

CONSUMER PRICE INDEX - FEBRUARY 2004

Irish Inflation Rate Eases Further To 1.7%

The deceleration in inflation evident during 2003 continued in the first two months of 2004. The headline CPI rate edged down to 1.7% in February from 1.8% in January and 1.9% in December 2003. The falls in the core CPI (i.e. ex mortgages) and HICP rates have been much more pronounced in recent months, as they were not impacted by mortgage rate cuts in January 2003 dropping out of the annual rate. The core CPI declined to 2.0% in February from 2.1% in January and 2.8% in December. Meanwhile, the HICP rate fell to 2.2% in February from 2.3% in January and 2.9% in December.

Overall, prices rose by 0.8% in February, mainly reflecting the impact of the ending of most winter sales on clothing, footwear and household goods prices. This factor boosted the index by 0.5% in the month. There were a broad range of other price increases also.

The main price changes in February were as follows:

- Clothing and footwear prices rose by 12% due to the ending of most winter sales;
- Furnishings and household goods prices rose by 1.8% for the same reason;
- There were also sizeable price increases in communications (+2.1%), health (+0.8%), transport (+0.6%), recreation and culture (+0.6%) and misc. goods and services (+0.6%).

Inflation is now far below the levels pertaining a year ago. Both the headline CPI and HICP rates stood at 5.1% in February 2003, while the core CPI rate was running at 5.3% at the time. The strengthening of the euro has been an important factor in the fall in inflation. The softness of domestic demand last year was also a contributing factor. In particular, food, durable goods, rents and motor insurance all saw a marked weakening of price pressures during the past year. In addition, indirect tax increases have had less of an impact, accounting for 0.5% of the current CPI rate compared to 1.5% in February 2003.

The inflation rate is likely to decelerate further in March. Prices rose by a sizeable 0.8% in March last year. There were a broad range of price increases which are unlikely to be as pronounced this year. Nevertheless, there were some notable price increases recently, in particular for alcohol. The March reading will also be impacted by the conclusion of the winter sales. We look for the CPI to rise by 0.5% in the month. As a result, the March headline CPI rate should fall to 1.4%, with the HICP rate easing to 1.9%.

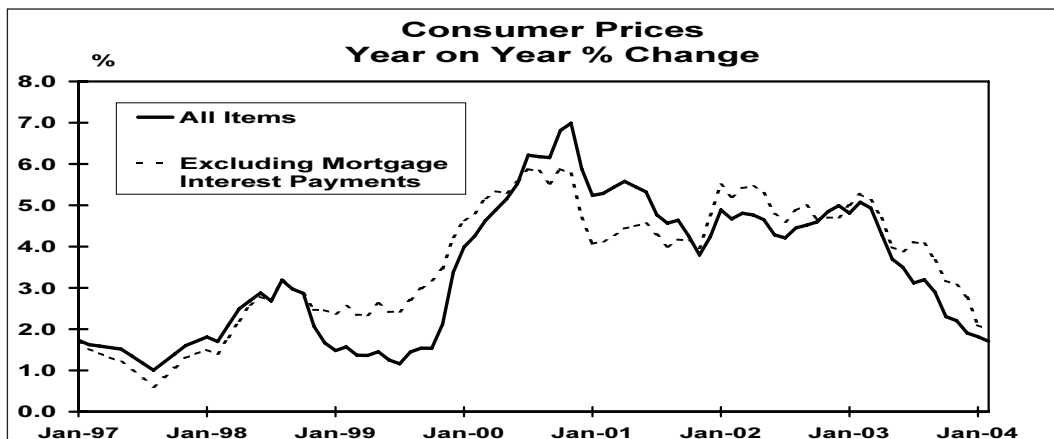
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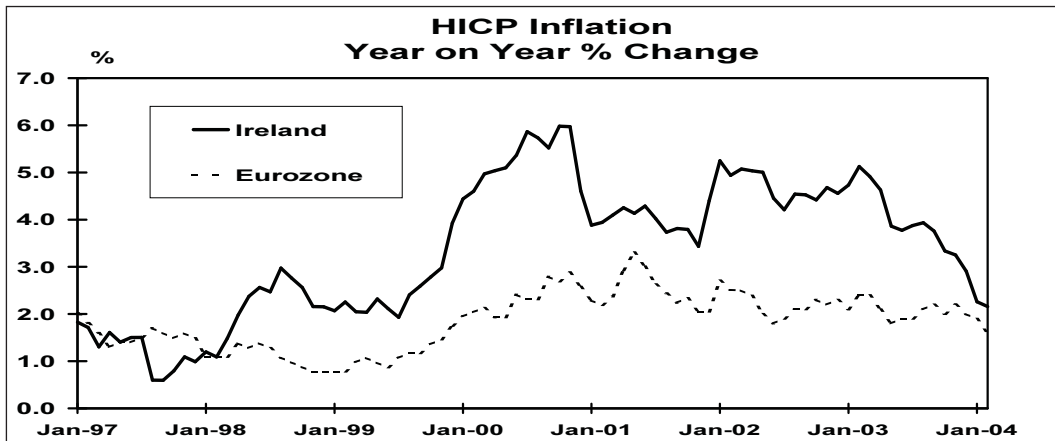


12th March 2004



Ireland Narrows The Inflation Gap With The Euro Area

The gap between Irish and eurozone inflation narrowed considerably during 2003, falling from 2.7% at the beginning of the year to just 0.9% in December. The gap narrowed further to 0.4% in January, reflecting the marked fall in Irish inflation in the month, as VAT hikes at the start of 2003 dropped out of the annual rate. Preliminary data suggest the gap stood at 0.6% in February.



Sub 2% CPI Rate Possible In 2004

We expect the CPI rate to remain low in the coming months, helped by the lagged effects of the strength of the euro and smaller increases in public sector charges. Inflation could edge higher in H2 2004 in the absence of the price falls evident in the second half of 2003. For the year as a whole, the headline and core CPI rates should average about 1.9%. The HICP rate is forecast to average around 2%, just slightly above the expected rate for the eurozone.

We would expect Irish inflation to remain relatively well behaved in 2005, despite the likelihood of strong economic growth. Helped by the lagged effects of euro strength, the core CPI rate may average around 2.25%. Headline CPI inflation, however, is likely to be higher if the ECB tightens policy, thereby pushing up mortgage rates.

Irish Quarterly CPI Forecasts 2004-2005

		All Items		Excl Mort Interest	
		Q/Q % Chg	Y/Y % Chg	Q/Q % Chg	Y/Y % Chg
2004	Q1	0.5	1.6	0.4	1.9
	Q2	0.9	1.5	0.9	1.6
	Q3	0.2	2.0	0.2	1.8
	Q4	0.7	2.3	0.7	2.2
	Average		1.9		1.9
2005	Q1	0.6	2.5	0.3	2.1
	Q2	1.3	2.8	1.0	2.2
	Q3	0.5	3.2	0.3	2.3
	Q4	1.0	3.5	0.8	2.4
	Average		3.0		2.25