



# Market Newsflash

09 September 2010 13:14

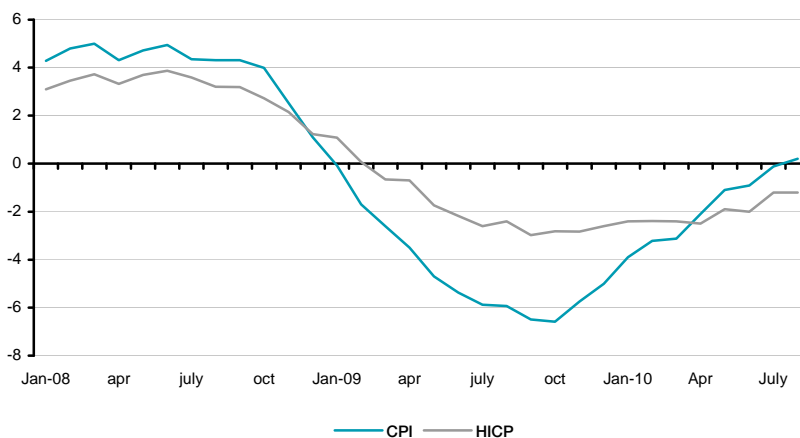
## End of price deflation in Ireland

### CPI rises annual 0.2% in August

Consumers prices recorded annual rise last month...Irish consumer prices, as measured by the CPI, have been on a rising monthly trend since February, and this implied that the annual inflation rate would turn positive again in the fourth quarter. In the event this occurred a month earlier than we expected; August's 0.7% increase in the index brought the annual inflation rate to 0.2% from -0.1% in July. As such this represents the first move into positive territory for the annual inflation rate since December 2007.

...driven by jump in mortgage costs...The surprisingly large rise in the August index was driven by higher mortgage interest costs, as banks here seek to pass on some of their higher costs of funding. Interest payments rose by 10% on the month, so contributing 0.56 percentage points to the overall rise in the index, and taking the annual change in mortgage costs to over 24%. Clothing and footwear prices also rose sharply in the month, by 3.7%, and this was the other main factor behind the index increase on the month, adding 0.13%. Food prices fell, by 0.3% providing a partial offset, although higher air fares boosted transport costs. In sum, eight of the twelve component groups in the CPI have recorded price rises over the past three months, although half are still recording price falls on an annual basis.

### Annual Inflation (%)



...the currency effect may be trumping the output gap...Past research on Irish inflation has tended to show that currency moves have a significant impact on Irish prices, given the small and open nature of the economy. Consequently, the fall in Irish prices from late 2007 may have had as much to do with the rise in the euro, particularly against sterling, as the size of the output gap. Similarly, the fall in the euro against the UK currency over the past eighteen months (some 15%) has no doubt been a factor behind the price trend evident since the turn of the year.

### End of price deflation in Ireland

#### Recent research

[See all recent research \(www.boi.ie/eru\)](http://www.boi.ie/eru)

See most recent versions of:

[The Bulletin](#) (monthly analysis of international and Irish markets)

[UK View](#) (quarterly analysis of trends in the UK economy)

[The Outlook](#) (quarterly analysis of trends in the Irish economy)

[Irish Property Review](#) (quarterly analysis of Irish property trends)

[Irish Business Review](#) (quarterly research, analysis and commentary)

...although demand factors still evident in some areas...The price of services is more likely to be determined by domestic factors, however, and the change in that regard over the past three years is clearly evident in some areas. Take childcare, for example, which during the boom experienced persistent excess demand, prompting a range of political initiatives in an effort to deal with the problem. The plunge in employment has had a huge impact however, and in August childcare costs had fallen an annual 11.2%.

**Annual HICP inflation is still negative...**The HICP measure of inflation, the EU standard, does not include mortgage costs and consequently the monthly rise in that index was only 0.2%, which left the annual inflation rate unchanged at -1.2%. Prices fell consecutively in the final four months of 2009 on this index, and we doubt if this will be repeated this year. Consequently, we also expect annual inflation to have turned positive on this measure by year end.

Dr. Dan McLaughlin

Market data supplied by Thomson Reuters

**Disclaimer**

Produced by the Economic Research Unit at Bank of Ireland Global Markets ("GM"). Bank of Ireland incorporated in Ireland with limited liability. Bank of Ireland is regulated by the Financial Regulator. In the UK, Bank of Ireland is authorised by the Irish Financial Regulator and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of our authorisation and regulation by the Financial Services Authority are available from us on request. This document is for information purposes only and GM is not soliciting any action based upon it. GM believes any information contained herein to be materially accurate but GM does not warrant its accuracy or completeness and this information should not be relied upon for any purpose. No prices or rates mentioned are bids or offers by GM to purchase or sell any currencies, securities or financial instruments. Except as otherwise may be specifically agreed, GM has not acted nor will act as a fiduciary, financial or investment adviser with respect to any derivative transaction that it has executed or will execute. Any investment, trading and hedging decision of a party will be based on its own judgement and not upon any view expressed by GM. This document does not address all risks related to the transactions described. You should obtain independent professional advice before making any investment decision. Any expressions of opinion reflect current opinions as at 09 September 2010. This publication is based on information available before this date. For private circulation only. This document is property of GM. The content may not be reproduced, either in whole or in part, without the express written consent of a suitably authorised member of GM staff.  
Bank of Ireland Global Markets