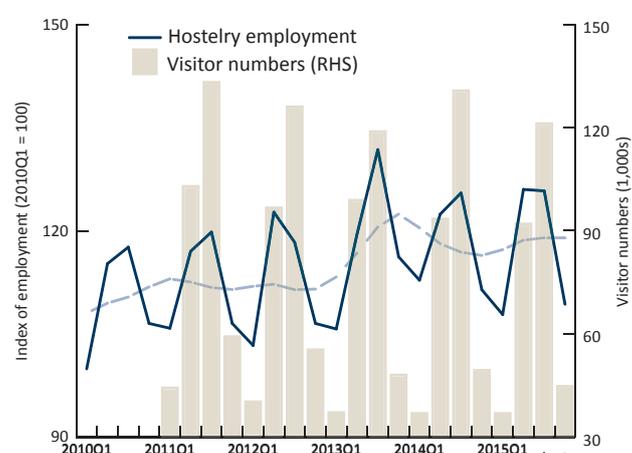
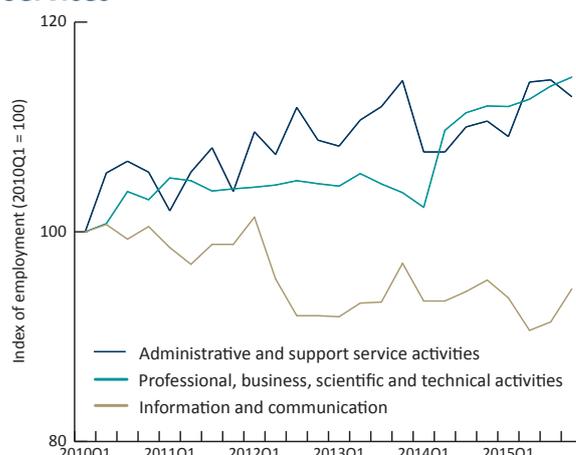


Figure 3.3: Administrative, Business and IT Services



### 3. Sector specific highlights

#### Finance

The finance sector has seen some improvement in employment, showing a year on year growth for the third successive quarter in the fourth quarter of 2015 (**figure 3.4**). While these changes are modest, it is a positive sign.

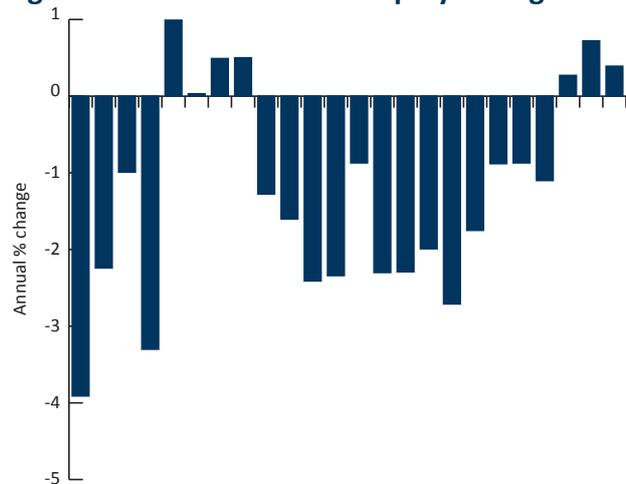
Insurance has been particularly strong and showed year-on-year employment growth of 4.7% in December 2015 (**figure 3.5**), notably better than the employment market as a whole. The fiduciary sub-sector seems to have stabilised over the last year and levels of employment are holding steady.

Employment in banking was still declining year-on-year at the end of the fourth quarter but the rate has slowed. Banking deposits have stabilised (**figure 3.6**) but remain low relative to historic levels. However, the underlying change in volumes may be masked by the effect of exchange rates, which have boosted the sterling value of currency deposits. The underlying data suggests that quarter-on-quarter banking deposits declined over the fourth quarter, but the GFSC reports that underlying volumes have improved in December and January.

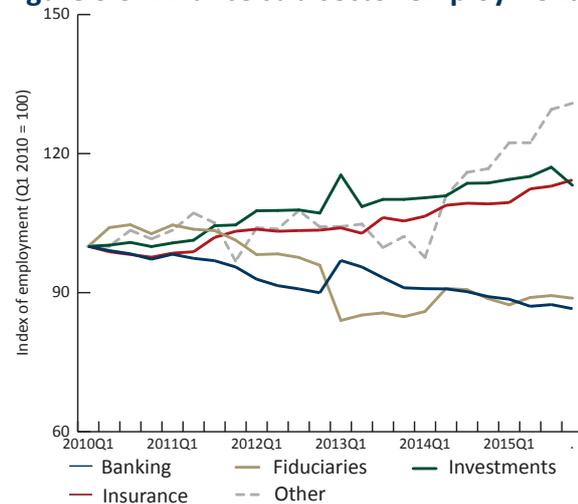
Fund values picked up a little in third quarter of 2015 (Q4 data is not yet available) although, year-on-year, the change is still dominated by the step change in the fourth quarter of 2014. The make up of the industry continues to trend away from open-ended schemes towards closed ended schemes and private equity schemes in particular.

Other finance activity, which includes asset management and credit brokering activities continues to perform well. While it is the smallest sub-sector within finance (employing just under 500 people in Dec 2015) it shows the strongest level of employment growth.

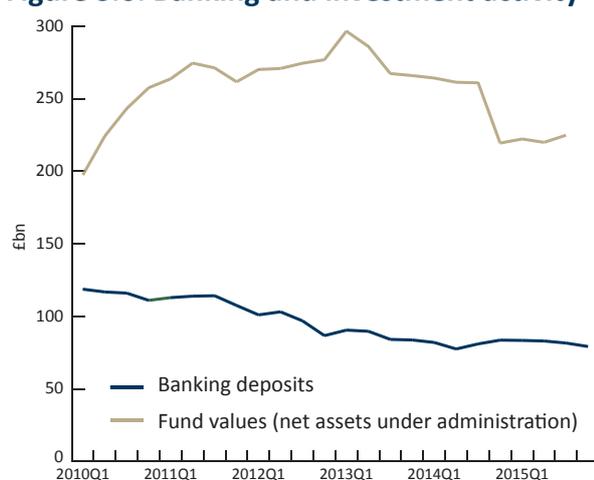
**Figure 3.4: Finance sector employment growth**



**Figure 3.5: Finance sub-sector employment**



**Figure 3.6: Banking and investment activity**



## 4. Data sources and contacts

The majority of the data presented in this bulletin is provided by the Policy and Research Unit, Policy Council. Data on banking assets and fund values presented in **figure 3.6** is provided by the Guernsey Financial Services Commission.

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