

## Apr CPI unchanged at 5.1 %

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The April CPI was 5.1%, unchanged from March and just a tad below the five and a half year high seen in January. This was in line with expectations – the consensus was 5.1% - and a shade below our 5.2% forecast.

The big factors in April were energy and interest rates. These came in close to expectations. Mortgage interest added 0.4% to the monthly increase reflecting the passing on of the ECB quarter-point hike on 14 March. However, this did not drive up the annual rate of inflation because there was an identical increase in April 2006 which fell out of the comparison and neatly offset this year's move.

The increase in energy prices was also similar – petrol was up 4cent and diesel 3cent a gallon while home heating oil also rose. Again, these were similar to last year and had little impact on the annual rate. The action was, thus, in the core CPI area. We can see this if we look at the rate excluding energy and interest rates. This fell from 2.8% in March to 2.5% in April.

A number of surprisingly benign influences lie behind this fall in core inflation. Prices of goods in the traditional "sales" categories fell in April whereas they usually rise – the only other example of this in the last five years was in 2004 when a much more modest decline was recorded. This gives rise to the prospect of a relatively weak retail sales number in April.

Restaurants and hotels raised their prices but this happens every April and had no impact on the annual rate.

The other downward influence came from the Miscellaneous category where there was a 6% fall in motor insurance premia.

These influences were partially offset by stronger food prices which rose by the most in five years. The increases were widespread, covering both Groceries Order and Non-Groceries Order items. As a result, GO items prices are no longer falling. It will be recalled that IBEC has warned of higher food price inflation in the pipeline.

The HICP rate remained at 2.9%, one per cent above the EU12 average. The reason lies in the services area. CPI goods are up 0.4% annually, whereas services are 9.1%. When mortgage interest is excluded, the core services rate is 4.8%.

Prices are likely to stay around 5% for the next few months and to average 4.75% this year.

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