



CONSUMER PRICE INDEX - MAY 2003

KEY FIGURES

	%	Month	Year
Headline CPI:	-0.1%	-0.1%	3.7%
Ex-Mortgages:	-0.2%	-0.2%	4.0%
HICP:	-0.2%	-0.2%	3.9%

These are a very good set of figures. Overall, prices fell by 0.1% in May and, as a result, the annual inflation rate decelerated to 3.7% from 4.3% in April. This was the lowest inflation rate since December 1999. It compared with our forecast of 4.1%, which was below the market consensus. The core (i.e. ex-mortgages) and HICP indices fell by 0.2% on the month. Thus, the annual core rate fell from 4.7% to 4.0% and annual HICP rate decreased from 4.6% to 3.9%. These rates are well down on their recent peaks in February of 5.3% (core) and 5.1% (HICP).

The main changes in the May CPI were as follows:

- Energy prices fell by 3.4%, depressing the CPI by 0.2%, with a sharp fall of 17% in home heating oil;
- Transport costs fell by 0.7% reflecting falling motor fuel prices and lower air fares;
- Mortgage repayments rose by 1% as a result of increasing house prices but private rents fell by 1%;

- Health costs rose by 0.5%;

- Household goods prices declined by 0.5%.

Overall, prices fell in six of the twelve CPI sub components as the table shows, two were unchanged while only four registered price rises. Thus, price falls were broadbased. In the previous five years, the core CPI rose by between 0.5% and 0.7% in May, which contrasts sharply with the 0.2% fall recorded in May 2003. The appreciation of the euro combined with lower oil prices and an easing of service sector inflationary pressures had a very positive impact on the CPI in the month.

Inflation To Ease Further In June

Prices rose by 0.2% in June 2002. Higher prices for services and food boosted the CPI by some 0.1%. Broadly similar increases are expected this year. Higher mortgage repayments also added 0.1% to the index.

We expect falling fuel costs to depress the CPI by 0.1% in June 2003, offsetting higher service prices, leaving the index unchanged in the month. The annual headline inflation rate should thus decline to 3.5% from 3.7% in May. No change in the core index would see the annual core rate decrease to 3.9% from 4.0%.

Inflation To Average 3.5% in 2003

Headline inflation is clearly benefiting from mortgage rate cuts, which have depressed the CPI by 0.7% year to date. The latest rate cuts announced this week will depress the CPI by up to 0.5% in July. Furthermore, increases in mortgage payments, which added 0.2% to the CPI in H2 2002, will drop out of the annual comparison in the second half of this year.

Overall then, lower mortgage payments will knock almost 1.5% off the CPI rate this year - the fall will be even greater if the ECB cut rates further. Meanwhile, underlying inflationary pressures are also clearly abating. The decline in the core CPI rate would be even more pronounced but for sharp hikes in indirect taxes and public service charges.

Our CPI forecasts are based on the standard technical assumption of unchanged interest rates. We see the headline CPI rate falling below 3% in H2 2003 and averaging 3.5% for the year. Core inflation is forecast to fall to 3.5% by Q4 and average 4.2% for the year. Headline inflation could dip below 2% in early 2004, if there is no recurrence of the 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	0.0	1.6
Alcoholic Drink & Tobacco	0.1	9.8
Clothing & Footwear	-0.1	-4.6
Housing, Fuel & Light	-1.1	0.8
Furnishings, Household Equip	-0.4	-0.6
Health	0.5	7.8
Transport	-0.7	2.3
Communications	-0.1	0.0
Recreation & Culture	0.3	4.5
Education	0.0	9.9
Restaurants & Hotels	0.4	6.3
Misc. Goods & Service	-0.1	3.7
ALL ITEMS	-0.1	3.7



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	-0.5	2.8	0.0	3.9
	Q4	0.8	2.3	0.8	3.5
	Average		3.5		4.2
2004	Q1	0.4	1.7	0.4	2.4
	Q2	1.3	2.0	1.3	2.5
	Q3	0.2	2.7	0.2	2.7
	Q4	0.8	2.7	0.8	2.7
	Average		2.3		2.6

IRISH INFLATION NARROWS THE GAP WITH THE EURO AREA

Irish inflation at 4.6% in April remained the highest of the eurozone countries by some considerable distance. The inflation gap between Ireland and the rest of the eurozone stood at 2.5% in April. 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. At least the gap between Irish and eurozone inflation narrowed from 2.5% to 2% in May with the sharp fall in the Irish HICP rate last month to 3.9%.

Eurozone inflation picked up to 2.4% in February and March, from the narrow 2.2 - 2.3% range it had been confined to since October last year, as the table below shows. However, helped by lower oil prices, the rate fell to 2.1% in April before declining to 1.9% in May's flash estimate. The HICP rate could stabilise around this level over the summer months before declining later in the year. The ECB expects inflation to ease further next year, forecasting a range of 0.7% to 1.9% for 2004.

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

Country	April	March	February	January	December
Germany	1.0	1.2	1.2	0.9	1.1
Austria	1.2	1.8	1.8	1.7	1.7
Finland	1.3	1.9	2.1	1.4	1.7
Belgium	1.4	1.7	1.6	1.2	1.3
France	1.9	2.6	2.5	1.9	2.2
Netherlands	2.5	3.1	3.2	2.9	3.5
Italy	3.0	2.9	2.6	2.9	3.0
Luxembourg	3.0	3.7	3.2	3.3	2.8
Spain	3.2	3.7	3.8	3.8	4.0
Greece	3.3	3.9	4.2	3.3	3.5
Portugal	3.7	3.8	4.1	4.0	4.0
Ireland	4.6	4.9	5.1	4.7	4.6
EU - 12	2.1	2.4	2.4	2.2	2.3
United Kingdom	1.5	1.6	1.6	1.4	1.7
Sweden	2.3	2.9	3.3	2.6	1.7
Denmark	2.5	2.8	2.9	2.6	2.6
EU - 15	1.9	2.3	2.3	2.1	2.2

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