Irish Consumer Price Index - April 2002

Key figures

%	Month	Year
Headline CPI:	+0.9%	+4.8%
Ex-Mortgages:	+0.9%	+5.5%
HICP:	+0.9%	+5.0%

Prices rose by 0.9% in April leaving the annual rate unchanged from March at 4.8%. There was a similar rise in both the core (ex mortgages) and HICP indices. As a result, the annual core rate accelerated slightly from 5.4% to 5.5%, while the HICP rate fell from 5.1% to 5.0%.

The annual headline inflation rate has only edged down very slightly from its January level of 4.9%, which represented a sharp spike up from the 3.8% rate recorded last November. A significant part of the 1.1% increase in December/January relates to excise duty hikes in the 2002 budget, while the VAT and excise duty decreases in budget 2001 have fallen out of the annual calculation.

There have been a broad range of price rises in recent months, particularly in the services sector, partly relating to a VAT hike and the euro changeover, but principally reflecting high wage inflation. This is reflected in the high annual rates of inflation in the table below in health, recreation, education, restaurants and miscellaneous services.

CPI Changes By Commodity (%)

Category	**One Month**	**12 Months**
Food & Non-Alcholic Drink	+0.5	+3.2
Alcoholic Drink & Tobacco	+0.7	+5.4
Clothing & Footwear	+0.1	-2.9
Housing, Fuel & Light	+0.7	-
Furnishings, Household Equip	+0.7	+2.3
Health	+1.3	+10.8
Transport	+1.6	+3.1
Communications	+0.2	+2.4
Recreation & Culture	+0.2	+7.3
Education	-	+9.4
Restaurants & Hotels	+1.2	+7.5
Misc. Goods & Services	+1.8	+11.3
ALL ITEMS	**+0.9**	**+4.8**

Increased prices in the service sector again underlay much of the 0.9% rise in the CPI in April. Overall, the main features of the April CPI were as follows:

- The miscellaneous goods and services component rose by 1.8% due to higher motor and house insurance premiums; higher childcare costs and increased nursing home charges;
- Higher hospital charges saw a 1.3% increase in health costs;
- Costs at restaurant and hotels rose by 1.2%;
- There was an increase of 3.3% in energy prices;
- There was a further 0.5% increase in food prices;
- Alcohol prices rose by 1.5%.

Oil Prices To Limit Further Improvement In May

Prices rose by 0.6% in May 2001. Higher food prices added 0.1% to the index. Meanwhile, higher transportation costs, due to increases in fuel prices plus higher motor insurance premiums, added a further 0.2% to the index. Higher housing costs also took their toll, adding a further 0.1% to the index. Higher oil prices are expected to add 0.2% to the CPI this May. Meanwhile, the rise in food costs this May is likely to be similar to that seen in May 2001, adding about 0.1% to the index. However, after the strong rise in service sector costs in April this year there may well be somewhat more muted price rises this May than were registered in May 2001. In addition, housing costs are not expected to rise quite as strongly. Overall then, we look for both the headline and core CPI rates to rise by 0.4% in May. As a result, headline inflation should edged down from 4.8% to 4.6% with the core rate decelerating from 5.5% to 5.2%.

Inflation To Remain High In 2002

Inflation is set to remain high in 2002, partly reflecting indirect tax increases in the budget, as well as strong domestic cost pressures, especially in the services sector where wage inflation is pushing up prices. Higher oil prices is limiting the downturn in inflation as the sharp food price rises in Q2 2001 fall out of the equation. Nevertheless, if oil prices come off their recent highs, inflation should moderate somewhat over the course of the year with the headline rate at 4.3% in Q4 2002 and core inflation down to 4.5%. Our forecast table overleaf shows headline inflation averaging 4.5%, and core inflation 5.0%, in 2002.

Irish Quarterly CPI Profile 2001-2002

		All Items		**Excl Mort Interest**	
		Q/Q % Chg	**Y/Y % Chg**	**Q/Q % Chg**	**Y/Y % Chg**
2001	Q1	0.2	5.3	0.0	4.2
	Q2	2.3	5.5	2.3	4.5
	Q3	0.7	4.7	0.7	4.2
	Q4	0.9	4.1	1.2	4.3
	Average		**4.9**		**4.3**
2002*	Q1	0.9	4.8	1.1	5.4
	Q2	2.1	4.6	2.1	5.2
	Q3	0.4	4.4	0.4	5.0
	Q4	0.8	4.3	0.8	4.5
	Average		**4.5**		**5.0**

** AIB Group Treasury Forecast*

IRISH INFLATION AGAIN THE HIGHEST IN THE EURO ZONE

The inflation gap between Ireland and the rest of the eurozone narrowed significantly in the year to November 2001. The gap stood at 1.3% in November 2001, down from 3.3% in October 2000. However, it has widened back out again to 2.6% in March, with the rise in the Irish HICP rate to 5.1% compared with the EU-12 average HICP rate of 2.5%. Inflation picked up across Europe in January but the Irish inflation rate rose more rapidly, to again become the highest of the eurozone countries. Inflation has since fallen back across the eurozone, but at a slower rate in Ireland. The eurozone HICP rate is expected to ease to 2.2% in April and thus, with the Irish HICP rate at 5.0%, the gap should widen further to 2.8%. Inflation in the eurozone clearly peaked in May at 3.4%. It fell to 2.0% in December, with lower oil prices a significant factor in the decline. The January data showed a spike up to 2.7%. The downtrend in inflation has since reasserting itself with preliminary data showing a fall to 2.2% in April. While the downtrend is being hampered by high oil prices, easing food price inflation, in particular, should see the HICP rate fall to 2%, or below, by mid year.

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

Country	March	Feb	Jan	Dec	Nov
Austria	1.7	1.7	2.0	1.8	1.9
Luxembourg	1.7	2.2	2.1	0.9	1.4
Germany	1.9	1.8	2.3	1.5	1.5
France	2.2	2.2	2.4	1.4	1.3
Italy	2.5	2.7	2.4	2.2	2.2
Belgium	2.5	2.5	2.6	2.0	1.8
Finland	2.6	2.5	2.9	2.3	2.1
Spain	3.3	3.2	3.1	3.0	3.0
Portugal	3.3	3.3	3.7	3.9	4.1
Netherlands	4.3	4.5	4.9	5.1	4.8
Greece	4.4	3.8	4.8	3.5	2.9
Ireland	5.1	4.9	5.2	4.4	3.4
EU - 12	2.5	2.4	2.7	2.0	2.1
UK	1.5	1.5	1.6	1.0	0.8
Denmark	2.5	2.4	2.5	2.1	1.7
Sweden	3.0	2.7	2.9	3.2	2.9
EU - 15	2.3	2.3	2.5	1.9	1.8

Economic Services Unit

13 May 2002