

**WRITTEN QUESTION TO THE MINISTER FOR ECONOMIC DEVELOPMENT
BY DEPUTY S.Y. MÉZEC OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 3rd NOVEMBER 2015**

Question

What plans, if any, does the Minister have to prevent Jersey's low inflation rate from turning into deflation?

Answer

It is good news that RPI inflation in September was at 0.1% - its lowest level for six years. Underlying inflation, as measured by the change in RPIY, was 0% - its lowest level since this measure was introduced in 2007. RPI Low Income was also unchanged and RPI pensioners fell by 0.6% - meaning that average retail prices for pensioner households were lower than a year earlier. These developments should be welcomed as it eases pressures on the cost of living.

Annual falls in the price of fuel and light, food, clothing and motoring costs will be welcome for islanders.

- Fuel and light costs fell by 10% over the twelve months to September, driven by the fall in domestic heating oil and a fall in the cost of gas.
- Food fell by 2%, with lower prices for fresh fruit, vegetables, potatoes and some dairy products.
- Motoring costs fell by 2%, driven by falls in the price of petrol and diesel.

It is encouraging that Jersey is seeing the benefits of lower trends in global commodity prices (food and energy) and we want to ensure that inflation remains low because:

- Low inflation has meant that there has been real earnings growth in each of the last three years 2013, 2014 and 2015.
- Low inflation is good for competitiveness and is a key element of the Strategic Plan priority to optimise economic growth.

If downward pressure from global commodity prices were to result in Jersey's inflation rate turning negative, this would continue to be good news due to the impact this would have on the prices islanders pay for essential items. This in turn could mean that more money is available to spend on other goods and services, which would be further good news for some sectors of our economy.

When negative inflation is imported through lower global commodity prices, this is often known as 'good deflation'. If there was a sustained fall in prices caused by a fall in demand in the economy, then this could be considered 'bad deflation'. There are no signs that Jersey is currently at risk of the latter type of deflation - private sector wages increased by 2.2% in the year to June 2015, employment is growing, and responses to the Business Tendency Survey do not suggest a significant number of companies operating below capacity.

The best way to mitigate any risk of deflation caused by falling demand in the future is to follow the advice of the Fiscal Policy Panel by ensuring that fiscal policy is counter-cyclical. For example, the past Fiscal Stimulus programme was designed to support projects which could inject demand into the economy in a timely manner.