

Oct CPI – the decline begins

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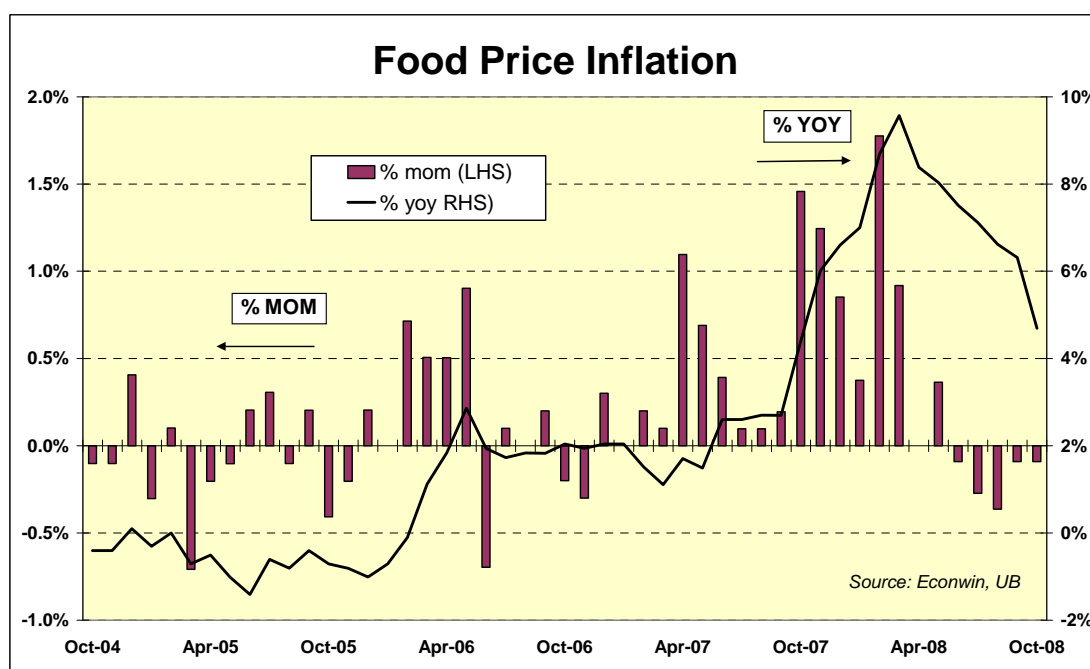
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The October CPI was 4.0%, down from 4.3% in September, and marginally below the Reuters consensus forecast of 4.1% (UB also 4.1%).

Prices fell by 0.2% in the month of October whereas they rose by 0.1% in October 2007, so the annual rate of inflation declined by 0.3 percentage points. Prices fell in seven of the twelve CSO categories with the swing between last year and this influenced mostly by food prices, which fell in October for the fifth month in succession whereas last October they rose strongly, and the transport category where petrol and diesel prices fell by about 5% this October whereas they were flattish last year.

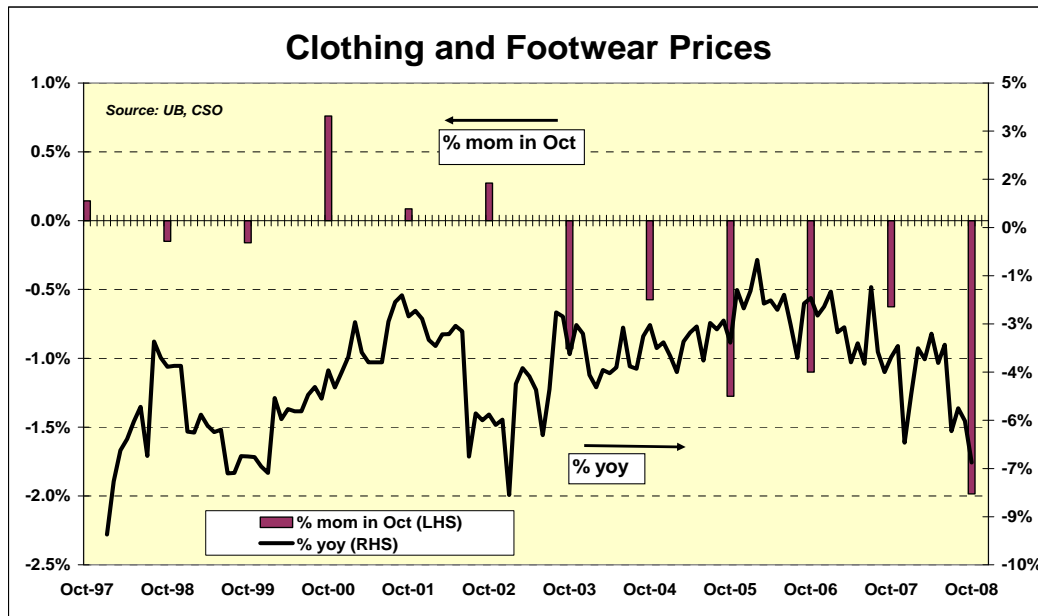
The October data were collected on Budget Day, i.e., they do not include the impact on prices of the excise changes. Neither do they include the impact of the second last ECB interest rate reduction as this was not passed on until later. The subsequent fall in mortgage rates in November and the second half point cut which will be implemented between now and early December will have a huge impact on the CPI. We now forecast the November CPI at 2.75% and the December rate at 1.75%. This, in turn, means that the average for the year will be 4.1%, i.e. well below the consensus 4.3% in the October Reuters survey.

Food prices were soft again, falling for the fifth month in succession with significant falls in items like pork (-3.7%), cheese (-3.8%) and potatoes (-3.5%) in the month of October. Food price inflation is now down to 4.6%, having been over 9% a few months ago.



Alcoholic beverages prices rose 0.2%, but this included pluses and minuses. Spirits were down 5% - it appears that some publicans had a sale on Budget Day and we can expect a rebound next month, but beer prices rose by 2.6%, evidence that the promised Diageo increase finally filtered through. This was also evident in restaurants and hotels where beer prices rose (interestingly, spirits did not so it paid to drink in a pub on budget day!) but room prices continued to fall, down 3.6% in October.

The sales categories were surprisingly weak in October. Clothing and footwear prices fell by 2%, the largest monthly fall in any October since the series began. This provides evidence of the ongoing efforts of retailers to bolster sales on the High Street. Furnishings and household equipment were also weak, evidence that the pressure on retailers is continuing and, if anything, intensifying.



There was a surprising fall in health charges – it seems that private hospitals cut their prices by more than 2%, the first time that health charges have fallen in any month since 1997.

The **HICP**, which is a better measure of internationally comparable inflation, fell sharply to 2.7%, well below the likely Eurozone flash estimate of 3.2%.

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