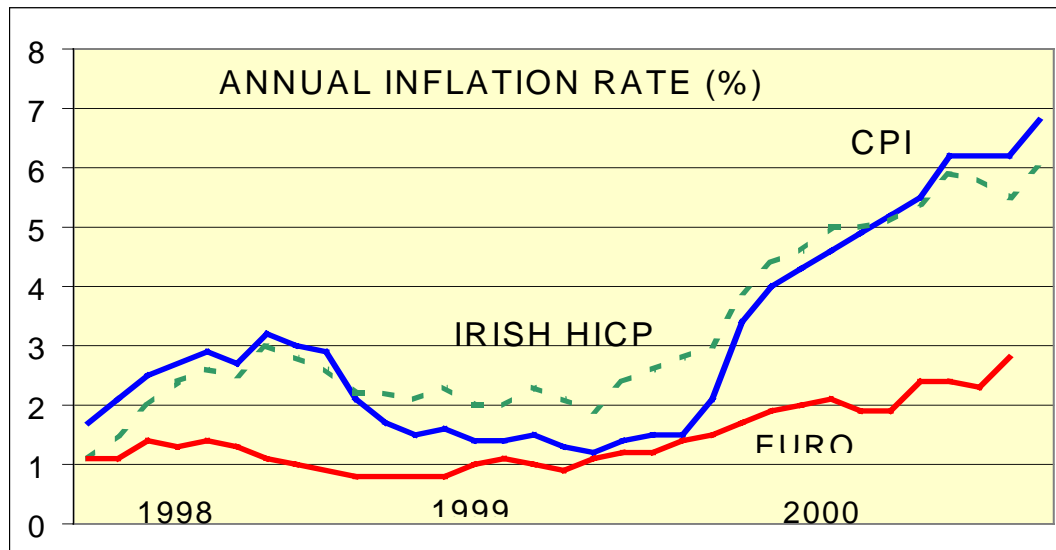


IRISH INFLATION RISES TO 6.8% IN OCTOBER

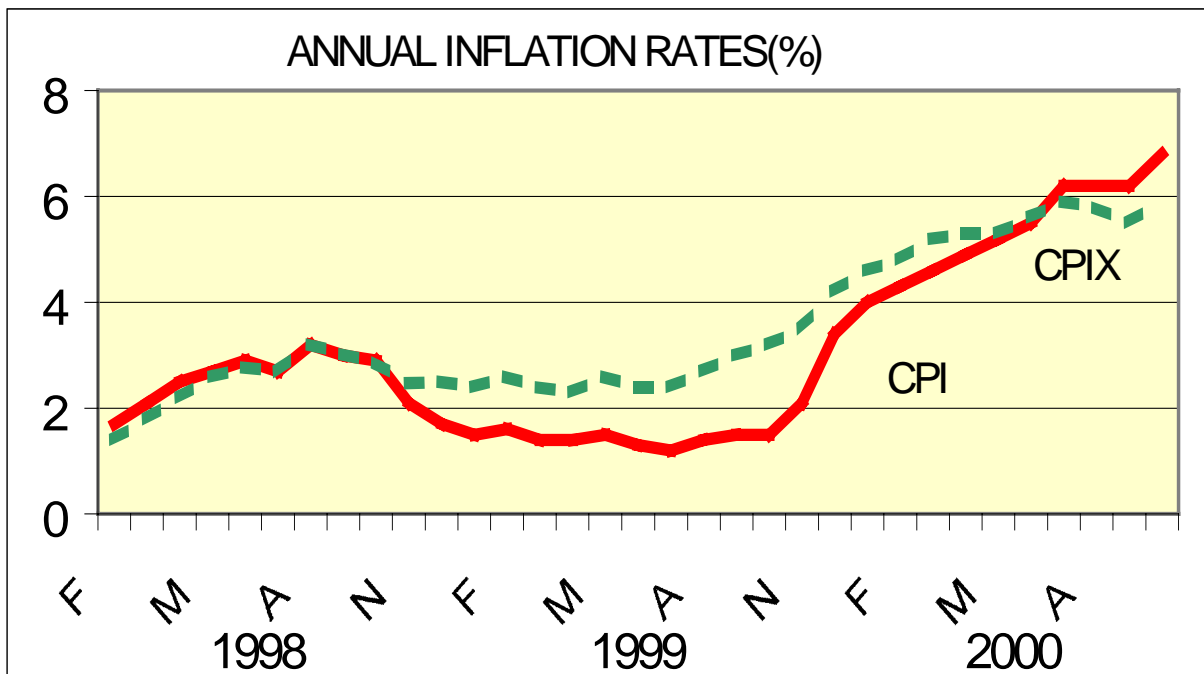
The Irish annual rate of inflation (CPI) rose to 6.8% in October, up from 6.2% in September. The figure was higher than expected. On a month-on-month basis, the CPI rose by 0.7%. The main contributors to the monthly rise were fuel and light (+4.5%), housing (+1.1%), services (+0.7%) and clothing and footwear (+0.7%).

Irish inflation has yet to peak and is expected to do so in November at 7% on an annual basis. The average rate of inflation for 2000 as a whole is expected to be 5.6% compared with 1.6% in 1999. Inflation is forecast to average about 4.5% in 2001.

Today's inflation report from the CSO also showed that on the basis of the EU's Harmonised Index of Consumer Prices (HICP), the Irish annual rate of inflation accelerated to 6.0% compared with 5.5% in September which was down from 5.7% in August. The Irish rate compares with an annual rise of 2.8% in September for the eurozone as a whole. In August, eurozone inflation was 2.3% on an annual basis.



The CSO release also shows that the Irish rate of inflation, excluding mortgage interest, rose by 5.9% in October, up from 5.5% in September. The gap between the Irish CPI and the rate excluding mortgage interest (CPIX) will get larger in November as additional mortgage rate increases feed their way fully into the index. The November CPI will also reflect the base year effect of mortgage rate cuts in the latter months of 1999. The chart below shows the trend in the two series. With the big drop in mortgage interest rates at the start of 1999 on euro entry, and again in late 1999 as more competitors entered the Irish market, the gap between the two series became more pronounced in 1999.



Explaining the acceleration in Irish Inflation

The table below shows the annual contribution of each of the commodity groups to the total rise in the CPI in the year to October 1999 and in the year to October 2000. Mortgage interest and energy products have been identified separately at the end of the table. Over the period October 1999 to October 2000, the published annual rise in the CPI rose from 1.5% to 6.8% - a rise of 5.3 percentage points.

Note from the table that the turnaround in the contribution of mortgage interest was from -1.45 percentage points to +1.75 percentage points i.e. a turnaround of 3.2 percentage points over the period. The turnaround in the contribution of energy prices was 0.81 percentage points. Taking these two items, they account for 4.01 percentage points (76%) of the 5.3 percentage point acceleration in inflation. It will also be noted from the table that tobacco prices added significantly to inflation over the period. This largely reflected the indirect tax rise on tobacco in last December's budget. Higher tobacco prices accounted for almost 0.73 percentage points of the acceleration in inflation since last October. Added to the 4.01 percentage point additional contribution from energy and mortgage interest, the combined effect was 4.74 percentage points, or over 89% of the pick up in inflation over the period. Higher food price inflation which largely reflected the effect of seasonal factors and higher import costs, due to euro weakness, added an additional 0.47 percentage points to the annual rate of inflation between October 1999 and October 2000.

Annual change in main Commodity Groups

		October 1999		October 2000	
					Contribution to annual

	Weight (%)	Year-on-Year % change	Contribution to annual rise in CPI in Percentage Points	Year-On-Year % change	rise in CPI in Percentage Points
Food	22.85	2.9	0.67	4.8	1.14
Drink	12.63	2.6	0.46	4.9	0.65
Tobacco	4.82	3.2	0.16	17.4	0.89
Clothing & Footwear	6.13	-7.3	-0.37	-4.7	-0.22
Fuel and Light 1	4.90	5.1	0.23	12.4	0.59
Housing 2	8.04	-16.9	-1.37	22.0	1.46
Durable Goods	3.58	-0.9	-0.03	1.0	0.03
Other Goods	6.38	2.0	0.13	4.2	0.27
Transport 3	13.94	5.8	0.72	8.1	1.14
Services	16.72	5.3	0.92	4.9	0.87
Total	100.00	1.5	1.50	6.8	6.80
Mortgage Interest	3.63	-40.0	-1.45	48.3	1.75
Energy	9.13	6.8	0.62	15.7	1.43

Notes:-

1. Includes fuel oils for home heating
2. Includes mortgage interest
3. Includes motor fuels

CPXMET

The exchange rate and higher oil prices undoubtedly account for most of the acceleration in Irish inflation since last October. However, annual inflation last October at 1.5% presented an overly optimistic assessment of the underlying position. Excluding the impact of mortgage interest (M), energy prices (E) and tobacco (T), AIB's version of underlying inflation, CPXMET, was showing an annual rate of 2.8% last October. At October 2000, CPXMET was showing an annual rate of 4.1%, up from 4.0% in September. This figure incorporates the effect of higher services sector charges. However, it also includes exchange rate effects on non-energy goods. In summary, therefore, the headline rate of inflation accelerated by 5.3 percentage points since last October but the underlying rate rose by 1.3 percentage points, albeit from a higher base. Not all of this can be attributed to services inflation, however. For instance, it includes food, which is heavily influenced by seasonal factors and import costs.

