



CONSUMER PRICE INDEX - FEBRUARY 2003

KEY FIGURES

	%	Month	Year
Headline CPI:		+1.0%	5.1%
Ex-Mortgages:		+1.0%	5.3%
HICP:		+1.0%	5.1%

The ending of the winter sales is the main feature of February CPI data. This factor was particularly pronounced this year, adding 0.6% to the CPI compared to 0.45% in February 2002 - the price reductions in the January sales were also bigger than normal this year. This partly explains why the headline CPI rate rose by 1% compared to a 0.7% increase in February 2002.

Thus, the annual rate accelerated from 4.8% to 5.1%. The core (i.e. ex-mortgages) and HICP indices rose by 1% also. As a result, the annual core rate rose from 5.0% to 5.3% while the annual HICP rate jumped from 4.7% to 5.1%.

The main changes in the February CPI were as follows:

- The ending of the winter sales saw clothing and footwear prices rise by 12.5%;
- Similarly, the furnishing and household equipment component rose by 2.2%;
- The health component rose by 0.8% with increases in

CPI Changes By Commodity (%)

Category	One Month	12 Months
Food & Non-Alcoholic Drink	0.2	2.5
Alcoholic Drink & Tobacco	0.1	11.6
Clothing & Footwear	12.5	-4.4
Housing, Fuel & Light	0.4	2.0
Furnishings, Household Equip	2.2	0.2
Health	0.8	8.8
Transport	0.3	5.6
Communications	-0.1	0.0
Recreation & Culture	1.0	5.1
Education	0.2	10.4
Restaurants & Hotels	0.2	7.7
Misc. Goods & Services	0.6	8.4
ALL ITEMS	1.0	5.1

dental and doctors's fees;

- A wide range of price increases pushed the recreation and culture component up by 1.0%;

- Miscellaneous goods and services rose by 0.6% as winter sales concluded and motor insurance premiums increased.

Inflation To Ease In March

Prices rose by 0.9% in March 2002. A large part of the increase was due to a 1% hike in the standard rate of VAT which boosted the CPI by 0.4%. Meanwhile, trade increases in tobacco and alcohol prices added a further 0.25% to the index. Higher service prices, especially insurance premiums, accounted for another 0.2% of the rise in the CPI.

This year, alcohol and tobacco price rises may boost the index by 0.2%. We expect higher oil prices to add 0.1% to inflation. A sharp hike in electricity prices will boost the index by 0.1% with higher service prices and the conclusion of the winter sales both also adding 0.1% to the CPI.

Overall then, we look for the CPI to rise by around 0.6% in March. As a result, headline inflation should fall from 5.1% to 4.8% with the core rate decelerating from 5.3% to 5.0%.

Sticky Core Inflation

A combination of large increases in public service charges and indirect taxes on the one hand, and high oil prices on the other, suggests that core inflation will remain high at close to 5% for much of 2003. It is only later in the year, as these factors begin to unwind that core inflation is likely to drop below 4.5%.

Headline inflation, though, is already benefiting from mortgage rate cuts, which will depress the CPI by at least 0.7% in H1 2003. Furthermore, increases in mortgage payments which added 0.3% 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 some 1% off the CPI rate this year - the fall will be even greater if the ECB cut rates further, as seems likely.

Our CPI forecasts, though, are based on the standard technical assumptions of unchanged interest and exchange rates. We see the headline CPI rate falling below 4% in Q4 2002 and averaging 4.3% for the year. Core inflation is forecast to average 4.8%. We look for inflation to fall to 3% in 2004, assuming that there is no recurrence of the large increases in indirect taxes and public service charges implemented in 2003.

Oliver Mangan, 13th March 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	0.9	4.9	1.4	5.1
	Q2	1.7	4.5	1.9	4.9
	Q3	0.2	4.2	0.2	4.8
	Q4	0.8	3.7	0.8	4.4
	Average		4.3		4.8
2004	Q1	0.4	3.2	0.4	3.4
	Q2	1.3	2.8	1.3	2.8
	Q3	0.3	2.9	0.3	2.9
	Q4	0.8	2.9	0.8	2.9
	Average		3.0		3.0

IRISH INFLATION REMAINS THE HIGHEST IN THE EURO AREA

Irish inflation remains 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 January. 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, which is running at three times the eurozone level. Food price inflation is also much lower in the eurozone, at 0.6% yoy in January, compared to 2.4% in Ireland.

Eurozone inflation has been confined to a narrow 2.2 - 2.3% range since October, as the table below shows. However, excluding energy, the HICP rate fell from 2.3% to 1.8% between October and January and is now well down on the January 2002 level of 3.1%. The flash estimate for February saw the headline CPI rate edge up again to 2.3% as oil prices continued to surge. Headline inflation in the eurozone should fall below 2% once the spike in oil prices unwinds.

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

Country	January	December	November	October	September
Germany	1.0	1.1	1.0	1.2	1.0
Belgium	1.2	1.3	1.1	1.3	1.2
Finland	1.4	1.7	1.7	1.7	1.4
Austria	1.7	1.7	1.7	1.7	1.6
France	1.9	2.2	2.1	1.9	1.8
Italy	2.9	3.0	2.9	2.8	2.8
Netherlands	2.9	3.5	3.4	3.6	3.7
Luxembourg	3.3	2.8	2.7	2.5	2.2
Greece	3.3	3.5	3.9	3.9	3.8
Spain	3.8	4.0	3.9	4.0	3.5
Portugal	4.0	4.0	4.1	4.1	3.8
Ireland	4.7	4.6	4.7	4.4	4.5
EU - 12	2.2	2.3	2.3	2.2	2.1
United Kingdom	1.4	1.7	1.6	1.4	1.0
Sweden	2.6	1.7	1.4	1.7	1.2
Denmark	2.6	2.6	2.8	2.7	2.5
EU - 15	2.1	2.2	2.2	2.1	1.9

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