



ALLIED IRISH BANK GROUP TREASURY

CONSUMER PRICE INDEX - SEPTEMBER 2002

KEY FIGURES

%	Month	Year
Headline CPI:	+0.5%	+4.5%
Ex-Mortgages:	+0.5%	+5.0%
HICP:	+0.3%	+4.5%

Prices rose by 0.5% in September and, as a result, the annual inflation rate remained unchanged from August at 4.5%. There was a similar 0.5% rise in the core (ex-mortgages) index, which saw the annual rate of core inflation edge higher to 5.0% from 4.9% in August. Meanwhile, a 0.3% rise in the HICP index left the annual HICP rate also unchanged at 4.5%.

The main feature of the September CPI was the exceptionally large increase in VHI charges this year, which boosted the CPI by 0.2%. In addition, the conclusion of the summer sales saw a consequential increase in clothing and footwear prices, which added some 0.1% to the index.

In summary:

- The miscellaneous goods and services component rose by 2.7% due largely to higher VHI charges, but there were also rises across a wide range of other services. These combined to push the annual inflation rate in the miscellaneous goods and services sector up to 11.2% from 9.8% in August;

CPI Changes By Commodity (%)

Category	One Month	12 Months
Food & Non-Alcoholic Drink	+0.1	+2.6
Alcoholic Drink & Tobacco	-	+5.4
Clothing & Footwear	+2.4	-5.4
Housing, Fuel & Light	+0.6	+0.6
Furnishings, Household Equip	+0.2	+1.6
Health	+0.1	+10.0
Transport	-	+4.3
Communications	-	+1.7
Recreation & Culture	+0.3	+5.5
Education	-	+9.7
Restaurants & Hotels	+0.1	+7.3
Misc. Goods & Services	+2.7	+11.2
ALL ITEMS	+0.5	+4.5

- Clothing and footwear prices rose by 2.4% due to the conclusion of the summer sales;
- There was a 0.6% increase in housing costs due to higher mortgage repayments, home energy costs and repair and maintenance costs;
- The recreation and culture component rose by 0.3%. Rises in a broad range of services were only partly offset by lower prices for computer and media products.

Inflation To Edge Higher Again In October

Prices rose by 0.3% in October last year. Higher oil prices, motor insurance premiums, public transport costs and a broad range of service charges increases added 0.6% to the CPI. Against this, a fall in mortgage rates knocked 0.3% off the index.

In October this year, higher energy prices may boost the CPI by 0.1%. There has been a very large increase in education charges, while other services are also likely to have seen higher charges. With mortgage rates unchanged, we look for the CPI to rise by 0.5%.

Overall then, this would see the annual rate increase to 4.7% from 4.5% in September. With the impact of last year's cut in mortgage rates falling out of the calculation, the core inflation rate should decelerate to 4.9% from September's 5.0%.

Inflation To Remain High

Mortgage rates fell sharply in the final quarter of last year after the ECB cut rates in the aftermath of the September 11th terrorist attacks. These decreases in mortgage rates will drop out of the annual CPI rate over the remainder of the year, thereby pushing the headline rate of inflation higher. Oil prices also fell during the final months of last year. These decreases will also drop out of the annual CPI rate in the coming months.

Hence, we expect inflation to move higher over the balance of the year, averaging around 4.8% in Q4. For the year as a whole, the headline CPI rate should average 4.7%. Ex-mortgages, inflation now looks set to average around 5% in 2002. Turning to next year, we would expect inflation to average around 4.5% in 2003. However, sharp hikes in indirect taxes in the December budget could result in an even higher rate.

Jenny Pollock, 11th October 2002



Irish Quarterly CPI Profile 2002-2003

		All Items		Excl Mort Interest	
		Q/Q % Chg	Y/Y % Chg	Q/Q % Chg	Y/Y % Chg
2002*	Q1	0.9	4.8	1.1	5.4
	Q2	2.1	4.6	2.1	5.2
	Q3	0.5	4.4	0.3	4.8
	Q4	1.2	4.8	1.2	4.7
	Average		4.7		5.0
2003*	Q1	0.9	4.8	0.9	4.6
	Q2	1.8	4.5	1.8	4.3
	Q3	0.5	4.5	0.5	4.5
	Q4	0.9	4.2	0.9	4.3
	Average		4.5		4.4

* AIB Group Treasury Forecast

IRISH INFLATION REMAINS THE HIGHEST IN THE EURO ZONE

Irish inflation remains the highest of the eurozone countries by some considerable distance. The inflation gap between Ireland and the rest of the eurozone has been in a 2.3% - 3.0% band year to date. The August gap of 2.4% is thus at the bottom of this range. 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. This, which is running at almost three times the eurozone level, reflects tight labour market conditions and resulting high wage inflation in Ireland.

Inflation in the eurozone peaked in May 2001 at 3.4%. It fell to 2.0% by December, in large part due to lower oil prices, but spiked up again to 2.7% in January. The downtrend in inflation then reasserted itself with the annual rate falling to 1.8% in June. However, the move below 2.0% proved short lived with the HICP rising to 2.1% in August. The preliminary September data indicate that the inflation rate ticked higher again to 2.2% in September. It could move yet higher over the balance of the year as the sharp fall in oil prices which depressed the HICP in H2 2001 continues to drop out of the annual rate.

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

Country	August	July	June	May	April
Germany	1.0	1.0	0.7	1.0	1.6
Belgium	1.3	1.1	0.8	1.4	1.7
France	1.8	1.5	1.5	1.5	2.1
Finland	1.8	2.0	1.5	1.8	2.6
Luxembourg	2.0	1.9	1.3	1.3	1.9
Austria	2.1	1.5	1.5	1.7	1.7
Italy	2.6	2.4	2.2	2.4	2.5
Spain	3.7	3.5	3.4	3.7	3.7
Greece	3.8	3.6	3.6	3.8	4.1
Netherlands	3.8	3.8	3.9	3.8	4.2
Portugal	3.9	3.6	3.5	3.4	3.5
Ireland	4.5	4.2	4.5	5.0	5.0
EU - 12	2.1	1.9	1.8	2.0	2.4
United Kingdom	1.0	1.1	0.6	0.8	1.3
Sweden	1.7	1.8	1.7	1.7	2.2
Denmark	2.4	2.2	2.2	1.9	2.3
EU - 15	1.9	1.8	1.6	1.8	2.2

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