



ALLIED IRISH BANK GROUP TREASURY

CONSUMER PRICE INDEX - DECEMBER 2002

KEY FIGURES

%	Month	Year
Headline CPI:	+0.7%	+5.0%
Ex-Mortgages:	+0.7%	+4.7%
HICP:	+0.7%	+4.6%

Prices rose by 0.7% in December and, as a result, the annual inflation rate rose to 5.0% from 4.8% in November. There was a similar 0.7% rise in both the core (ex-mortgages) and HICP indices. This left the annual rate of core inflation unchanged at 4.7%. Meanwhile, the annual HICP rate edged down to 4.6% from 4.7% in November.

The acceleration in the headline inflation rate reflects, in large part, the impact of indirect tax changes in Budget 2003. The main features of the December CPI were as follows:

- Increased excise duties pushed the alcoholic drink and tobacco component up by 5.6%;
- Prices in restaurants, hotels and pubs rose by 0.8% reflecting both higher drink prices and also increased costs for meals out;
- The housing, fuel and light component rose by 0.8% due to higher mortgage payments, local authority rents, home heating oil and maintenance costs;

CPI Changes By Commodity (%)

Category	One Month	12 Months
Food & Non-Alcoholic Drink	+0.2	+2.8
Alcoholic Drink & Tobacco	+5.6	+10.0
Clothing & Footwear	+0.1	-5.5
Housing, Fuel & Light	+0.8	+6.6
Furnishings, Household Equip	+0.1	+0.2
Health	-	+7.7
Transport	+0.1	+4.1
Communications	-	+0.7
Recreation & Culture	-	+4.1
Education	-	+11.6
Restaurants & Hotels	+0.8	+7.1
Misc. Goods & Services	+0.2	+7.7
ALL ITEMS	+0.7	+5.0

- A significant rise in public transport fares was offset by a decrease in the price of petrol.

The headline inflation rate averaged 4.6% in 2002. Meanwhile, excluding mortgages, the average CPI rate for 2002 was 5.0%.

CPI Rate To Edge Higher Again In January

The main feature of the January CPI is the winter sales. The CPI fell by 0.2% in January last year. The winter sales depressed the index by 0.7% while a broad range of service price increases added almost 0.5% to the index.

The winter sales should have a broadly similar impact this January. On top of this, a cut in mortgage rates should depress the CPI by 0.2-0.3%. Budget tax hikes, though, will boost the CPI this month. The 1% VAT hike and increase in V.R.T. will add about 0.5% to inflation. Furthermore, the recent surge in oil prices is beginning to be felt in petrol pump prices. We can expect to see the usual price hikes for services at the start of the year also.

A broad range of price changes then can be expected to be recorded in January. We estimate that the headline index may fall by 0.1%, but the core rate, which excludes mortgages, may increase by 0.2%. As a result, the headline rate should edge up a notch to 5.1% with the annual core rate accelerating to 5.1% also from 4.7% in December.

Inflation To Remain High in 2003

Our inflation forecasts for 2003 are shown in the table overleaf. They are based on the usual assumptions of no change interest and exchange rates. Oil prices are assumed to remain high in H1 before declining in H2.

There is little prospect of an early deceleration in inflation in 2003 with indirect tax hikes taking effect in January and further price increases coming through for public services, most notably electricity, gas and refuse. On top of this, petrol prices can be expected to rise in H1 2003 given the sharp rise in oil prices and ongoing tensions involving Iraq.

At least, though, a 1% VAT hike drops out of the annual rate in March. Furthermore, the appreciation of the euro will help temper the impact of the rise in oil prices.

As can be seen from the table overleaf, the CPI rate is expected to remain close to 5% for much of the year before falling to 4.5% at year end. The headline CPI rate is forecast to average 4.9% in 2003 compared to 4.6% last year. The average core rate, though, is expected to remain unchanged from 2002 at 5%.

Oliver Mangan, 17th January 2003



Irish Quarterly CPI Profile 2002-2003

		All Items		Excl Mort Interest	
		Q/Q % Chg	Y/Y % Chg	Q/Q % Chg	Y/Y % Chg
2002	Q1	0.9	4.8	1.1	5.4
	Q2	2.1	4.6	2.1	5.2
	Q3	0.5	4.4	0.3	4.8
	Q4	1.3	4.8	1.2	4.7
	Average		4.6		5.0
2003*	Q1	1.2	5.1	1.5	5.1
	Q2	2.0	5.0	2.0	5.0
	Q3	0.4	4.9	0.4	5.1
	Q4	1.0	4.5	1.0	4.9
	Average		4.9		5.0

* AIB Group Treasury Forecast

IRISH INFLATION REMAINS THE HIGHEST IN THE EURO ZONE

Irish inflation remains the highest of the eurozone countries by some considerable distance. The inflation gap between Ireland and the rest of the eurozone has been in a 2.3% - 3.0% band year to date. The November gap of 2.5% is thus towards the bottom of this range. 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. However, the move below 2.0% proved short lived with the HICP rate consistently above 2.0% since August 2002. It stood at 2.2% in November. Consensus forecasts are for the HICP rate to have ticked up to 2.3% in December. High oil prices are likely to impact negatively on eurozone inflation in January. However, basis effects, as the 0.6% rise in prices in January 2002 falls out of the calculation, should see a deceleration in the overall inflation to 2.0% or thereabouts at the start of 2003.

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

Country	November	October	September	August	July
Germany	1.0	1.3	1.0	1.0	1.0
Belgium	1.1	1.3	1.2	1.3	1.1
Austria	1.7	1.8	1.6	2.1	1.5
Finland	1.7	1.7	1.4	1.8	2.0
France	2.1	1.9	1.8	1.8	1.5
Luxembourg	2.7	2.5	2.2	2.0	1.9
Italy	2.9	2.8	2.8	2.6	2.4
Netherlands	3.4	3.6	3.7	3.8	3.8
Spain	3.9	4.0	3.5	3.7	3.5
Greece	3.9	3.9	3.8	3.8	3.6
Portugal	4.1	4.1	3.8	3.9	3.6
Ireland	4.7	4.4	4.5	4.5	4.2
EU - 12	2.2	2.3	2.1	2.1	1.9
Sweden	1.4	1.7	1.2	1.7	1.8
United Kingdom	1.6	1.4	1.0	1.0	1.1
Denmark	2.8	2.7	2.5	2.4	2.2
EU - 15	2.1	2.1	1.9	1.9	1.8

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