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2 Deputy K.F. Morel of St. Lawrence of the Minister for Economic Development, Tourism, Sport and Culture regarding the rate of inflation in the Island and its impact on Jersey's economy: [OQ.46/2019]

With house prices rising 7 per cent in 2018, private sector rents increasing by 9 per cent and with R.P.I. (retail price index) effectively at 4 per cent, but all-sector average earnings increasing by just above 3 per cent, what economic forces does the Minister consider are driving such high rates of housing price increases; and does he consider it is a sign Jersey's economy is in danger of overheating?

Senator L.J. Farnham (The Minister for Economic Development, Tourism, Sport and Culture):

Rising housing costs have been a key driver of the recent high rates of inflation in Jersey. There are challenges for Jersey in ensuring that there is a sufficient supply of housing to meet demand. That is our biggest challenge, I believe. Improving the quality and affordability of housing is nevertheless a key commitment of our Common Strategic Policy, which this Assembly adopted last year. I will work with the Minister for Children and Housing, the Minister for the Environment and the wider Council of Ministers, and indeed all States Members, where necessary, to deliver on that commitment. While the latest economic data indicate we have a strong economy, the earnings figures to which the Deputy refers do not indicate overheating at this stage. But I do believe that the economy is in danger of overheating, which is why we must work closely with our Fiscal Policy Panel and listen to their advice. Our Fiscal Policy Panel does advise that running countercyclical fiscal policy to help ensure that public finances do not contribute to the risk of overheating. That said, the Government maintains a watching brief and stands ready to support the economy, if necessary, during the current period of uncertainty. I have recently set up a new ministerial group to consider new appropriate policies, which will help to achieve low and stable inflation.

4.2.1 Deputy K.F. Morel:

Talking about the new ministerial group; I was wondering if you might be able to let the Assembly know when that ministerial group will first report its findings with regard to ... not price rises but cost of living in Jersey?

[10:00]

Senator L.J. Farnham:

I would like the new ministerial group not to be a one-off group to stage one piece of work and then leave it at that. I think this Assembly needs to have, in perpetuity, a group to deal with policy on cost of living because that is something I think we have lacked in the past. The group has met briefly on one occasion and we would be planning to meet again in March but I would expect it would be a number of months before we report for the first time.

4.2.2 Deputy G.P. Southern:

It is interesting to note that the Minister states that clearly house prices and household rents, costs, form part of the inflation figures in the Island, which are worryingly high. The question is: his new group, has he yet to focus on what areas his new group can investigate in order to get a handle on inflation or does he admit that our inflation is largely imported?

Senator L.J. Farnham:

It is both. We have discussed with our economic advisers just what aspects of our inflation rate we can control. There are certainly some differences we can make. But Members will know, and Deputy Southern will know because this has been a project of his for many years, that the majority of our inflation is beyond our control. A lot of it is imported, for example. As an example, the oil price does have a greater impact on our society's cost of living than it would on a larger country, and that is just one example of the challenges we face.

4.2.3 Deputy G.P. Southern:

To what extent does the Minister have house prices in mind when he is considering what areas? Will he consider, for example, the possibility of rent capping in order to keep rents down and maintain some control of inflation?

Senator L.J. Farnham:

Our new group will consider absolutely everything. I am not ruling anything in and I am not ruling everything out. On the direct question on rent capping. I would struggle with that because I think it can do more harm to a housing market than it can do good. This Assembly and the Council of Ministers and the Minister for Children and Housing, we simply have to get to grips with the supply of housing. I know it is an easy line to state but, in my opinion, it is the biggest single problem that Islanders face and it is of course of major concern and, in some cases, depression for many Islanders that the cost of living is so extremely high. We do not have any fast answers but it cannot be beyond the scope and the ability of this new Assembly, with very promising new and forward-thinking Members, to finally start to get to grips with this problem. I know this is also at the top of the Minister for Children and Housing's agenda.

4.2.4 Deputy M.R. Higgins:

I am pleased to hear that the Minister is going to make it one of their priorities to get to grips with inflation. Does that mean that every price rise, every stealth tax that will be planned by the Council of Ministers, will be scrutinised first because they directly impact inflation? In fact, they are the main cause of local inflation, i.e. inflation from sources other than from outside our own economy.

Senator L.J. Farnham:

The indirect taxation, if we look at the R.P.I.Y (retail price index excluding mortgage interest payment and indirect taxes) figures, which are the cost of living increases, excluding taxation such as G.S.T. (goods and services tax) and impôts. Those are levers we can pull to help with our inflation rate. I am not proposing that we do that but we certainly can. As Deputy Ash has highlighted recently in his crusade for cheaper beer, the direct impact of increasing impôts duty will have an impact on our overlying rate of inflation. Those are some of the levers we can use.

4.2.5 Deputy M.R. Higgins:

Just following through: will the Minister ensure that things like proposed M.O.T. (Ministry of Transport) charges, and other charges that are going to come in, will also be scrutinised and also kept to the absolute minimum?

Senator L.J. Farnham:

The aim of this new group will be to make sure that politicians understand the impact of imposing new charges and new taxation on the cost of living. We have tended to in the past, this Assembly, I believe, introduce new taxation without considering the impact on inflation. Like the previously agreed retail tax as one example, where that could have an impact on our inflation and we did not

make that consideration before introducing the new tax. But those sorts of things will have a very minimal impact. The main drivers for high inflation at the moment are housing costs, household services, school fees, postage, telephone, leisure service, holidays and recreation and of course motoring, due to oil prices.

4.2.6 Deputy S.M. Ahier of St. Helier:

I was reading through the retail price index for Jersey in December and we have a chart on page 2 for the last 18 years for the retail price index figures, and I have drawn up one from the U.K. for the last 20 years, which is virtually identical in the peaks and troughs. There is only one minor difference, the Jersey retail information figure is exactly 2 per cent higher for the last 18 years. So this is a problem that we have had for many, many Assemblies before this one ...

The Deputy Bailiff:

Deputy, this really does have to be a question.

Deputy S.M. Ahier:

No progress has been made. High inflation is threatening the very fabric of our society. Will the Minister ensure that it is not another 20 years before our retail price index and that of the U.K.'s converge?

Senator L.J. Farnham:

I would like to give that promise but I simply cannot. Nobody in this Assembly can, but I can give the Member reassurance that we are going to try very hard. Jersey's inflation rate has always run ahead of the U.K. rate on a comparable basis and analysis indicates that Jersey's inflation rate largely tracks the U.K., as the Deputy pointed out. We have always run ahead because we are strongly influenced by global pressures, which have a far greater weight on Jersey's economy because it is much smaller than the U.K.'s economy. I am with the Deputy in thinking. We cannot make any guarantees other than that we have to make a commitment now to fully understanding the impact of increases that we apply through public finances and the impact on inflation.

4.2.7 Deputy R.J. Ward:

Given the answer to Written Question 112 today, which states that of the 145 units presold by Horizon Developments 82 have been sold to buy-to-let investors, are we not fuelling the rise in rental prices in the private sector by the actions of our States-owned arm's length companies?

Senator L.J. Farnham:

I would imagine that the buy-to-let investors are local investors. I agree that we should not allow, with the current state of our housing market, investors from outside of the Island to invest in property given the current demands faced to us. But I am not sure what we can do in our community to stop local people buying property for investment. On one hand, the fact that local investors are buying it might not be perfect because it could deny some first-time buyers because the Horizon project is, I think, a very good scheme for first-time buyers because it allows buyers for a period of time to pay their deposit. I must declare an interest because my daughter is a purchaser of one of these properties. Having said that, although these properties, many of them have been bought by investors, they are still available for local housing, albeit it to rent.

4.2.8 Deputy R.J. Ward:

Is it not the fact that developments like this are simply, to a large extent, more than 50 per cent of investors are becoming a cash cow for those who are wealthy enough to buy up homes; and I use the word “homes” on purpose? Because they are homes, not properties to be bought and sold like a bag of crisps. But they are homes that people need to live in. Are we not fuelling inequity, which goes directly against one of the main aims of the Common Strategic Policy by allowing this to happen?

Senator L.J. Farnham:

I do understand the Deputy’s concerns and I am not passing the buck but that is probably a matter for the Minister for Children and Housing to address. I am sure he will have the understanding of the Council of Ministers and the Assembly when he comes to address these sorts of issues. While I do understand, I want a free market economy to prevail. I want to allow opportunities for local investors to invest in business and property in their Island but we do have to, going back to the very basis of the original question, ensure that we get to grips with the supply and demand in housing and produce more affordable homes for Islanders to buy.

4.2.9 Connétable C.H. Taylor of St. John:

In response to the Horizon building, 82 units out of 145 are being sold to investors. Very simply, does the Minister agree with me that if it was not for the private investors this project would not have got off the ground yet and would not be started and the spade would not have gone in the ground. In order to provide the other 63 units of accommodation, it has been necessary to have private investors. Further, could I ask the Minister what incentives he might give to the private sector to invest in housing in order to shorten the waiting list and to provide more homes?

Senator L.J. Farnham:

I think having private investment in any part of our economy is absolutely essential. I refer the Constable to my previous answer. The second part of his question, again I am not the Minister for Children and Housing, but I just again refer to an earlier answer that I gave and I would appreciate if the Constable would direct that to Senator Mézec in due course.

4.2.10 Senator K.L. Moore:

Given the Minister’s answer in relation to the issue of being that of supply, would the Minister confirm whether he will be supporting the rezoning of land for first-time buyer homes in St. Peter and encouraging other Ministers to do the same?

The Deputy Bailiff:

Yes, I think you can answer that.

Senator L.J. Farnham:

Can I answer that, Sir? Are you sure? Absolutely sure? I am quite happy not to.

The Deputy Bailiff:

I suppose if you consider this relates to economic forces driving high rates.

Senator L.J. Farnham:

While I support the provision of new housing, I do not support a policy that will destroy the environment, and I am not saying that this development will. It falls into that category. But I will be

looking very closely at the circumstances around that particular development prior to making my decision.

4.2.11 Deputy K.F. Morel:

We have heard about the number of flats Horizon have sold to buy-to-let investors and it is little wonder, given the 8 per cent or 9 per cent return you can get from that compared to what you will get in the bank. With that in mind, would the Minister share the description of Jersey's housing market given by the mysterious States spokesman who certainly was not the Minister for Children and Housing, who described Jersey's housing market as mature and confident? Is that something that the Minister shares?

Senator L.J. Farnham:

I understand that comment was attributed to the Minister for Children and Housing but I understand it was not authorised or said by him. I think we have a very strong housing market. We are a privileged society in many aspects, and many hard-working Islanders have worked hard to afford and buy and pay for their own homes. We need to aim to protect the equity and the value of their homes for future generations. That is part of the conundrum we have. To introduce cheaper and more affordable housing without having an impact on the value of existing people's homes. I think this whole Assembly is probably in agreement and we have to put our shoulder to the wheel now and support the Minister for Children and Housing and we have to simply find ways of addressing the issue.

[10:15]

Deputy K.F. Morel:

Sorry, I asked whether he agreed whether it was a mature and confident housing market, as described by the States spokesperson.

The Deputy Bailiff:

I think the Minister has expressed his view on what he thinks the market is and that is, I think, as far as we can go, Deputy, with this one because we need to press on.