



CONSUMER PRICE INDEX - AUGUST 2003

KEY FIGURES

%	Month	Year
Headline CPI:	+0.7%	+3.2%
Ex-Mortgages:	+0.6%	+4.1%
HICP:	+0.6%	+3.9%

The headline CPI rose by 0.7% in August largely reflecting the ending of the summer sales. As a result, the annual inflation rate edged higher to 3.2% from 3.1% in July, which was the lowest inflation rate since November 1999.

The core (i.e. ex-mortgages) and HICP indices both rose by 0.6% in the month. This left the annual core rate and HICP rate unchanged at 4.1% and 3.9% respectively. 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 ending of the summer sales saw clothing and footwear prices rise by 8.7%, while the furnishings and household equipment component increased by 1.3%. Together, these boosted the CPI by 0.4%.

- The housing component rose by 0.7% due to a 25% hike in local authority service charges and increased mortgage costs from higher house prices.

- Increased car hire and air fares pushed transport prices up by 0.5%.

- There were also increases across a wide range of services in the restaurant and hotels, health, plus recreation and culture categories, which combined added 0.25% to the CPI.

Inflation Rate To Remain At 3.2% In September

The conclusion of the summer sales tends to be the factor most evident in the September CPI data also, with a further increase in the clothing and footwear component of the index. This can be expected to add 0.1% to the index in the month. Another feature of the September CPI data tends to be the annual rise in VHI rates. Last year a very large increase of 18% was granted, which added around 0.2% to the CPI. This year the increase is set at 9% and this should add just 0.1% to the CPI.

Higher petrol prices may also add 0.1% to the CPI. Modest increases elsewhere could add about 0.2% to inflation. Overall then, we would expect the CPI to rise by 0.5% in the month, leaving the annual rate unchanged at 3.2%. Similarly, the ex-mortgage CPI rate should be unchanged at 4.1%.

Inflation To Average 3.7% in 2003

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 1.3% in August. Energy price inflation has eased from 5.7% to 2.3% over the same period.

Meanwhile, service sector inflation has eased to 4.5% 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, fully accounting for the gap with average eurozone inflation.

Our CPI forecasts are based on the standard technical assumption of unchanged exchange and interest rates. We see the headline CPI rate falling below 3% in Q4 2003 and averaging 3.7% for the year. Core inflation is forecast to fall below 4% in Q4 and average 4.3% for the year. Headline inflation could average around 2.5% in 2004, if there is no recurrence of the very large increases in indirect taxes and public service charges implemented in 2003.

CPI Changes By Commodity (%)

Category	One Month	12 Months
Food & Non-Alcoholic Drink	-0.1	+1.3
Alcoholic Drink & Tobacco	+0.1	+9.9
Clothing & Footwear	+8.7	-2.1
Housing, Fuel & Light	+0.7	-2.8
Furnishings, Household Equip	+1.3	-0.8
Health	+0.3	+6.7
Transport	+0.5	+2.7
Communications	-	+2.2
Recreation & Culture	+0.3	+3.8
Education	-	+9.6
Restaurants & Hotels	+0.3	+6.3
Misc. Goods & Service	-	+5.1
ALL ITEMS	+0.7	+3.2

Oliver Mangan, 11th September 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	-0.2	3.2	0.2	4.1
	Q4	0.9	2.8	0.9	3.8
	Average		3.7		4.3
2004	Q1	0.4	2.2	0.4	2.7
	Q2	1.2	2.4	1.2	2.7
	Q3	0.2	2.7	0.2	2.7
	Q4	0.8	2.6	0.8	2.6
	Average		2.5		2.7

IRISH INFLATION NARROWS THE GAP WITH THE EURO AREA

Irish inflation at 3.9% in July remained the highest of the eurozone countries, though Greece had an inflation rate not far below that of Ireland at 3.5%. Tax hikes and sharp increases in Irish public service charges are responsible for virtually all of the inflation gap between Ireland and the eurozone. However, the variance between Irish and eurozone inflation has narrowed considerably over recent months, falling from 2.7% at the beginning of the year to stand at 2.0% in July.

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. The flash estimate for August shows the rate edging up to 2.1% but the HICP rate is expected to continue trending around 2.0% over the coming months. Inflation, however, should decelerate next year. The ECB is forecasting an average HICP rate of 1.3% for 2004, but this may be somewhat optimistic.

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

Country	July	June	May	April	March
Germany	0.8	0.9	0.6	1.0	1.2
Austria	1.0	1.0	0.9	1.2	1.8
Finland	1.0	1.2	1.1	1.3	1.9
Belgium	1.4	1.5	0.9	1.4	1.7
Luxembourg	1.9	2.0	2.3	3.0	3.7
France	2.0	1.9	1.8	1.9	2.6
Netherlands	n/a	2.5	2.7	2.5	3.1
Spain	2.9	2.8	2.7	3.2	3.7
Italy	2.9	2.9	2.9	3.0	2.9
Portugal	2.9	3.4	3.7	3.7	3.8
Greece	3.5	3.6	3.5	3.3	3.9
Ireland	3.9	3.8	3.9	4.6	4.9
EU - 12	1.9	2.0	1.9	2.1	2.4
United Kingdom	1.3	1.1	1.2	1.5	1.6
Denmark	1.8	2.0	2.1	2.5	2.8
Sweden	2.4	2.0	2.0	2.3	2.9
EU - 15	1.8	1.8	1.8	1.9	2.3

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