

## Jersey Gross Value Added (GVA) and Gross National Income (GNI) - 2005

### Headlines

- Jersey's economy as measured by GVA grew by 5% between 2004 and 2005;
- in real terms (i.e. adjusting for inflation) GVA increased by almost 3% between 2004 and 2005, the first real term growth in the Island's economy for five years;
- in 2005, Jersey's total GVA was £3.4 billion, GNI was £3.2 billion and GDP was £2.8 billion;
- the Financial services sector accounted for almost 50% of Jersey's total GVA in 2005; the next largest sectors were: Other business activities (8%)<sup>1</sup>, Wholesale & retail and Public administration (each accounting for about 7%) and Construction (5%);
- Other business activities, Construction and Electricity, gas & water saw strong real term growth in 2005, whilst Manufacturing and Hotels, restaurants & bars declined;
- Jersey's GNI per capita in 2005 was £36,000, compared with about £21,000 in the UK.

### Introduction

This report presents estimates of the size and growth of Jersey's economy, measured according to the internationally agreed framework specified by the United Nations<sup>2</sup> and the European Union<sup>3</sup>, and as applied to the UK by the Office for National Statistics<sup>4</sup>. The Jersey economy was measured for the first time following this approach in 2003<sup>5</sup>.

Three measures of Jersey's economy are presented (see Note 1):

**Gross Value Added (GVA):** shows the value of economic activity taking place within Jersey and permits a breakdown by each sector of the economy;

**Gross Domestic Product (GDP):** the traditional measure of a national economy, but requires special treatment for profits made through interest rate differences<sup>6</sup>;

**Gross National Income (GNI):** the measure recommended by the International Monetary Fund (IMF) for comparisons between jurisdictions.

Each of the above measures are presented in current year prices (monetary values specific to each calendar year) and in constant prices (adjusted for inflation, also referred to as "in real terms"). The constant price measures of GVA, GDP and GNI are expressed in 2003 prices using Jersey's RPI(X) as the deflator<sup>7</sup>.

Throughout this report all estimates for 2005 should be considered provisional.

---

<sup>1</sup> Including the rental income of non-corporations and owner-occupiers' imputed rent in Other business activities (see Note 2) increases the size of the sector to 19% of total GVA.

<sup>2</sup> System of National Accounts 1993 (SNA93): United Nations.

<sup>3</sup> European System of Accounts (ESA 1995): Eurostat.

<sup>4</sup> United Kingdom National Accounts: Concepts, Sources & Methods, 1998: Office for National Statistics.

<sup>5</sup> Jersey Gross Value Added (GVA) and Gross National Income (GNI) 1998-2003: States Statistics Unit, Sept. 2004.

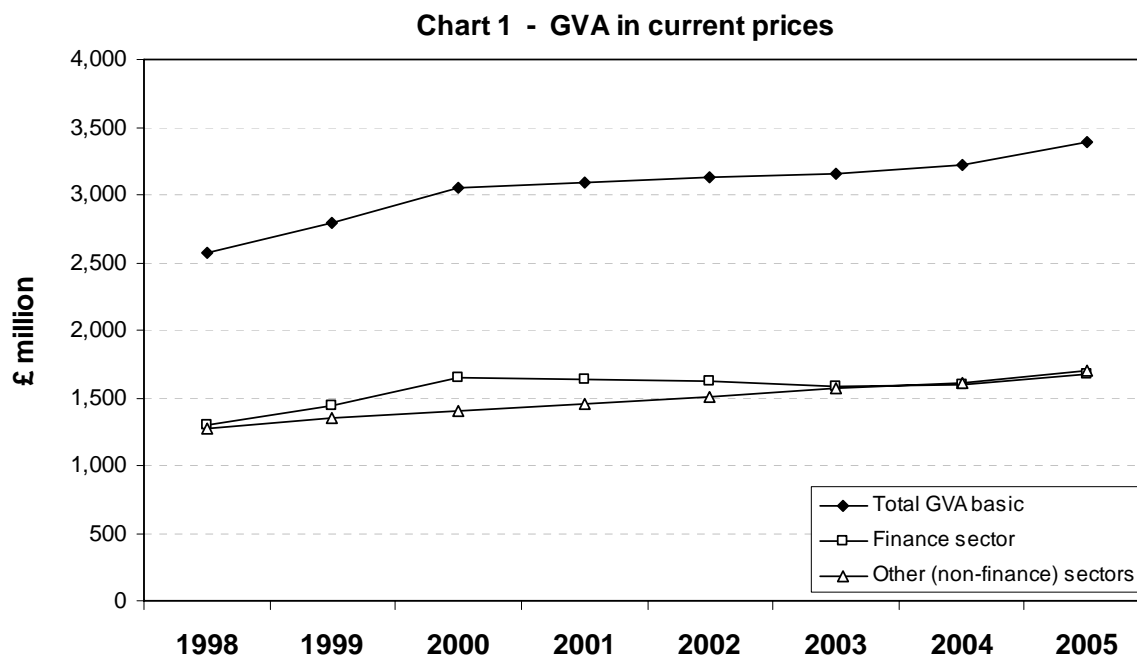
<sup>6</sup> Financial Intermediation Services Indirectly Measured (FISIM): see Chapter 20 Annex 1 in reference of footnote 3.

<sup>7</sup> 2003 is chosen as the baseline since this year represented the first occasion that the size of Jersey's economy was measured according to the internationally agreed framework.

## Section 1: Current year prices

### Gross value added (GVA)

The GVA of the Jersey economy increased by 5% between 2004 and 2005, its largest annual increase and first real term rise (see section 2) since 2000.



Financial services accounted for about half of Jersey's economy in each year of the period 1998-2005 (chart 1) and as such its performance is central to the overall performance of the Jersey economy. The strong growth in total GVA up to 2000 was driven by growth in the Finance sector, whilst the much lower rates of overall growth seen between 2001 and 2004 were a result of the decline in Finance sector balanced by gradual growth in the non-finance sectors of the economy. The 5% increase in total GVA recorded in 2005 was due to growth in both the finance and non-finance halves of the Island's economy.

In 2005, strong economic growth occurred in the Construction and Electricity, gas & water sectors, each of which saw increases in GVA of more than 10%. Most other sectors recorded increases in GVA of between 3 and 7% in 2005, except for Manufacturing and Hotels, restaurants & bars, both of which declined on an annual basis.

The Other business activities sector recorded an increase in GVA in 2005 of 7%, having seen a similar rate of increase the previous year (5%). The rental income of private households is included within Other business activities (see Note 2) and can have a considerable effect on the growth in GVA of this sector in an economy the size of Jersey, especially as rental incomes have historically tended to grow in line with RPI. Excluding rental incomes, Other business activities was nonetheless the fastest growing sector in the economy in 2005, with GVA increasing by almost 12%.

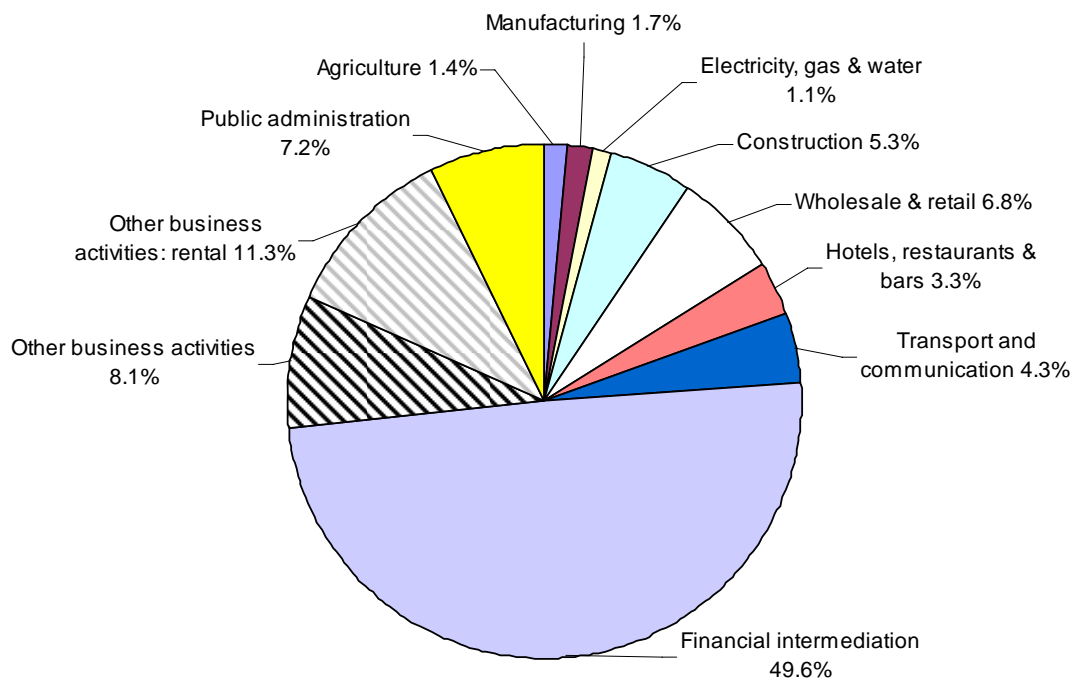
The estimates presented in table 1 show GVA at basic prices, essentially the underlying cost excluding taxes and including subsidies. In 2005 the difference between total GVA at basic prices and GVA at market prices (including taxes but excluding subsidies) was about £47 million.

**Table 1 – GVA by sector at basic prices: £ million**

Sector	1998	1999	2000	2001	2002	2003	2004	2005(p)	% of total GVA 2005
Agriculture	46	47	47	44	47	48	44	47	1.4%
Manufacturing <sup>8</sup>	60	63	64	65	64	63	59	57	1.7%
Electricity, gas & water	33	36	36	35	36	34	34	38	1.1%
Construction	127	137	143	153	165	160	161	178	5.3%
Wholesale & retail	182	189	194	197	200	210	215	230	6.8%
Hotels, restaurants & bars	106	111	107	107	107	113	113	112	3.3%
Transport & communication	112	121	120	128	131	133	138	146	4.3%
Financial intermediation	1,299	1,439	1,654	1,636	1,619	1,584	1,603	1,681	49.6%
Other business activities	453	474	499	524	551	585	617	658	19.4%
<i>of which business activity</i>	163	174	185	199	212	232	247	276	8.1 %
<i>of which rental income</i>	290	300	314	325	339	353	370	382	11.3 %
Public administration	157	174	186	199	210	223	235	243	7.2%
<b>Total GVA</b>	<b>2,574</b>	<b>2,791</b>	<b>3,051</b>	<b>3,088</b>	<b>3,129</b>	<b>3,153</b>	<b>3,219</b>	<b>3,388</b>	

(p) provisional

The contribution of each sector to total GVA in 2005 is shown in chart 2. It is clear that the Finance sector accounted for almost 50% of the total. The next largest sectors were: Other business activities (excluding rental income), accounting for about 8%, Wholesale & retail and Public administration (each about 7%) and Construction (5%).

**Chart 2 - GVA by sector, 2005**

<sup>8</sup> The fall in the GVA of the Manufacturing sector between 2003 and 2004 was partially due to a reclassification of staff into the Wholesale & retail sector by one undertaking.

### Gross domestic product (GDP)

In order to derive GDP from total GVA at market prices, profits earned by banks through interest rate differences, i.e. net interest income, must be excluded. This adjustment is achieved by assigning a negative GDP contribution to a notional sector called FISIM (Financial Intermediation Services Indirectly Measured, see Note 3). In table 2 GDP is shown (i.e. GVA net of FISIM) and is therefore lower than GVA. In 2005 FISIM was estimated at about £680 million, an increase on the £600 million in 2004, reflecting the better year seen in the banking sub-sector.

**Table 2 – GDP at market prices: £ million**

	1998	1999	2000	2001	2002	2003	2004	2005(p)
GDP (£ million)	2,120	2,270	2,390	2,470	2,520	2,600	2,670	2,760

GDP at current market prices was provisionally £2,760 million in 2005, an increase of about 3% on 2004. Overall, whilst GDP calculated in this internationally consistent manner is of some relevance, GVA and GNI are considerably better indicators of the health of the Jersey economy.

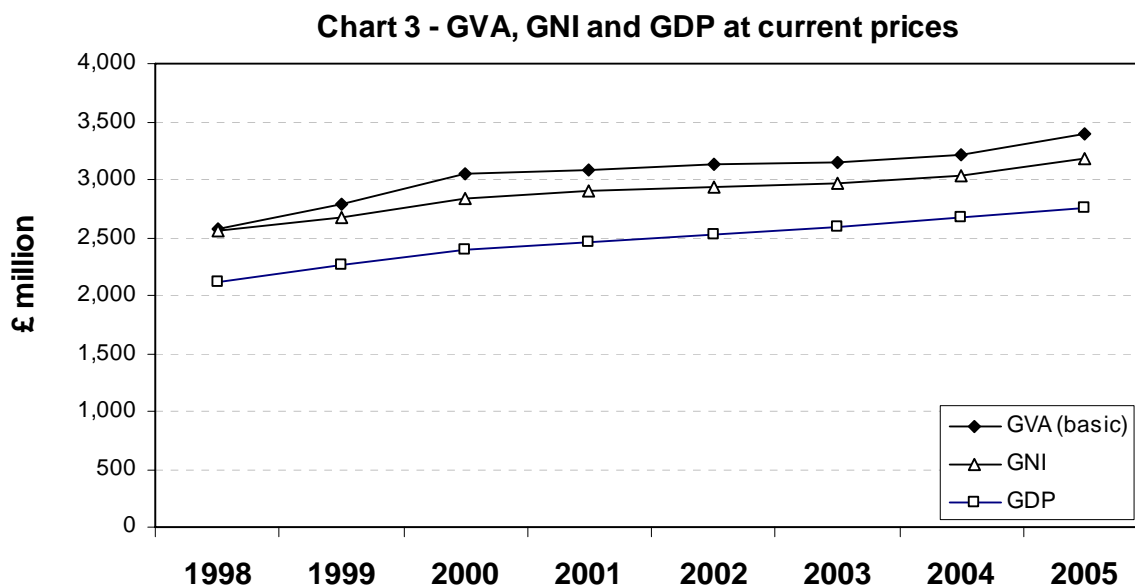
### Gross National Income (GNI)

GNI is defined as GVA at market prices net of the transfer of financial income from overseas (see Note 4). In 2005 this transfer represented a net outflow of around £260 million. The resulting provisional estimate of GNI for 2005 was £3,170 million, corresponding to an increase of almost 5% on 2004.

**Table 3 – GNI: £ million**

	1998	1999	2000	2001	2002	2003	2004	2005(p)
GNI (£ million)	2,550	2,660	2,840	2,900	2,930	2,970	3,030	3,170

From the perspective of current prices, the picture of the Jersey economy since 1998 is one of strong growth up to 2000, followed by a period of slower growth to 2004, with a more rapid rate of increase in 2005 (chart 3).

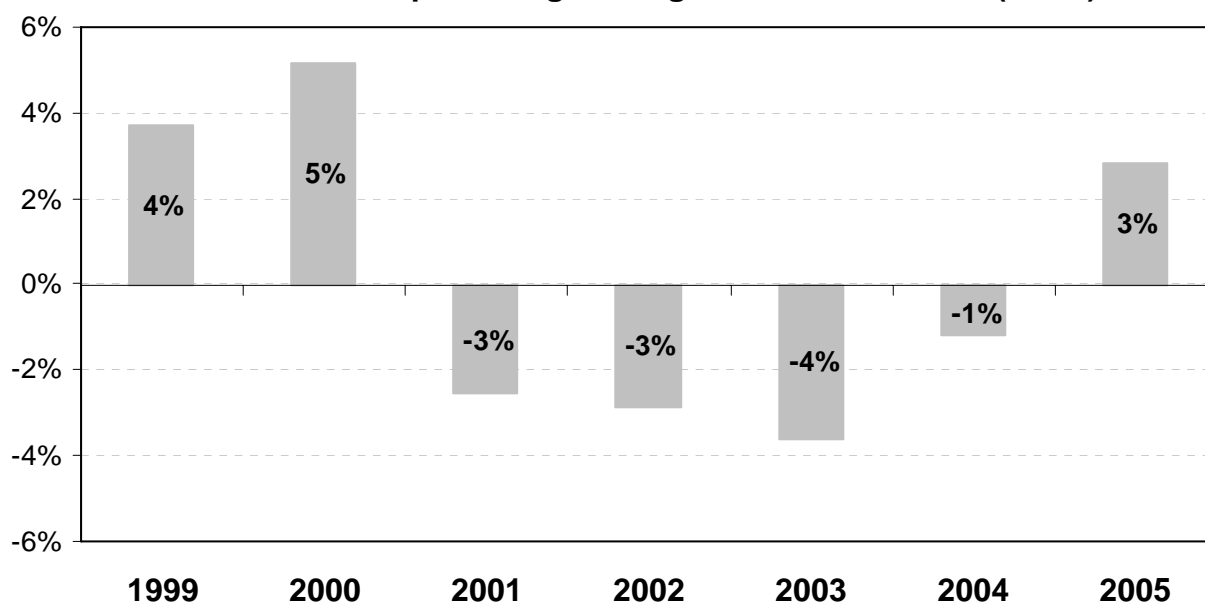


## Section 2: Constant prices

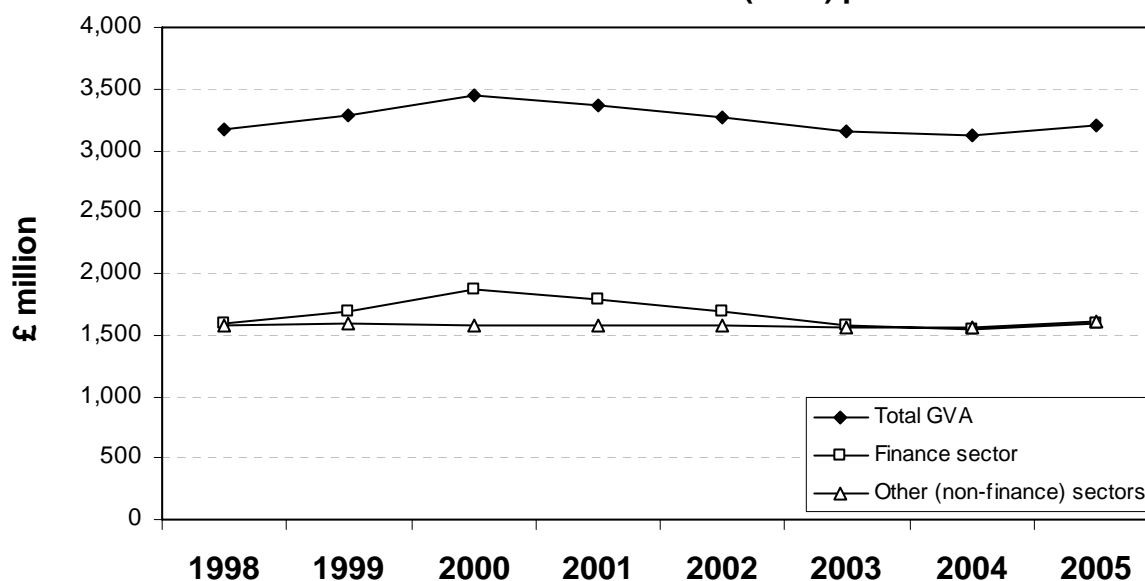
Section 1 presented the three measures of the Jersey economy in terms of current prices. In order to get a more tangible impression of how the economy is performing it is necessary to consider the economic metrics in constant prices (i.e. excluding the effect of inflation, also known as “real terms”). For Jersey this can be achieved by putting the aggregate estimates onto a constant price basis using RPI(X), the underlying rate of inflation, as the deflator<sup>9</sup>.

In 2005 Jersey’s GVA increased by 2.8% in real terms (chart 4), its first real term increase for five years.

**Chart 4 - Annual percentage change in real terms: GVA (basic)**



**Chart 5 - GVA in constant (2003) prices**



<sup>9</sup> A GDP deflator is normally used to deflate GDP estimates as it is a measure of the inflation in the whole economy. In the absence of this measure for Jersey, RPI(X) provides the next best measure of overall inflation.

The real term behaviour of total GVA and of the finance and non-finance halves of the economy (shown in chart 5) reflects that previously discussed for current year prices. Strong real term growth was recorded up to 2000, driven by the finance sector, followed by a period of decline resulting from falling GVA in the finance sector and stable real term GVA for the non-finance half of the economy (of about £1,600 million each year). The overall real term growth seen in 2005 is the result of growth in both the finance and non-finance halves of the Island's economy.

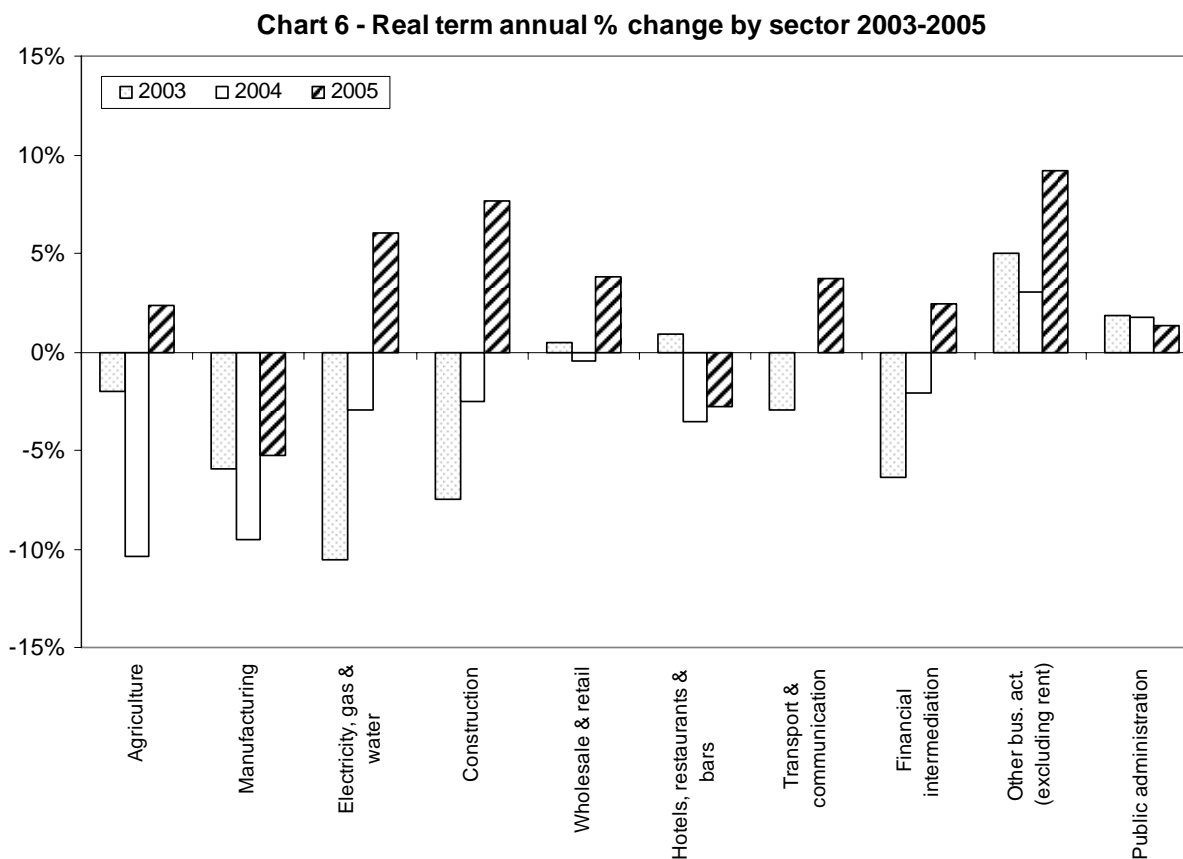
Table 5 presents sectoral GVA for the period 1998 to 2005 based on constant 2003 prices.

**Table 5 – GVA (basic) at constant (2003) prices: £ million**

<b>Sector</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005(p)</b>	<i>% change 2004 -2005</i>
Agriculture	56	56	53	48	49	48	43	44	2.3%
Manufacturing	74	74	73	71	67	63	57	54	-5.3%
Electricity, gas & water	40	42	41	38	38	34	33	35	6.1%
Construction	156	161	162	167	173	160	156	168	7.7%
Wholesale & retail	224	223	220	214	209	210	209	217	3.8%
Hotels, restaurants & bars	130	131	121	116	112	113	109	106	-2.8%
Transport & communication	138	142	136	140	137	133	133	138	3.8%
Financial intermediation	1,598	1,694	1,873	1,784	1,692	1,584	1,551	1,589	2.5%
Other business activities	557	558	565	571	575	585	597	622	4.2%
<i>of which business activity</i>	200	205	210	217	221	232	239	261	9.2%
<i>of which rental income</i>	357	353	355	354	354	353	358	361	
Public administration	193	205	211	217	219	223	227	230	1.3%
<b>Total GVA</b>	<b>3,168</b>	<b>3,286</b>	<b>3,455</b>	<b>3,367</b>	<b>3,270</b>	<b>3,153</b>	<b>3,115</b>	<b>3,203</b>	<b>2.8%</b>

Between 2004 and 2005 the GVA of the Finance sector saw real term growth of 2.5%, representing the first such growth for this sector since 2000. Most other sectors also saw real term increases in 2005, notably Construction (up almost 8%) and Electricity, gas & water (up about 6%). Excluding the rental incomes component, the Other business activities sector saw real term growth of about 9%. In contrast, Manufacturing and Hotels, restaurants & bars both saw falls, of about 5% and 3% respectively, continuing the long-term trend decline seen in both of these sectors.

The annual percentage change in real term GVA for the individual sectors for each of the last three years is presented in chart 6. The continued growth of Other business activities (excluding rental income) is apparent, reflecting the increasing importance of new service activities to the Jersey economy. Public administration has also seen small ongoing real term growth. The recent strong growth in Construction and Electricity, gas & water is also apparent, whilst the turnaround for the Finance sector is evident, the positive growth recorded for 2005 contrasting with the previous real term falls.



The three aggregate measures of Jersey's economy are shown in real terms for the period 1998 to 2005 in table 4. Each measure recorded real term increases in 2005, the first such increases for five years.

**Table 4 – GVA, GDP, GNI at constant (2003) prices: £ million**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>GVA</b>	3,170	3,290	3,460	3,370	3,270	3,150	3,110	3,200
<b>GDP</b>	2,600	2,670	2,710	2,690	2,640	2,600	2,580	2,610
<b>GNI</b>	3,140	3,140	3,210	3,160	3,060	2,970	2,930	3,000

### **Section 3: International Comparisons**

One of the main reasons for calculating GNI is to enable international comparisons in both absolute and relative terms (i.e. per capita). Estimates of GNI for Jersey, Guernsey, the Isle of Man and the UK are shown in table 6.

Whilst a degree of caution should be exercised in interpreting these data (since slightly different methodologies may have been used) it is apparent that Jersey's GNI per capita is more than 70% higher than that of the UK.

**Table 6 - GDP and GNI in Jersey, Guernsey, IOM, UK in 2005 (current year prices)<sup>10</sup>.**

	<u>Jersey</u>	<u>Guernsey</u> <sup>†</sup>	<u>Isle of Man</u> <sup>*</sup>	<u>UK</u>
GDP (£ million)	2,760	1,510	1,500	1,224,715
GNI (£ million)	3,170	1,570	1,560	1,253,561
GNI per capita (£)	36,000	26,000	20,000	21,000

<sup>†</sup> *Guernsey figures are those published in table 1.2 of Guernsey Facts and Figures 2006. Combining annual changes in the published data with a methodology currently under development, and which more closely follows the internationally agreed framework, the estimate of GNI per capita for Guernsey would be about £35,000.*

<sup>\*</sup> *Isle of Man figures are for 2004/05 (twelve months to 31 March 2005); GNI per capita has been derived from the published figure for GDP per capita.*

In contrast to the annual changes in real term GVA experienced by Jersey shown in chart 4, the UK economy saw real term growth for each year of the period covered by the chart, with 2005 recording an increase of 1.9%<sup>11</sup>.

*Statistics Unit*

*27 September 2006*

---

<sup>10</sup> Sources:

2006 Guernsey Facts and Figures: Policy and Research Unit, Policy Council, States of Guernsey.

Isle of Man National Income 2004/05: Economic Affairs Division, Isle of Man Government, Treasury.

United Kingdom Economic Accounts and Economic Trends: Office for National Statistics.

<sup>11</sup> United Kingdom Economic Accounts: Table A1, chained volume measure of GVA at basic prices (index ABMM).



## **Notes**

### **1) Definition of terms**

The size of an economy can be measured in three ways: income (the sum of profits and earnings), output (the difference between output and intermediate purchases) and expenditure (the sum of all final expenditure in the economy e.g. consumer and government spending, capital investment and exports). The income and output measures both derive estimates of value added. At present data only exists in Jersey to enable calculation of the income measure. Under this approach, GVA, GDP and GNI are defined as:

**GVA:** the sum of gross operating surplus (including “mixed income” of sole traders) and compensation of employees; GVA is evaluated separately for each sector of the economy and is specified in terms of basic prices, i.e. excluding taxes on products and production (e.g. impôts) but including subsidies.

**GDP:** the aggregate of GVA over all sectors, specified in market prices (i.e. including taxes and removing subsidies). The estimate presented here is consistent with international definitions and thus excludes profits made by banks through lending and borrowing money at different interest rates i.e. net interest income; this is accounted for in full national accounts by a notional sector called FISIM. However, given the importance of finance to Jersey this adjustment results in an understatement of the size of the economy from that determined by observation and as such GVA is the best measure of total economic activity in Jersey.

**GNI:** GDP modified to incorporate the net transfer of financial income to/from outside of the Island. However, as this measure includes overseas earnings it is affected by the strength of economies elsewhere in the world.

*In calculating these economic aggregates it has been necessary to take a number of assumptions for measures such as the degree of non-Jersey ownership of businesses. These estimates have been taken on an informed basis and have been set at levels that do not affect year on year comparisons.*

### **2) Owner-occupiers’ imputed rent, OOIR**

The international framework governing the calculation of National Accounts (and therefore GVA, GDP and GNI) is defined so that it can be applied to all countries and thereby measure economic growth regardless of differences between countries. A result of this is that some concepts are introduced which may be conceptually difficult. One such concept is Owner-Occupiers Imputed Rent (OOIR). Essentially OOIR is an estimate of the rental cost that home owners would pay themselves to rent their own property. Of course this payment does not happen, but it is needed to make meaningful comparisons between countries in which owner-occupation is high (such as the UK) and countries where owner-occupier rates are lower, such as Germany. Without this estimate GDP in Germany would be higher than in the UK (even if everything else was exactly equal) simply because rental income is included in GVA.

Estimates of both rental income, net of expenses, earned by non-corporations and OOIR are included within the Other business activities sector and are shown on a separate line in table 1 (main body of this report) so that the size of the underlying business activity sector can be observed.

### **3) Financial Intermediation Services Indirectly Measured, FISIM**

In order to produce GDP consistently within the international framework it is necessary to exclude profits earned by banks through interest rate differences i.e. net interest income. This adjustment is achieved in National Accounts by using a notional sector called FISIM (Financial Intermediation Services Indirectly Measured) which displays a negative value in the Production account (from which GDP is derived) and an equal and offsetting positive value in the Use of Income account (from which GNI is derived). Whilst at this stage a full set of national accounts is not available for Jersey, the convention has to be followed in the calculation of GDP.

The proportion of the total revenue of Jersey's financial institutions resulting from net interest income was determined from the results of the 2004 and 2005 Surveys of Financial Institutions, carried out and analysed by the States of Jersey Statistics Unit.

### **4) GNI: including net transfer of financial income from overseas**

Both GVA and GDP measure economic activity on Jersey regardless of who ultimately are the owners of the means of production. In order to measure the wealth of Jersey people and businesses, and how this compares with other countries, GVA has to be adjusted to account for ownership. This means that income earned in Jersey by non-Jersey owned companies and individuals is subtracted from total GVA but income earned overseas by Jersey businesses and individuals is added; the sum of these two numbers is known as net transfer of financial income from overseas.

GNI is then defined as the aggregate of total GVA and the net transfer of financial income from overseas. For Jersey, GNI is calculated by subtracting from GVA the income after tax of companies operating in Jersey but owned elsewhere and adding the investment income earned overseas by business, individuals and government.

### **5) Revisions**

The numbers published in this report show some small differences from those published previously. Such revisions are due to: revised estimates of corporate profits from Income Tax returns; the compilation of more robust earnings data; a review of the classification of undertakings in the Finance sector, as reported in the 2005 Survey of Financial Institutions; more robust data for estimating the FISIM adjustment; and new expenditure data from the 2004/5 Jersey Household Expenditure Survey, used in the calculation of OOIR.