CONSUMER PRICE INDEX - JANUARY 2004

Inflation Rate Eases To 1.8%

The deceleration in inflation, which has been evident since early 2003, continued in the first month of 2004. The headline CPI rate edged down to 1.8% in January from 1.9% in December 2003. The fall in the core CPI (i.e. ex mortgages) and HICP rates was much more pronounced, as they were not impacted by mortgage rate cuts in January 2003 dropping out of the annual rate. The core CPI declined to 2.1% in January from 2.8% in December, while the HICP rate fell to 2.3% from 2.9%.

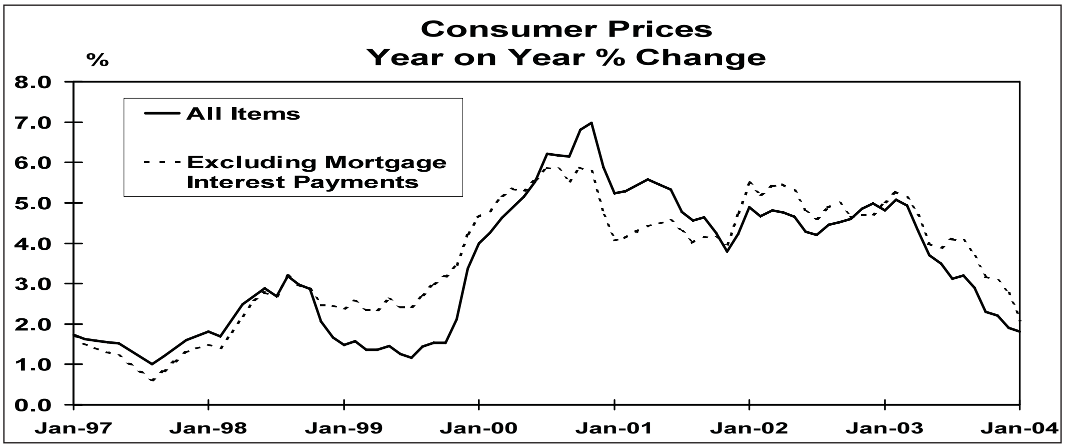
The main factor pushing down inflation last month was that the 1% VAT hike in January 2003 dropped out of the annual comparison, depressing the year-on-year rate by 0.5%. Overall, prices fell by 0.5% in January, mainly reflecting the impact of the winter sales on clothing, footwear and household goods prices. The sales depressed the index by 0.75% in the month.

The main price changes in January were as follows:

- Clothing and footwear prices fell by 14.8% due to the winter sales;
- Furnishings and household goods prices fell by 2.6% for the same reason;
- Health costs rose by 2.9%, largely reflecting higher hospital service charges;
- In the transport sector, higher boat, rail and bus fares and an increase in car tax were offset by a 28% fall in air fares.

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.

The inflation rate is likely to decelerate further in February. Prices rose by a sizeable 1% in February last year. Although this was partly due to the ending of the winter sales, there were a broad range of price increases in other areas, which are unlikely to be as pronounced this year. We look for the CPI to rise by 0.8% in the month. As a result, the headline CPI should fall to 1.6% in February, with the HICP rate easing to 2.1%.



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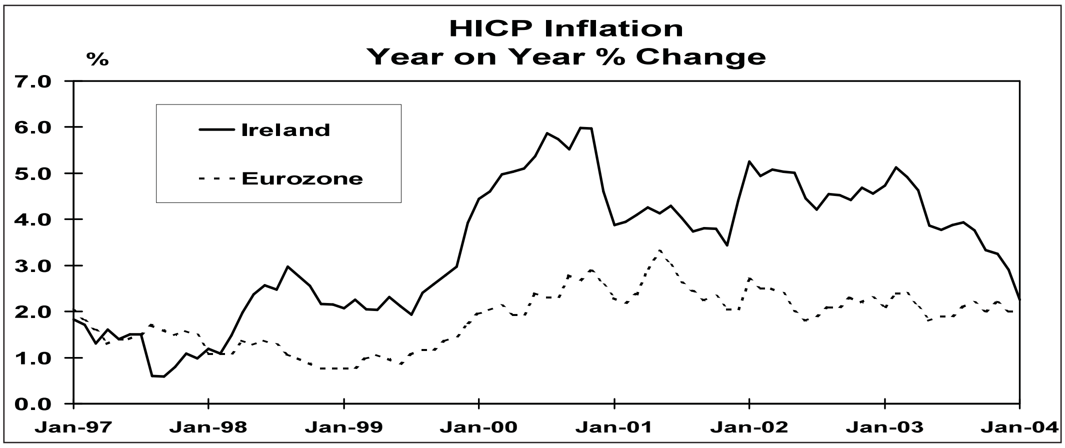
Ireland Closes The Inflation Gap With The Euro Area

The gap between Irish and eurozone inflation narrowed considerably last year, falling from 2.7% at the beginning of the year to stand at 0.9% in December. Preliminary data suggest that the gap narrowed further to just 0.3% 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.



Sub 2% CPI Rate Likely In 2004

We expect the CPI rate to decelerate further in the coming months. It could fall below 1.5% in the spring, helped by the continuing 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 as expected, thereby pushing up mortgage rates. Hence, it could average around 3%.

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**

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