



In this Bulletin: The Retail Price Index and Inflation

Estimates of the Retail Price Index (RPI) and price inflation rates have been calculated for the final, fourth quarter of 2020. The data released in this Bulletin can be downloaded from the St Helena Statistics website in the 'Inflation.xls' file at: www.sainthelena.gov.sh/statistics.

The Retail Price Index

The Retail Price Index (RPI) is a statistical measure of the change in retail prices on St Helena. An increase in the RPI means that, on average, prices have gone up since the last time they were measured, and a decrease in the RPI means that, on average, prices have fallen. It is important to understand that the RPI is an average measure, and if it goes up, it does not mean that all prices have gone up. Similarly, if it goes down, it does not mean that all prices have fallen – typically, some prices will have fallen, but some will also have gone up.

Latest index value and inflation rates

For the fourth quarter of 2020 the RPI has been measured at 105.6 (Chart 1). This is a decrease of 0.7% in the index compared to the last time it was measured three months ago, when it was 106.4, and the second quarter in a row when the index value has fallen. It is also 0.2% lower than a year ago, when the RPI was 105.9. This means that the annual inflation rate is -0.2%, comparing prices in Q4 2020 to the same time-period in 2019. Last quarter, the annual inflation rate stood at 1.0% (Chart 2).

Chart 1. St Helena Retail Price Index Q4 2014 to Q4 2020 (Q1 2018=100)

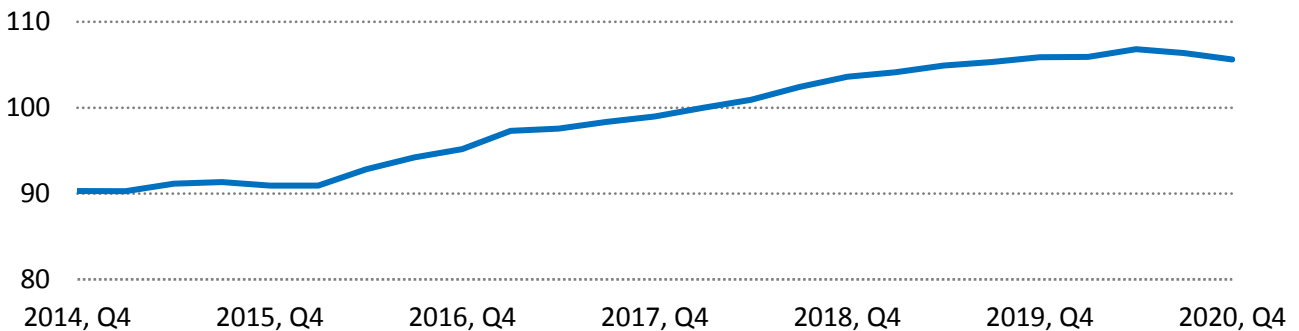
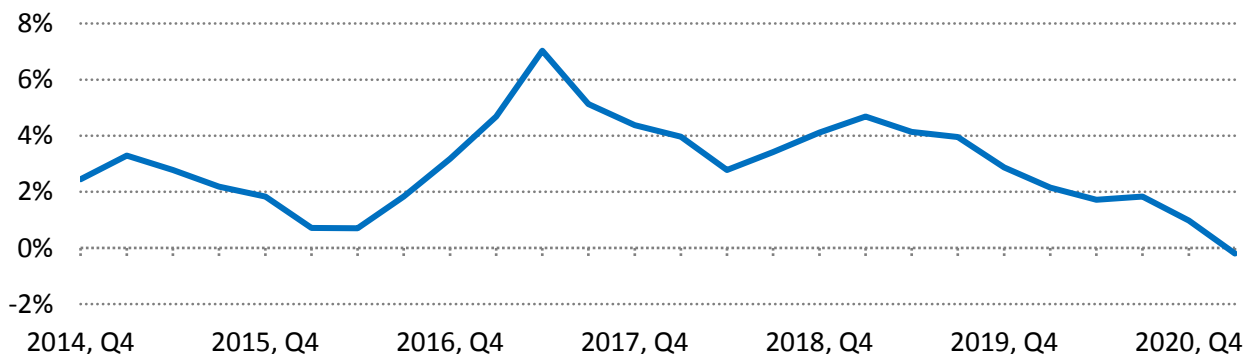


Chart 2. Annual inflation rate, Q4 2014 to Q4 2020



The -0.2% annual inflation rate is the result of a combination of the fall in the value of the South African Rand compared to the St Helena Pound over the last 12 months or so, and the low inflation rates in the United Kingdom and South Africa. The latest annual inflation rate in the UK is 0.6% (Office for National Statistics, December 2020), and for South Africa it is 3.2% (Statistics South Africa, November 2020). These are very low rates, caused in part by the lower demand for goods and services resulting from the COVID-19 pandemic restrictions. But the lower value of the Rand compared to the Pound also has a significant effect on prices of goods purchased from South Africa, alongside the cost of freight and the level of customs duties.

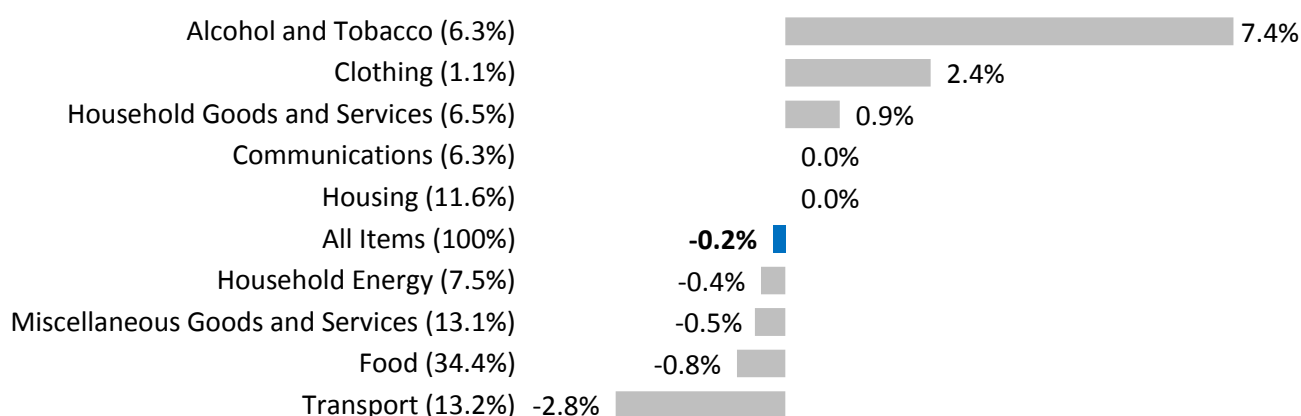
To illustrate, suppose an item cost R100 in Q4 2019, but then the price had risen to R103 in Q4 2020 due to local price inflation in South Africa. Apart from freight, customs duty, and other costs, an importer on St Helena might expect to pay around £5.29 for that item in Q4 2019 (R100 divided by 18.9, the average daily exchange rate for that period), but only around £5.00 in Q4 2020 (R103 divided by 20.6, the average daily exchange rate for that period). That represents a price drop of that item by around 6% over the year, for buyers on St Helena.

Price changes in the last year

Chart 2 illustrates the price change in different categories of goods and services over the last 12-month period. The Retail Price Index uses 203 items to represent different categories of household expenditure; over the past year, 44 items increased in price, 64 items decreased in price, and the price of 95 items was unchanged.

The largest annual increase in average prices was in the Alcohol and Tobacco category (7.4%). As in the previous quarter, this is due to increases in Customs duties during the year (duty on alcohol was increased by 2.9% and on tobacco and tobacco products by 3.9%).

Chart 3. Annual price change by category, St Helena (Q4 2020 compared to Q4 2019)



Note: category weights are provided in parentheses; these indicate the extent to which different categories are represented in the overall index. Categories with higher weight have a greater contribution to the index than categories with lower weights.

Average prices of goods and services fell over the year in four categories: Household Energy, Miscellaneous Goods and Services, Food, and Transport. The 0.8% fall in average food prices is especially significant, because Food comprises more than a third of the overall basket. As explained

previously, this is largely a result of the lower value of the Rand compared to the St Helena pound; some South African food items, such as UHT milk, dropped in price as a result, compared to a year ago. The fall in the Transport category is largely due to a decrease in the price of both petrol and diesel; in Q4 2019, a year ago, petrol cost £1.37 a litre and diesel cost £1.46 a litre. But in Q4 2020, petrol cost £1.29 a litre and diesel cost £1.31 a litre.

Price changes in the last quarter

Shorter-term changes in prices can be measured by comparing the index with its value in the last quarter, three months ago (i.e. Q3 2020). Charts 4 and 5 illustrate these quarterly inflation rates; typically they are lower than the annual rates, since they measure price changes over a much shorter period. Chart 4 illustrates that, on average, prices fell in the last quarter, by around 0.7%. Of the 203 items used to measure the inflation rate, 23 items fell in price, 18 items increased in price, and 162 items stayed the same.

Chart 4. Quarterly inflation rate, Q4 2014 to Q4 2020

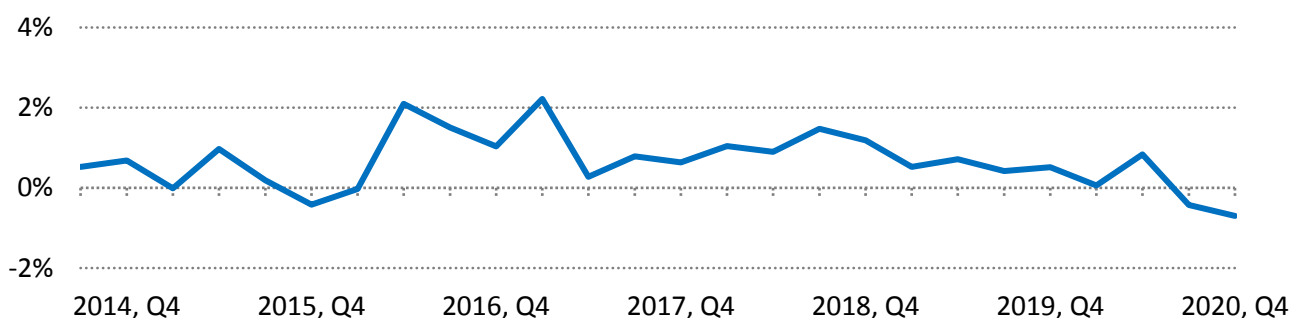
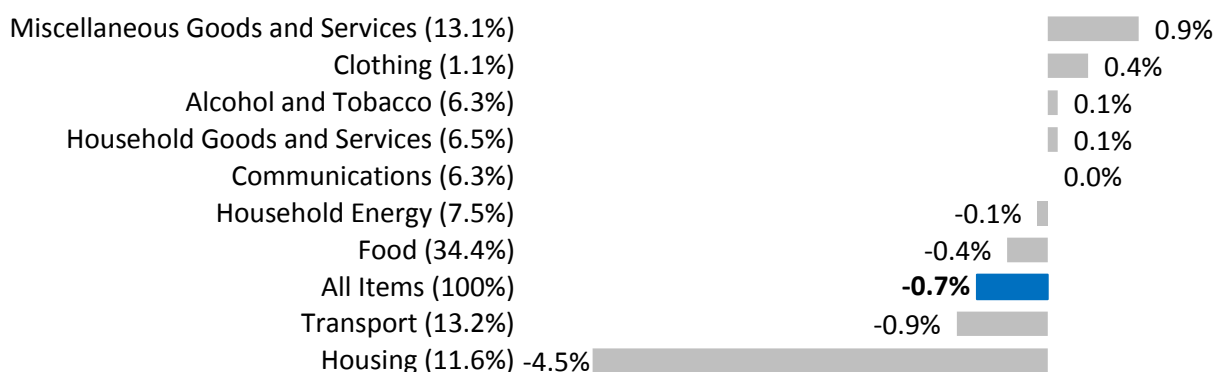


Chart 5 illustrates the latest quarterly inflation rate by category of expenditure. For most categories, on average, prices were either unchanged or they fell. Transport prices fell by 0.9% because of a fall in the retail price of petrol and diesel, and Housing prices fell because of fall in the price of some materials used for maintenance and repair.

Chart 5. Quarterly price change by category, St Helena (Q4 2020 compared to Q3 2020)

Quarter on quarter change



Note: category weights are provided in parentheses; these indicate the extent to which different categories are represented in the overall index. Categories with higher weight have a greater contribution to the index than categories with lower weights.

Some frequently asked questions

What is price inflation?

Price inflation is the change in the average prices of goods and services over time. The rate of price inflation is calculated from the change in the Retail Price Index (RPI), which is the official measure of the average change in the prices of goods and services paid by consumers. The RPI is estimated each quarter, i.e. once every three months, and the rate of price inflation is usually quoted on an annual basis; that is, comparing price changes over a 12-month period. Prices and the RPI tend to go up, but they can occasionally go down – which is known as price deflation.

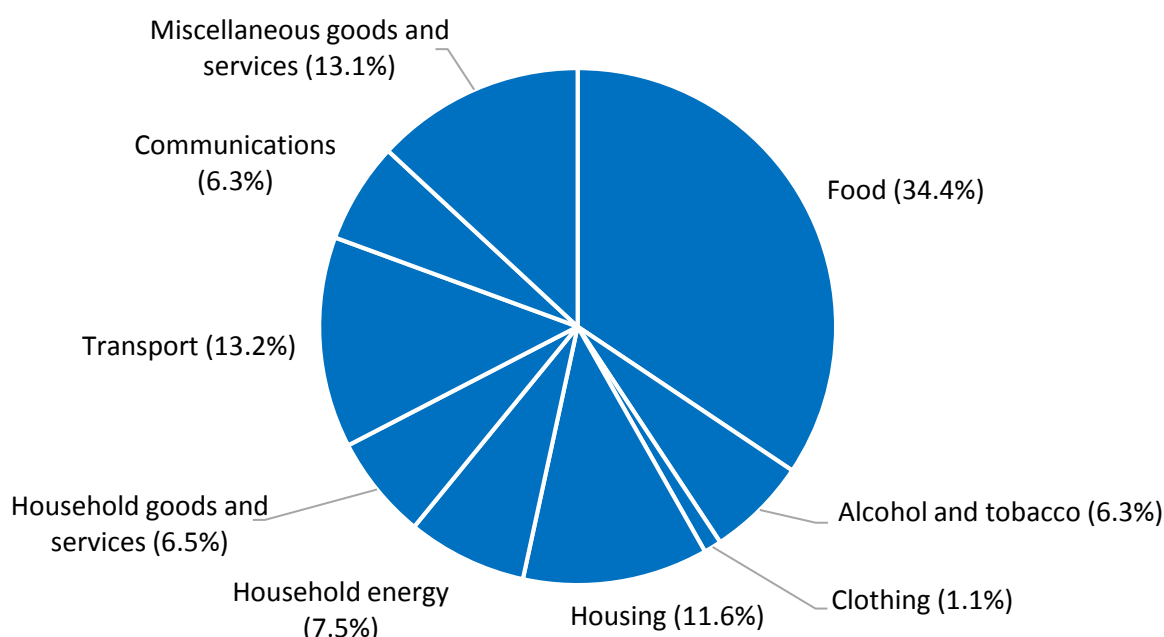
Why do we measure inflation?

An accurate measure of price inflation helps understand the extent and nature of the impact of price changes on the government, businesses, households and individuals. Inflation rates are often used in budgeting and accounting processes so that costs can be adjusted for the effect of price changes.

How is the RPI calculated?

The basis for the RPI is the average weekly cost of goods and services purchased by households on St Helena, sometimes called the RPI 'shopping basket'. Items which households purchase more of, such as food, have the biggest share of the RPI basket. The current RPI uses a basket from the latest Household Expenditure Survey in 2017; prices representing the groups of items in the basket are collected every quarter, and the price of the total basket is compared to the price in the baseline period, the first quarter of 2018. By convention, the value of the basket in the baseline period is scaled to 100, and the RPI values are quoted in relation to that baseline. For example, an RPI value of 120 means that average prices have increased by 20 per cent compared to those recorded in the baseline period.

Composition of average household weekly expenditure (Q1 2018 RPI 'Shopping Basket')



What happens when items are not available?

If an item of the 'basket' is not available then either the previous price will be carried forward from the previous quarter, or a suitable substitute item will be identified and an adjustment calculation made. Care is taken to ensure that this substitute item represents the item category and that it does not introduce error to the measurement of the RPI. An important principle is that price changes should reflect actual price increases and decreases, and not changes in the quality of items.

Where can I get the data?

For detailed tables of the RPI and annual inflation rates from 1994 onwards, please visit: <https://www.sainthelena.gov.sh/st-helena/statistics/> and download the 'inflation' data file. Other datasets, bulletins and reports are also available on our website: <http://www.sainthelena.gov.sh/statistics>.

Have more questions or comments?

Please get in touch: we are Neil Fantom, Statistical Commissioner, Kelly Clingham and Justine Joshua, Senior Statistical Assistants, and Bertina Benjamin, Statistical Assistant. You can find us in person at the Statistics Office on the **first floor of the Castle**, Jamestown, at the back of the main courtyard. You can also contact us by telephone: our direct line is **22138** or via the Castle switchboard on 22470. If calling from overseas, the international dialling code for St Helena is +290. Our general office e-mail address is statistics@sainthelena.gov.sh, or you can email team members directly (the format is firstname.lastname@sainthelena.gov.sh).