



CONSUMER PRICE INDEX - JUNE 2003

KEY FIGURES

%	Month	Year
Headline CPI:	0.0%	+3.5%
Ex-Mortgages:	0.0%	+3.9%
HICP:	+0.1%	+3.8%

These are another good set of CPI figures. Overall, prices were unchanged in June and, as a result, the annual inflation rate decelerated to 3.5% from 3.7% in May. This was the lowest inflation rate since December 1999.

The core (i.e. ex-mortgages) index was also unchanged in the month while the HICP rose by 0.1%. Thus, the annual core rate fell from 4% to 3.9% and annual HICP rate also decreased from 3.9% to 3.8%. These rates are well down on their recent peaks in February of 5.3% (core) and 5.1% (HICP).

The main changes in the June CPI were as follows:

- Energy prices fell by 1.2%, depressing the CPI by almost 0.1%;
- Transport costs fell by 0.4% reflecting falling fuel prices, which offset big rises in taxi and boat fares;
- Alcohol prices rose by 0.3%, bringing their annual rate of increase to 6.9%;

CPI Changes By Commodity (%)

Category	One Month	12 Months
Food & Non-Alcoholic Drink	+0.3	1.6
Alcoholic Drink & Tobacco	+0.1	9.9
Clothing & Footwear	-1.6	-5.9
Housing, Fuel & Light	+0.7	0.7
Furnishings, Household Equip	-0.3	-1.1
Health	0.0	7.7
Transport	-0.4	1.9
Communications	+1.1	1.6
Recreation & Culture	0.0	4.2
Education	0.0	9.9
Restaurants & Hotels	+0.4	6.5
Misc. Goods & Service	-0.1	5.9
ALL ITEMS	0.0	3.5

- An early start to the summer sales saw clothing prices fall by 1.6% and household goods prices decline by 0.3%.

- Housing costs rose by 0.7%, reflecting, in particular, a 10% hike in gas bills as well as higher mortgage repayments and rents.

Headline Inflation Rate To Fall Sharply In July

The main feature of the July CPI data is the summer sales. This knocked 0.6% off the July 2002 CPI and 0.4% from the CPI in July 2001. We look for the summer sales to depress the CPI by 0.6% this July, given the weakness of retail spending in 2003. Lower oil prices knocked almost 0.1% from the July 2002 CPI. Energy prices should be broadly unchanged this year. Overall, then the core CPI may decline by just 0.4% this July, compared to 0.5% in July 2002.

The 0.5% rate cut by the ECB in early June will result in a sharp drop in mortgage repayments in July which should depress the CPI by around 0.5%. Thus, the headline CPI may fall by 0.9% in the month compared to 0.5% in July 2002. Hence, the annual rate should fall sharply to around 3.0% from 3.5% in June. On the other hand, the core annual rate could edge up to 4.0% from 3.9%.

Inflation To Average 3.5% in 2003

Headline inflation is clearly benefiting from mortgage rate cuts, which have depressed the CPI by 0.7% year to date. The most recent rate cuts will depress the CPI by around 0.5% in July. Furthermore, increases in mortgage payments, which added 0.2% 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 almost 1.5% off the CPI rate this year - the fall will be even greater if the ECB cut rates further. Meanwhile, underlying inflationary pressures are also clearly abating. The decline in the core CPI rate would be even more pronounced but for sharp hikes in indirect taxes and public service charges.

Our CPI forecasts are based on the standard technical assumption of unchanged interest rates. We see the headline CPI rate falling well below 3% in H2 2003 and averaging 3.5% for the year. Core inflation is forecast to fall to 3.5% by Q4 and average 4.2% for the year. Headline inflation could dip below 2% in early 2004, if there is no recurrence of the large increases in indirect taxes and public service charges implemented in 2003.



Irish Quarterly CPI Forecasts 2003-2004

		All Items		Excl Mort Interest	
		Q/Q % Chg	Y/Y % Chg	Q/Q % Chg	Y/Y % Chg
2003	Q1	1.0	4.9	1.5	5.1
	Q2	1.0	3.8	1.2	4.2
	Q3	-0.5	2.8	0.0	3.9
	Q4	0.8	2.3	0.8	3.5
	Average		3.5		4.2
2004	Q1	0.4	1.7	0.4	2.4
	Q2	1.3	2.0	1.3	2.5
	Q3	0.2	2.7	0.2	2.7
	Q4	0.8	2.7	0.8	2.7
	Average		2.3		2.6

IRISH INFLATION NARROWS THE GAP WITH THE EURO AREA

Irish inflation at 3.9% in May remained the highest of the eurozone countries. Tax hikes and sharp increases in public service charges in Ireland are mainly responsible for the wide inflation gap with the eurozone. At least the gap between Irish and eurozone inflation narrowed from 2.5% in April to 2% in May, and is projected at 1.8% in June. Furthermore, two other countries Greece (3.5%) and Portugal (3.7%) had inflation rates that were close to the Irish rate in May.

Eurozone inflation picked up to 2.4% in February and March, from the narrow 2.2 - 2.3% range it had been confined to since October last year. However, helped by lower oil prices, the rate fell to 2.1% in April before declining to 1.9% in May. The flash estimate for June is 2.0% but the HICP rate is expected to decline over the second half of the year. The ECB expects inflation to ease further next year, forecasting a range of 0.7% to 1.9% for 2004.

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

Country	May	April	March	February	January
Germany	0.6	1.0	1.2	1.2	0.9
Austria	0.9	1.2	1.8	1.8	1.7
Belgium	0.9	1.4	1.7	1.6	1.2
Finland	1.1	1.3	1.9	2.1	1.4
France	1.8	1.9	2.6	2.5	1.9
Luxembourg	2.3	3.0	3.7	3.2	3.3
Spain	2.7	3.2	3.7	3.8	3.8
Netherlands	2.7	2.5	3.1	3.2	2.9
Italy	2.9	3.0	2.9	2.6	2.9
Greece	3.5	3.3	3.9	4.2	3.3
Portugal	3.7	3.7	3.8	4.1	4.0
Ireland	3.9	4.6	4.9	5.1	4.7
EU - 12	1.9	2.1	2.4	2.4	2.2
United Kingdom	1.2	1.5	1.6	1.6	1.4
Sweden	2.0	2.3	2.9	3.3	2.6
Denmark	2.1	2.5	2.8	2.9	2.6
EU - 15	1.8	1.9	2.3	2.3	2.1

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