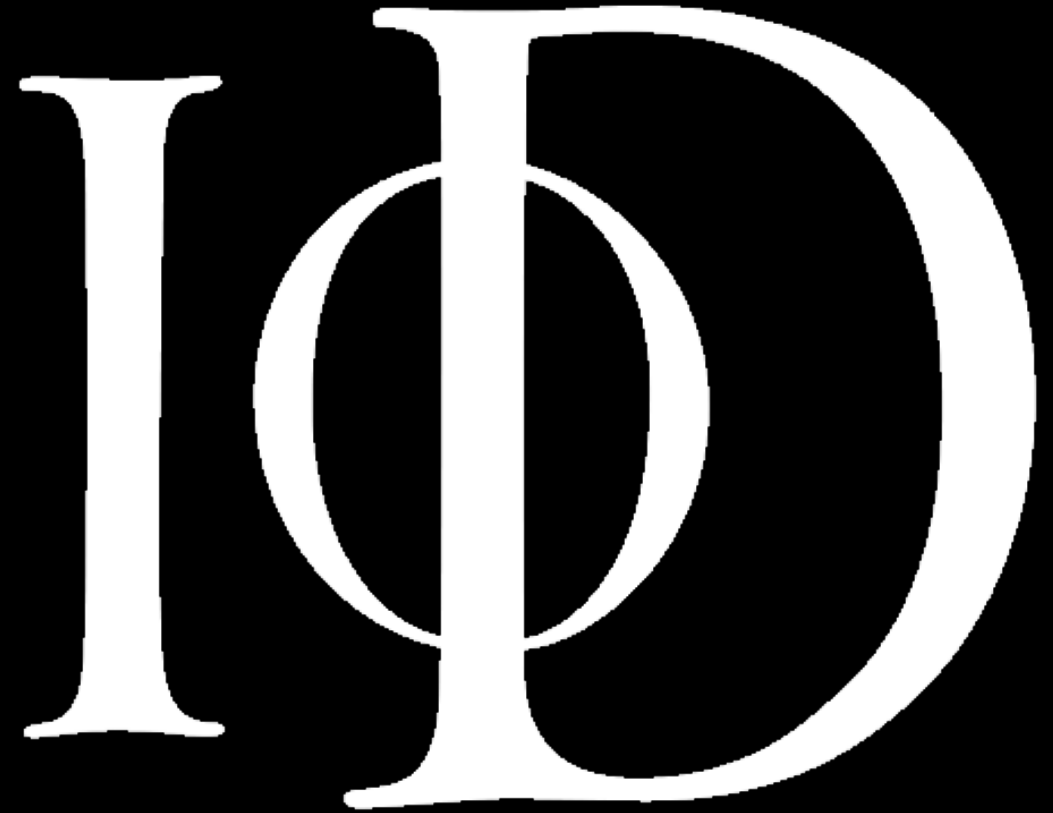


IoD January Breakfast Webinar

Guernsey 2022 Economic Outlook

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Guernsey's Economic
subcommittee



GDP – 2020/21

- 2020 – decline of 3%. Better than expected and UK/Jersey
- 2021 – growth of nearly 4%. Recovered to pre-pandemic level, earlier than UK and Jersey
- Strong recovery thanks to:
 - benefit of island status
 - robust response
 - healthy pre-pandemic public and private financial position
 - on-island spending
 - composition of economy

GDP – 2022 outlook

- 2022 – continuing overall modest growth with risk marginally on the upside thanks to:
 - momentum
 - normalisation
 - strong household incomes, earnings and balance sheets
 - private sector investment likely to increase
 - robust housing market
 - loosening of fiscal policy

GDP – 2022 outlook

- Counterbalanced by:
 - risk of further COVID disruption
 - subdued public investment
 - inflation/income squeeze
 - supply chain disruption
 - labour shortages/shrinking workforce
 - off-island spending
 - rising interest rates
 - increasing uncertainty (population, tax review, fiscal deficit etc.)

GDP – components of economy

- Consumption – will be supported by strong household balance sheets, real earnings growth and strong labour market
- Government spending – some stimulus planned, running a fiscal deficit
- Investment – private sector investment should increase in spite of uncertainty and higher interest rates as corporate balance sheets are strong and profits have recovered, as well as the need to invest in productivity arising from labour shortages, but public sector will remain subdued

GDP – by key sector

- Finance – after contraction in 2020 and flatlining in 2021, island's most important sector should return to growth in 2022 as banking is likely to recover in a rising interest rate environment, fiduciary will remain stable, funds continue to grow thanks to strong availability of capital from private equity, insurance market is hardening creating opportunities for captive insurers in a favourable regulatory regime
- Business, IT and support services – will see growth as finance sector recovers and thanks to booming demand for professionals as well as exports
- Construction – will continue to grow thanks to the housing market in spite of supply chain problems
- Retail – growth will be weak as consumer strength is offset by people travelling off-island
- Transport – difficult Q1 but should return to growth thereafter as pandemic recedes and travel resumes
- Hospitality – as transport but this sector will continue to be hampered by labour shortages

Inflation and interest rates

- Inflation is increasing as demand recovers whilst supply chains are disrupted and there are labour shortages
- Currently 4.6% but likely to rise well above 5% in 2022 given the UK experience and continuing pressure on housing, food and consumer goods combined with higher energy costs and ongoing labour shortages
- Inflationary pressures lower than UK
- Rising interest rates may moderate inflation but hikes unlikely to be more than 1% and cost pressures are too great and too many
- Interest rate increases will not significantly damage local economic activity in 2022

Employment and earnings

- Employment grew by 3% in 2021, real earnings by 3.8% and unemployment fell to 1.2%
- In 2022, unemployment will remain low as economy continues its recovery but labour market will be tight
- Growth will be broad-based but some sectors will remain below pre-pandemic levels such as travel and hospitality
- More immigration is required because there is a limited pool of labour to meet demand and the pandemic has led to some withdrawal of labour
- Shortages of labour will lead to supply side disruptions and costs will increase, driving inflation. This could undermine Guernsey's competitiveness and attractiveness
- Real earnings will still grow because of shortages, underpinning consumption, but a squeeze is looming (tax rises, interest rates, inflation)

Housing market

- House prices and transactions have grown significantly, local market up by 15% in 2021 versus 2020. Houses selling more quickly and closer to asking price. Rental prices also up by 7%
- Housing market will continue to be strong in 2022 although growth will moderate
- Underpinned by healthy household balance sheets, pandemic trends and inadequate supply
- Affordability of housing will remain problematic, undermining Guernsey's competitiveness and attractiveness
- Main risk is rising interest rates but debt levels appear low and increase will not yet be significant enough to undermine demand
- Increases will help public finances but contribute to inflation

Public finances

- Public finances are stable and have weathered the pandemic well
- After a large deficit in 2020 caused by the pandemic, operating deficit shrunk in 2021 and an operating surplus is forecast in 2022 in spite of COVID support and Aurigny/Ports losses thanks to loosening of restrictions and strong, flexible economy
- Slight loosening of economic policy in 2022 that will contribute GDP
- Surplus insufficient for level of capital investment required, will need to draw on reserves or borrow, or be deferred. This is a major issue for the island
- Risks are further COVID restrictions and finding balance between need to invest and that investment fuelling inflation, as well as how to fund it and selecting the right priorities. Emphasis must be on productivity and supply side e.g. infrastructure (new ferry), education, housing, childcare and public-private partnerships

Conclusions

- Economy is strong and flexible
- We are at the peak of the economic cycle with rising inflation and interest rates starting to increase
- 2022 likely to see continued growth but downturn feels imminent
- Consumers will soon feel an income squeeze with tax rises, interest rates and inflation
- Outlook is uncertain for Guernsey but we face it from a position of strength
- Key issues are closing the fiscal deficit, capital investment, population management, addressing labour shortages and the shrinking workforce, supporting the finance sector whilst seeking to diversify the economy, building more homes whilst balancing the island's economic and environmental imperatives