



## CONSUMER PRICE INDEX - SEPTEMBER 2003

### KEY FIGURES

%	Month	Year
<b>Headline CPI:</b>	<b>+0.2%</b>	<b>+2.9%</b>
<b>Ex-Mortgages:</b>	<b>+0.1%</b>	<b>+3.7%</b>
<b>HICP:</b>	<b>+0.2%</b>	<b>+3.8%</b>

These are a very good set of figures. There are clear signs of easing inflationary pressures right across the economy. After the temporary blip in August, the clear downtrend in inflation evident since February was re-established in September.

The headline CPI rose by just 0.2% in September. As a result, the annual inflation rate fell to 2.9% from 3.2% in August. This is the lowest rate since November 1999.

The core (i.e. ex-mortgages) index rose by 0.1% resulting in a decline in the annual rate to 3.7% from 4.1% in August. A 0.2% increase in the HICP saw the year-on-year rate edge down to 3.8% from August's 3.9% rate. These rates are well down on their recent peaks in February of 5.3% (core) and 5.1% (HICP).

The main changes in the CPI were as follows:

- The conclusion of the summer sales saw clothing prices rise by 2.1%, boosting the CPI by 0.1%.

- Housing costs rose by 0.8%, adding a further 0.1% to the index due to increases in mortgage interest payments, maintenance costs and home heating oil.

- The miscellaneous goods and services component rose by 0.4% reflecting the 9% increase in VHI rates, though this was partly offset by significantly lower motor and home insurance premiums.

- There were modest falls across a broad range of food and alcohol prices.

### *Inflation To Fall Again in October*

Prices rose by 0.5% in October last year. Increased education costs (including a rise in the 3rd level student registration fee) accounted for 0.1% of the increase. Higher housing costs added a similar amount to the CPI. Modest increases elsewhere, mainly for services, added a further 0.3% to the index.

The rise in education costs may not be quite as high this year, in the absence of an increase in the 3rd level registration fee. Furthermore, the rise in housing costs and service prices may not be as pronounced as in 2002. Thus, we look for the CPI to rise by 0.3%.

This would see the annual rate fall to 2.7% from 2.9% in September. Meanwhile, the core CPI rate should fall to 3.6% from September's 3.7%.

### *Inflation To Average Around 2.5% in 2004*

Headline inflation has clearly benefited from mortgage rate cuts, which have depressed the CPI by 1.2% year to date. Meanwhile, underlying inflation pressures are also abating. Food price inflation has fallen from 2.8% last December to 0.7% in September. Energy price inflation has eased from 5.7% to 3.1% over the same period.

Meanwhile, service sector inflation has eased to 4.0% from 6.2% at the start of the year. Lower oil and farm output prices, the strength of the euro and the sluggishness of the economy have all contributed to the easing of inflation. The decline in the core CPI rate would be even more pronounced but for sharp hikes in indirect taxes and public service charges. These have added 2% to inflation this year, more than accounting for the gap in inflation with the eurozone.

We see the headline CPI rate averaging 2.6% in Q4 2003 and 3.6% for the year as a whole. Core inflation is forecast to ease somewhat further in Q4 and average 4.2% for the year. Inflation could average around 2.5% in 2004, provided there are much more moderate increases in indirect taxes and public service charges than in 2003.

*Oliver Mangan, 9th October 2003*

### CPI Changes By Commodity (%)

Category	One Month	12 Months
Food & Non-Alcoholic Drink	-0.5	+0.7
Alcoholic Drink & Tobacco	-0.2	+9.7
Clothing & Footwear	+2.1	-2.3
Housing, Fuel & Light	+0.8	-2.6
Furnishings, Household Equip	+0.1	-0.9
Health	+0.2	+6.8
Transport	-	+2.7
Communications	+0.6	+2.8
Recreation & Culture	+0.2	+3.7
Education	-	+9.6
Restaurants & Hotels	-0.1	+6.1
Misc. Goods & Service	+0.4	+2.7
<b>ALL ITEMS</b>	<b>+0.2</b>	<b>+2.9</b>



## Irish Quarterly CPI Forecasts 2003-2004

		All Items		Excl Mort Interest	
		Q/Q % Chg	Y/Y % Chg	Q/Q % Chg	Y/Y % Chg
<b>2003</b>	Q1	1.0	4.9	1.5	5.1
	Q2	1.0	3.8	1.2	4.2
	Q3	-0.3	3.1	0.1	3.9
	Q4	0.9	2.6	0.9	3.6
	Average		<b>3.6</b>		<b>4.2</b>
<b>2004</b>	Q1	0.4	2.0	0.4	2.5
	Q2	1.2	2.2	1.2	2.5
	Q3	0.2	2.7	0.2	2.6
	Q4	0.8	2.6	0.8	2.5
	Average		<b>2.4</b>		<b>2.5</b>

## IRISH INFLATION NARROWS THE GAP WITH THE EURO AREA

Irish HICP inflation at 3.9% in August remained the highest of the eurozone countries. The next highest inflation rate was that of Greece at 3.3%. Tax hikes and sharp increases in public service charges are responsible for the wide inflation gap between Ireland and the eurozone. However, the variance between Irish and eurozone inflation has narrowed considerably year to date, falling from 2.7% at the beginning of the year to stand at 1.8% in August and a preliminary 1.7% in September.

Helped by lower oil prices and the appreciation in the euro, eurozone inflation fell back into a 1.9%-2.0% range between May and July from 2.4% earlier in the year. Inflation then edged up to 2.1% in August on higher food and oil prices. The flash estimate for September shows the rate unchanged at 2.1% and the HICP rate is expected to remain close to 2.0% over the coming months. Inflation, however, should decelerate comfortably below 2% next year.

## EU Harmonised Index of Consumer Prices (HICP) - Annual % Changes

Country	August	July	June	May	April
Austria	0.9	1.0	1.0	0.9	1.2
Germany	1.1	0.8	0.9	0.6	1.0
Finland	1.2	1.0	1.2	1.1	1.3
Belgium	1.6	1.4	1.5	0.9	1.4
France	2.0	1.9	1.9	1.8	1.9
Netherlands	2.2	2.1	2.2	2.3	2.2
Luxembourg	2.3	1.9	2.0	2.3	3.0
Italy	2.7	2.9	2.9	2.9	3.0
Portugal	2.9	2.9	3.4	3.7	3.7
Spain	3.1	2.9	2.8	2.7	3.2
Greece	3.3	3.5	3.6	3.5	3.3
<b>Ireland</b>	<b>3.9</b>	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>	<b>4.6</b>
<b>EU - 12</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>1.8</b>	<b>2.1</b>
United Kingdom	1.4	1.3	1.1	1.2	1.5
Denmark	1.5	1.8	2.0	2.1	2.5
Sweden	2.2	2.4	2.0	2.0	2.3
<b>EU - 15</b>	<b>2.0</b>	<b>1.8</b>	<b>1.8</b>	<b>1.7</b>	<b>1.9</b>

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