ALLIED IRISH BANK
GROUP TREASURY

CONSUMER PRICE INDEX - JANUARY 2003

KEY FIGURES

%	*Month*	*Year*
Headline CPI:	***-0.4%***	***+4.8%***
Ex-Mortgages:	***+0.1%***	***+5.0%***
HICP:	***+0.0%***	***+4.7%***

Prices fell by 0.4% in January and, as a result, the annual inflation rate dropped to 4.8% from 5.0% in December. This fall reflects a larger than expected impact from lower mortgage costs. The core rate (ex-mortgages) rose by 0.1%. Thus, the annual rate of core inflation picked up to 5.0% from 4.7% in December. Meanwhile, the HICP index was unchanged on the month but the annual rate edged up to 4.7% from 4.6% in December.

Traditionally, the main feature of the January CPI is the winter sales. This year these depressed the index by 0.7% as they did in January 2002. This year, inflation was also depressed by lower mortgage costs following the December cut in interest rates. However, budget tax hikes acted to boost the CPI. The 1% VAT hike and increase in VRT added about 0.5% to inflation. The main features of the January CPI data were as follows:

- Clothing and footwear prices fell by 13.7% due to the winter sales;

- Similarly, the furnishing and household equipment component fell by 2.7%;

- Health charges rose by 2.9%;

- Energy prices rose by 1.2% reflecting higher oil prices;

- Housing fell by 3.7% due to lower mortgage rates;

- Alcoholic drink prices rose by 2.1% due to higher excise duties.

CPI Changes By Commodity (%)

Category	**One Month**	**12 Months**
Food & Non-Alcholic Drink	-0.2	+2.4
Alcoholic Drink & Tobacco	+2.1	+11.7
Clothing & Footwear	-13.7	-7.8
Housing, Fuel & Light	-3.7	+2.0
Furnishings, Household Equip	-2.7	-0.4
Health	+2.9	+7.9
Transport	+1.4	+5.6
Communications	-0.6	-
Recreation & Culture	+1.2	+4.5
Education	-	+10.2
Restaurants & Hotels	+1.6	+7.7
Misc. Goods & Services	-	+7.8
ALL ITEMS	**-0.4**	**+4.8**

CPI Rate Could Edge Higher Again In February

The conclusion of the winter sales normally sees a sharp rise in the CPI in the month of February. Excluding mortgages, the average rise in the CPI has been 0.8% over the past three years. In February last year, both the headline and core CPI rates rose by 0.7%, with the ending of the winter sales adding 0.5% to prices.

This year we assume that the conclusion of the winter sales will again boost the February CPI by in the region of 0.5%. With continuing upward pressures on oil prices, we look for both the headline and core CPI rates to rise by 0.8% in February. As a result, the headline and core annual rates could edge higher to 4.9% and 5.1% respectively.

Inflation To Remain High in 2003

Given the pressure from price increases in public services and higher oil prices, we see little prospect for a marked deceleration in inflation in 2003. The appreciation of the euro should have some positive impact but, given the underlying trend in oil prices, we expect inflation to remain close to 5% over the year.

Irish inflation remains the highest of the eurozone countries by some considerable distance, with the gap at 2.6% 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. This, which is running at almost three times the eurozone level, reflects relatively high wage inflation and sharp increases in public service charges.

Inflation in the eurozone fell from 2.7% to 1.8% between January and June last year. However, the move below 2.0% proved short lived with the HICP rate consistently above 2.0% since August 2002. It stood at 2.3% in December. Initial estimates indicate that the HICP rate fell to 2.1% in January. While high oil prices impacted negatively on inflation in January, an 0.6% rise in prices in January 2002 fell out of the calculation. With the eurozone HICP rate at 2.0% or thereabouts in Q1 of 2003, the divergence in Irish and eurozone inflation will remain high.

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