



**St Helena
Government**

St Helena Purchasing Power Parity

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Background

This report aims to estimate a Purchasing Power Parity (PPP) exchange rate between St Helena and the rest of the world, particularly the UK. A PPP exchange rate is an economic concept that represents the differences in price levels between different countries. It is measured by comparing the prices of a basket of similar goods in both countries. The PPP exchange rate is then given by:

$$\text{Exchange rate} = (\text{Price in country 1}) / (\text{Price in country 2})$$

Having an estimate of the PPP exchange rate allows for comparisons to be drawn between values in different countries and currencies. This is particularly important for national level figures like Gross Domestic Product (GDP) and Gross National Income (GNI). Using a PPP exchange rate compares these figures in terms of how much they will buy in each country, removing some of the variability in the market exchange rate.

Purchasing Power Parity is particularly important for St Helena because of the unusual price patterns that occur here. Though, officially, the St Helena pound is pegged in exchange rate to the pound sterling, it is not the case that a pound buys the same things here as it does in the UK. The PPP rate gives a comparison of price levels, allowing better comparisons between St Helena, the UK, and the world.

Methodology

In order to compare prices and estimate PPP, we first need to choose a basket of goods to compare. The basket chosen was based on the basket used for the calculation of the local Retail Price Index (RPI). This allows the use of the local prices already collected for the RPI, saving time over redoing price checks.

This basket includes goods regularly purchased by people on St Helena, making it a good proxy for local spending patterns. It also includes weightings for each price based on how much people on St Helena spend on each good. These local weights were used as the weights for estimating the PPP exchange rate.

Prices of these same goods (or a comparable alternative) were then found in the UK. These prices were found online, using primarily the Tesco website and the UK Amazon website. Local prices from the Q2 2016 RPI price check were used for local prices.

Exclusions

Some of the prices used in the RPI had to be excluded from this analysis, either because the product was not available in the UK or because of fundamental differences in the use or type of the good.

Some goods not available or comparable in the UK include some food items produced locally as well as fees for a number of local services. The entire “Services” and “Housing” categories from the RPI have been excluded (with the exception of the price of water), as these are difficult to compare and cannot generally be traded internationally.

There are two prices that have been excluded which should be mentioned specifically, as they have a considerable effect on our conclusions and are major parts of local spending.

The first of these is the price of firewood. Firewood is available in both St Helena and the UK, but its usage and pricing are very different. On St Helena, firewood is used as a cooking and heating fuel, while in the UK its use is more ornamental. In part because of this, firewood was found to be more than 10 times as expensive in the UK as it is in St Helena.

The second major exclusion is the price of internet service. The only internet service currently available on St Helena is satellite based service provided by Sure South Atlantic, Ltd. Satellite internet is slower and more expensive than terrestrial cables used in the UK and elsewhere, to the extent that the standard package considered by the RPI is smaller than any available in the UK. This makes a direct comparison of packages or even finding a comparable product close to impossible.

For both of these products, there are considerable differences between how the product is used on St Helena and how it is used in the UK. Though they have been excluded from the top-level PPP exchange rate figure, their impact on local prices should be noted when considering relative price levels on St Helena. The price of internet service in particular affects the ability of individuals to access information and of businesses to advertise their services.

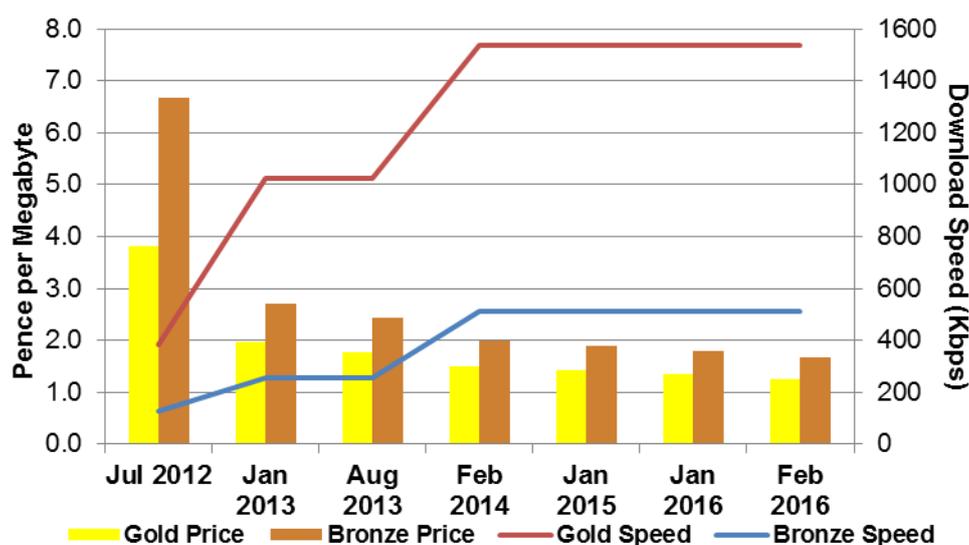


Figure 1: Price and download speed of broadband internet services on St Helena, 2012 to 2016

Results

The final estimate of the PPP exchange rate between the pound sterling and the St Helena pound was £1.24 SHP = £1.00 GBP. This means that the price of the basket of goods was 24% higher on St Helena than it was in the UK. Chart 1 gives the relative price difference on St Helena for each category included in the basket of goods.

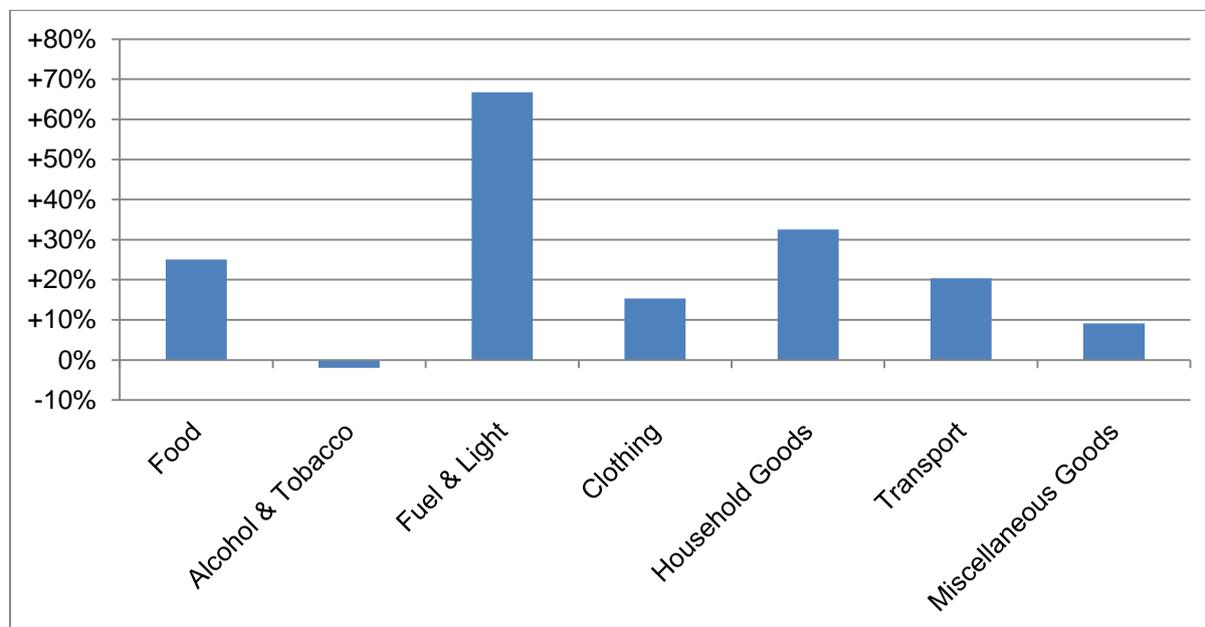


Figure 2: Prices in St Helena relative to equivalent goods in the UK.

The category with the largest price difference was Fuel & Light; goods in this category cost 67% more than similar goods in the UK. This was driven primarily by the high cost of electricity on St Helena. The Household Goods, Food, and Transport categories were also significant contributors to high prices on-island.

The only category with lower prices on St Helena was Alcohol & Tobacco. This was due to the lower price of cigarettes on island offsetting the higher prices of alcohol. There were also a few subcategories which were cheaper on St Helena, including fresh fish and, somewhat unexpectedly, imported fresh fruit.

Conclusions

This analysis quantifies the relative purchasing power on St Helena compared to the UK and, by extension, the rest of the world. This also allows comparison of cost of living in St Helena to cost of living in the UK.

A local estimate for PPP exchange rate also allows GDP figures to be adjusted to account for local purchasing power. Previously published figures used the UK PPP exchange rate, as the St Helena pound is pegged to the pound sterling. However, this exchange rate does not consider differences in prices between the two countries in the way purchasing power measures are ideally meant to.

By combining the St Helena – UK PPP exchange rate with the UK – Int'l dollar PPP exchange rate, we can estimate a St Helena – Int'l dollar PPP exchange rate. This gives us an estimate of per capita GDP of \$8,320, compared to \$10,300 figure based only on the UK PPP exchange rate.

These two GDP figures represent slightly different concepts. The UK PPP exchange rate gives the value of the pound sterling in terms of what it can buy in the UK. In practice, this represents a more stable version of the market exchange rate (i.e. the value of the pound on international markets). In contrast, the adjusted exchange rate for St Helena represents the value of the pound in terms of what it can buy on St Helena. Because the value of the St Helena pound is pegged to the UK pound, this does not reflect the value of the pound on international markets.

Further Information

For more information about PPP exchange rates or anything else in this report, please contact the Statistics Office with any questions.

Date of Publication: November 2016

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