

Irish Inflation Up 0.7% in February

Headline CPI:	+0.7%	4.7%
Ex-Mortgages:	+0.7%	5.2%
HICP:	+0.6%	4.9%

The ending of the winter sales is the main feature of February CPI data and, as a result, the headline CPI rate rose by 0.7%. This compares to a 0.9% increase in February 2001. Thus, the annual rate decelerated from 4.9% to 4.7%. The core (i.e. ex-mortgages) and HICP indices rose by 0.7% and 0.6% respectively. As a result, the annual core rate fell from 5.5% to 5.2%, with the HICP rate decelerating from 5.2% to 4.9%.

The fall in the CPI rate in February reflects some easing in the high rates of food and service sector inflation. However, it only partly reverses the sharp rise in December/January which together added 1.1% to the annual inflation rate. A significant part of this increase 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 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.

Overall, the main features of the February CPI were as follows:

- The ending of the winter sales saw clothing and footwear prices rise by 8.5%;
- Similarly, the furnishings and household equipment component rose by 1.5%;
- Housing, fuel and light costs rose by 0.4% reflecting higher mortgage payments, rents and heating oil;
- The transport components rose by 0.3% with increases in the cost of motor cars and petrol prices;
- A wide range of price increases pushed the recreation and culture component up by 0.4%

VAT Hike To Push Inflation Higher In March

Prices rose by 0.8% in March 2001 with, as is usual, an impact from a further unwinding of the winter sales. A large part of the March 2001 increase was due to sharply higher food prices which rose by 1.1%, adding 0.3% to the index. Meanwhile, increases in tobacco and alcohol prices added a further 0.2% to the index. Higher energy prices and housing costs also took their toll, each adding 0.1% to the index. This year, the conclusion of the winter sales is likely to boost the CPI by around 0.1%. Alcohol and tobacco prices rises may boost the index by 0.2% as in March last year.

We also expect higher energy prices to add 0.1% to inflation. However, the increase in food prices should be much more modest without the impact of foot and mouth disease. Finally, the 1% rise in the VAT rate announced in the budget came into effect on March 1st. It is expected to boost the CPI by 0.4 - 0.5%. Overall then, we look for both the headline and core CPI rates to rise by around 1.0% in March. As a result, headline inflation should rise from 4.7% to 4.9% with the core rate accelerating from 5.2% to 5.4%.

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. There should be a fall in inflation in Q2 of the year. In particular, sharp food price rises in Q2 2001 should not be repeated. Nevertheless, we still see core inflation at over 4% in the final quarter of 2002. Our forecast table overleaf shows headline inflation averaging 4%, and core inflation 4.7%, in 2002.

Irish Inflation Again the Highest in Eurozone

The inflation gap between Ireland and the rest of the Euro zone 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 recently widened back out again to 2.5% in January, with the rise in the Irish HICP rate to 5.2% compared with the EU-12 average HICP rate of 2.7%. Although, inflation picked up across Europe in January, the Irish inflation rate rose more rapidly to again become the highest of the euro zone countries. The Irish HICP rate fell back to 4.9% in February. The euro zone HICP rate is expected to ease to 2.5% and thus the gap over Ireland should edge lower to 2.4%.

Meantime, inflation in 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%. This is only in part due to once off rounding effects from the introduction of euro notes and coins. Higher seasonal food prices due to bad weather and hikes in tobacco prices and a negative basis effect on energy were also significant factors. However, the downtrend in inflation is already reasserting itself with preliminary data showing a fall to 2.5% in February. Easing food price inflation, in particular, should see the HICP rate fall to under 2.0% during Q2 2002.

	All Items		Excl Mortgage Interest	
	Q/Q % Chg	Y/Y % Chg	Q/Q % Chg	Y/Y % Chg
2001 – Q4	0.9	4.1	0.0	4.2
Average		4.9		4.3
2002 – Q1	0.9	4.8	1.1	5.4
2002 – Q2	1.4	3.9	1.6	4.8
2002 – Q3	0.5	3.7	0.5	4.6
2002 – Q4	0.8	3.6	0.8	4.2
Average		4.0		4.7