

### **2.3 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the options available to curb the growth of inflation:**

Will the Minister outline the options available to him to curb the growth of inflation in the Island and state what he intends to do about house price inflation in particular?

#### **Senator T.A. Le Sueur (The Minister for Treasury and Resources):**

It is important to put the latest increase in inflation into context. Inflation, as measured by R.P.I.X. (Retail Prices Index excluding mortgage interest payments), has still been within 0.5 percentage points of the States 2.5 per cent target for 10 out of the last 12 quarters. It is also important to bear in mind the causes of the recent increase in inflation; this was mainly due to global oil and food price pressures, something which is outside of Jersey's control and therefore harder for us to manage. However, if it feeds through into higher wages to a better extent than elsewhere it will undermine our competitiveness and economic growth. The outlook for the global economy has weakened with the resumption of financial markets turmoil. Weaker stock markets and slower growth in the key export markets could slow economic growth in Jersey and ease inflationary pressure. Everybody in the Island has a role to play, whether it is the States, employers or employees and, to ensure that the States plays its part, the Council of Ministers asked the Economic Adviser last year to update our current anti-inflation strategy and that will be published in the very near future. Without going into detail at this stage that strategy will reinforce key policies that help keep inflation under control and cover issues such as the Fiscal Policy Panel and the advice about the Stabilisation Fund, setting policy relating to the economic cycle and the degree of spare capacity in the economy. Strengthening competition policy, including supply capabilities with productivity improvements and managing resources effectively through the Regulation of Undertakings Law and housing policy. In terms of house price inflation, again one must bear in mind what is driving these increases. They are the direct result of the economic success we have experienced in recent years. This has meant higher local employment combined with higher earnings and relaxed lending. In terms of what the States can do to address things like house price inflation, there are 3 options which are already underway, and that is looking to bring new sites forward for development; to develop a new shared equity type scheme for first time buyers; and to revive the Island Plan to improve the supply of housing.

#### **2.3.1 Deputy G.P. Southern:**

Will the Minister concede that we are largely at the mercy of world prices and that inflation is a difficult thing for a small Island to control? Furthermore, does he accept that house price inflation in particular is the result of rampant runaway 7 per cent growth which has produced 700 immigrants in 2006 and rising over the last short period?

#### **Senator T.A. Le Sueur:**

I would certainly agree that there are many factors affecting inflation which are outside our control and that is why our inflation strategy concentrates on those which we can impact or influence in some way. What is important is that where inflation is rising we need to compare that with what is happening in other jurisdictions and make sure that the Island does not become uncompetitive as could occur, for example, if the inflation was fed through into higher wages. As for house price inflation, that is certainly partly due to the economic growth and also I think perhaps an imbalance between supply and demand as a result of that economic growth, and that is why it is important that we look at new housing sites in order to maintain that greater sense of balance.

#### **2.3.2 Deputy S.C. Ferguson of St. Brelade:**

There is a public perception that the increase in prices is due to "buy to let" from internal and external purchases as well as the aforementioned influx of (j) category individuals. Will the Minister undertake to provide the figures regarding these which would allay or confirm public fears regarding this?

**Senator T.A. Le Sueur:**

I certainly undertake to be as helpful as I possibly can but in terms of properties acquired by share transfer it is sometimes difficult to ascertain who is going to be occupying those properties. The extent to which house price inflation may be affected by either “buy to let” properties or the impact of (j) category people is something which we can look at but the information I have from the records provided by the Housing Minister is that neither of those 2 areas create any significant impact on the overall house price inflation, which is predominantly driven by local residents seeking properties of higher value.

**2.3.3 Deputy P.V.F. Le Claire:**

I think just to be specific the recent changes in regards to taxation - and I am surprised the Minister did not mention it - for stamp duty on share transfer properties has been introduced so that we can better understand that three-fifths, we estimate, of all flat sales are share transfer properties. Would the Minister not agree with me that while the market continues to take the finite space and turn it into investment opportunities for share transfer holders to let out to people who cannot afford to buy anything else that is being built, it is just an ever-continuing circle and it needs to be addressed? Would the Minister not agree that there is an issue: about three-fifths of all flats being built being share transfer, and would he also confirm that share transfer property is only available to be let to people with housing qualifications? If he does not have knowledge as to who should be in there, he certainly should have.

**Senator T.A. Le Sueur:**

I am not sure if I certainly should have, Sir. That is a matter for the Housing Minister but, yes, it is true that any flats have to be occupied by people with local residential qualifications. I do not believe that the tax changes we brought in regarding share transfer properties have any impact on the price of them. Certainly it appears to be the case that the majority of flats are sold by share transfer and that is for very good conveyancing reasons, but I think what it does show is that additional accommodation is being provided in areas where it is needed.

**2.3.4 Deputy G.P. Southern:**

Will the Minister concede that the figures reveal that (j) cats. - now given permanent residents' qualifications in Jersey - (j) cats. at 2 per cent of the population account for over 7 per cent of 3 and 4-bedroom house sales? Does he not accept that this is a major contributor to the spiral upwards of house prices?

**Senator T.A. Le Sueur:**

I do not have at my fingertips details of how much of a percentage of (j) category people own and occupy 3 or 4-bedroom houses and I have no reason to dispute the figures of Deputy Southern, but I do not see that that is necessarily relevant to the large increase in house price inflation when (j) categories account for a very, very small percentage of the market.

**2.3.5 Deputy P.V.F. Le Claire:**

The Minister said that in relation to share transfer properties the accommodation is being provided where it is needed. The need for accommodation in this Island is for people with housing qualifications in an area where they can afford it. Not in an area where it becomes achievable such as shared equity systems. Will the Minister not agree to try to understand that continuing to supply share transfer flats for people to invest in, in Jersey, creates opportunities for owners not necessarily where it is needed? Those owners are not necessarily in Jersey.

**Senator T.A. Le Sueur:**

In my view the need for the Island is to have accommodation for people of a type that is needed. Clearly the accommodation, whether it be flats or houses, is being occupied and, therefore - in my view - reflects the fact that it is meeting a need. Whether it is owned through share transfer or

through any other way does not alter the fact that it is accommodation that is being provided for people with local housing qualifications.

**2.3.6 Deputy G.P. Southern:**

Does the Minister not accept that with 3 and 4-bedroom house price inflation running at over 20 per cent and flat/apartment inflation very low, that the government's policy of building cheap units of accommodation - build them cheap, pile them high - has failed miserably over the last period of years?

**Senator T.A. Le Sueur:**

I believe that the fact that house price inflation in flats is rather lower than that on 3 and 4-bedroom houses is probably a greater balance of supply and demand in that particular market. The fact that there is a growth in the economy and more spending power available, it does drive people to look for better accommodation and maybe even move up to a 3 or 4-bedroom house which has increased in demand in that particular area as a result of economic growth. To that extent, Sir, yes, I accept that economic growth has driven an increase in the house price index.