

Irish consumer prices (April)

Thursday, 13 May 2010

As generally expected, the annual rate of decline in the consumer price index continued to ease in April. Having peaked at -6.6% in October 2009, the year-on-year rate of decrease dropped back to -5.7% in November, -5.0% in December, -3.9% in January, -3.2% in February, -3.1% in March and now the latest CPI figures, released this morning, show prices down 2.1% in the year in April, a trend that is likely to continue as the year goes on. On a monthly basis, prices were 0.2% higher than in March, the third monthly increase in a row. Indeed, one has to go back to April-June 2008 for the last time we had three consecutive monthly rises in the CPI.

Headline deflation has predictably decelerated a year on from the large falls in energy prices in late 2008. However, once the energy effects have worked through, and the recent increases in mortgage interest rates are taken into account, the inflation outlook is still dominated by disinflationary pressures. Indeed, the HICP measure of inflation, which excludes mortgage interest repayments, was unchanged month-on-month in April, giving an annual rate of deflation on this basis of 2.5% as against 2.4% in the three previous months.

The latest HICP figures for the EU as a whole refer to the month of March, and they show that Ireland is now only one of three countries within the 27-member bloc, along with Latvia and Lithuania to still be in deflationary territory at this point in time. While Ireland needs to make significant downward wage/price adjustments to become more competitive and return the economy to sustainable growth, the last thing we need is to get stuck in a deflationary spiral like Japan, which will do more damage than good in the medium- to long-term. Thankfully, we don't think that will be an issue. In fact, we think prices will pick up over the next twelve months, but Ireland's HICP will still be running below the Eurozone/EU average which will be good news as regards regaining competitiveness.

The main factors contributing to the monthly change in the April consumer price index were increases in mortgage interest repayments, petrol, diesel and home heating oil. However, there were falls in clothing & footwear, furnishings, and household equipment due to sales. The price of food and non-alcoholic beverages also decreased in the month.

Immediate fears of sustained deflation have eased as the global economy has begun to recover. But looking beyond the headlines, underlying price pressures remained subdued and that is likely to remain the case for some time. The full disinflationary effects of the world recession are only just beginning to be felt, particularly in wages. Worries about overheating in China are also exaggerated. Demand is picking up but the global recovery has yet to make much of a dent in the huge amount of spare capacity. Even China's recent strong growth is unremarkable by the country's own standards. Unemployment has stabilised in some countries and begun to decline in others. But it is in our view unlikely to fall to levels soon where labour markets would pose an inflationary threat.

The bottom line is that overall prices in Ireland are likely to be lower on average again in 2010. However, the rate of deflation is set to ease considerably this year. Following an average drop in prices of 4.5% in 2009, we are looking for a much more modest annual average fall in 2010 of around 1.25%.

	All Items Index (Dec 2006=100)	% Change Month	% Change Year	HICP Index (2005=100)	% Change Month	% Change Year
2009 April	102.9	-0.8	-3.5	108.0	0.1	-0.7
2010 February	100.4	0.4	-3.2	105.2	0.2	-2.4
2010 March	100.5	0.1	-3.1	105.3	0.1	-2.4
2010 April	100.7	0.2	-2.1	105.3	0	-2.5

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