



## CONSUMER PRICE INDEX - MARCH 2003

### KEY FIGURES

%	Month	Year
<b>Headline CPI:</b>	<b>+0.8%</b>	<b>+4.9%</b>
<b>Ex-Mortgages:</b>	<b>+0.8%</b>	<b>+5.1%</b>
<b>HICP:</b>	<b>+0.7%</b>	<b>+4.9%</b>

These were a disappointing set of figures with price rises across a broad range of products. Overall, prices rose by 0.8% in March. The annual rate fell to 4.9% from 5.1% in February. This fall, though, reflects the fact that the March 2002 VAT hike, which boosted the index by 0.4%, fell out of the annual calculation.

The core (i.e. ex-mortgages) index rose by 0.8% also. As a result, the annual core rate decelerated from 5.3% to 5.1%. Meanwhile, a 0.7% rise in the HICP index saw the annual HICP rate decrease from 5.1% to 4.9%.

The main changes in the March CPI were as follows:

- The conclusion of the winter sales saw clothing and footwear prices rise by 1.7%;
- The housing, fuel and light component rose by 2.1%, reflecting higher electricity prices but also increases for several other items, notably home heating oil;
- The alcohol and tobacco component rose by 0.5% with also restaurant and hotel prices up by 0.9%;

### CPI Changes By Commodity (%)

Category	One Month	12 Months
Food & Non-Alcoholic Drink	+0.3	+2.7
Alcoholic Drink & Tobacco	+0.5	+9.9
Clothing & Footwear	+1.7	-3.9
Housing, Fuel & Light	+2.1	+3.5
Furnishings, Household Equip	-0.2	+0.4
Health	+0.4	+9.3
Transport	+0.8	+5.7
Communications	-	-0.5
Recreation & Culture	-0.2	+4.5
Education	-	+10.4
Restaurants & Hotels	+0.9	+6.8
Misc. Goods & Service	+0.7	+7.2
<b>ALL ITEMS</b>	<b>+0.8</b>	<b>+4.9</b>

- Miscellaneous goods and services prices rose by 0.7% as hairdressing plus health and motor insurance costs rose;

- Transport costs rose by 0.8% due to increased parking, toll and car hire fees plus higher fuel prices.

### Headline Inflation To Ease In April

Prices rose by 0.9% in April 2002. Higher prices in the services sector underlay much of the increase, combining to boost the CPI by over 0.4%. Higher oil prices added a further 0.2% to the index, with increased alcohol prices contributing an additional 0.2%.

This year, the second part of the rise in electricity oil prices could add 0.1% to the index, while tobacco prices rises may boost the index by 0.1% also. Higher telecommunications charges, health charges plus a wide range of other service sector price rises could see the core (ex-mortgages) index rise by 0.8% in total. The annual core inflation rate would then decline slightly to 5.0% from 5.1%.

However, lower mortgage rates, following the early March cut in eurozone interest rates, should depress the headline index by 0.2%. A resultant 0.6% increase in headline inflation would see the annual rate decrease to 4.6-4.7% from 4.9%.

### Sticky Core Inflation

The large increases in public service charges and indirect taxes mean that core inflation will remain high, at close to 5% for much of 2003. It is only later in the year, as these factors begin to unwind, that core inflation is likely to drop to around 4.5%.

Headline inflation, though, is already benefiting from mortgage rate cuts, which will depress the CPI by at least 0.7% in total in H1 2003. Furthermore, increases in mortgage payments which added 0.3% to the CPI in H2 2002 will drop out of the annual comparison in the second half of this year. Overall then, lower mortgage payments will knock some 1% off the CPI rate this year - the fall will be even greater if the ECB cut rates further.

Our CPI forecasts, though, are based on the standard technical assumptions of unchanged interest and exchange rates. We see the headline CPI rate falling below 4% in Q4 2002 and averaging 4.3% for the year. Core inflation is forecast to average 4.8%. We look for inflation to fall to 3% in 2004, assuming that there is no recurrence of the large increases in indirect taxes and public service charges implemented in 2003.

*Oliver Mangan/Jenny Pollock, 10th April 2003*



## 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	1.7	4.5	1.9	4.9
	Q3	0.2	4.2	0.2	4.8
	Q4	0.8	3.7	0.8	4.4
	Average		<b>4.3</b>		<b>4.8</b>
<b>2004</b>	Q1	0.4	3.2	0.4	3.4
	Q2	1.3	2.8	1.3	2.8
	Q3	0.3	2.9	0.3	2.9
	Q4	0.8	2.9	0.8	2.9
	Average		<b>3.0</b>		<b>3.0</b>

## IRISH INFLATION REMAINS THE HIGHEST IN THE EURO AREA

Irish inflation remains the highest of the eurozone countries by some considerable distance. The inflation gap between Ireland and the rest of the eurozone stood at 2.7% in February. Tax hikes in Ireland are partly responsible for the wide inflation gap with the eurozone but the main factor is high Irish service sector inflation, which is running at three times the eurozone level. Food price inflation is also lower in the eurozone, at 1.3% yoy in February, compared to 2.4% in Ireland.

Eurozone inflation, at 2.4% in February, edged above the top of the narrow 2.2 - 2.3% range it had been confined to since October, as the table below shows. However, excluding energy, the HICP rate fell from 2.3% to 1.9% between October and February, and is now well down on the January 2002 level of 3.1%. The flash estimate for March saw the headline CPI rate unchanged at 2.4%. Headline inflation in the eurozone should fall below 2% once the spike in oil prices unwinds.

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

Country	February	January	December	November	October
Germany	1.3	1.0	1.1	1.0	1.2
Belgium	1.6	1.2	1.3	1.1	1.3
Austria	1.8	1.7	1.7	1.7	1.7
Finland	2.1	1.4	1.7	1.7	1.7
France	2.5	1.9	2.2	2.1	1.9
Italy	2.6	2.9	3.0	2.9	2.8
Netherlands	3.2	2.9	3.5	3.4	3.6
Luxembourg	3.2	3.3	2.8	2.7	2.5
Spain	3.8	3.8	4.0	3.9	4.
Portugal	4.1	4.0	4.0	4.1	4.1
Greece	4.2	3.3	3.5	3.9	3.9
<b>Ireland</b>	<b>5.1</b>	<b>4.7</b>	<b>4.6</b>	<b>4.7</b>	<b>4.4</b>
<b>EU - 12</b>	<b>2.4</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>
United Kingdom	1.6	1.4	1.7	1.6	1.4
Denmark	2.9	2.6	2.6	2.8	2.7
Sweden	3.3	2.6	1.7	1.4	1.7
<b>EU - 15</b>	<b>2.3</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.1</b>

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