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Economic Research Unit

Irish HICP inflation rate now amongst the weakest in the euro area

The news that Irish HICP inflation at 1.6% in April is now amongst the lowest in the euro area is welcome, but largely reflects that retail electricity and gas price cuts came later in Ireland than in other European countries. In contrast, services inflation rates of 4-5% point to the risks of bottlenecks and capacity pressures leading to overheating pressures in the indigenous economy. Nonetheless, the fall in HICP inflation below 2% will help Irish households' real incomes in 2024, driving gains in consumer spending. It is worth remembering official consumer price indices do not explicitly include house prices. Hence, they do not fully capture the negative impact on living standards of inadequate housing supply. Irish house price inflation is currently running at 6%, whereas euro area house prices fell by 1% in 2023.

Irish HICP inflation falls to 1.6% in April : Ireland's 1.6% HICP inflation rate in April, was well below the 2.4% recorded in the euro area and the fifth lowest across the 20 countries in the currency area. Unfortunately, the current low rate of Irish HICP inflation mainly reflects a timing effect relating to energy prices, down 6% in the year to April. Cuts in retail electricity and gas prices came at a slower pace in Ireland, and were of smaller magnitude to those seen at an earlier stage in the euro area counties, but are now pushing down on headline HICP inflation. Irish HICP inflation excluding energy was 2.5%, only just below the euro area figure of 2.7%.

Price pressures in services continue: The detailed CSO HICP data show that clothing and footwear prices fell sharply, by 6.6% in the year to April. However, the HICP inflation rate for clothing has been volatile, so could rebound quickly. Furniture and household equipment prices also fell 0.8%. Hence, goods price inflation was -2.0%, weaker than the 0.9% figure for the euro area. In contrast, services price inflation looks quite strong, highlighting the risk of overheating pressures and excess demand. Recreation and culture (5%), restaurants and hotels (4.9%) and transport (4.3%) all saw sharp price rises in April, together contributing 1.7 percentage points to the aggregate HICP inflation rate.

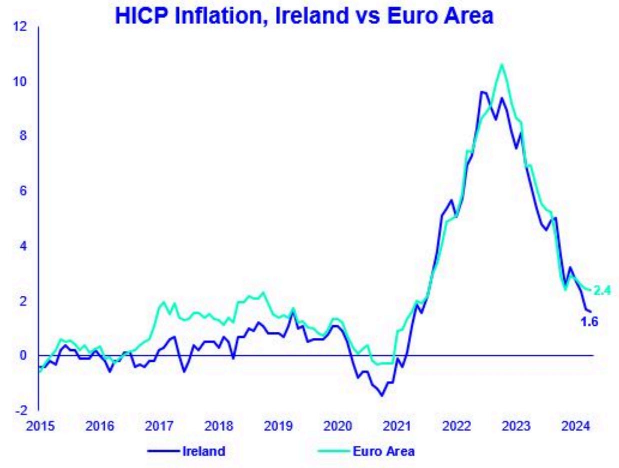
Falling HICP inflation is good news for households' real incomes: Irish household disposable incomes grew by 10% in 2023 to €156bn, helped by jobs growth, pay rises and tax cuts. However, after adjusting for inflation the CSO estimate real incomes grew by only 3%, demonstrating the negative impact of price rises on living standards. Of course, these aggregate household income figures will have been helped by the 3.4% jobs growth recorded in 2023. Individual households' real incomes were under even more pressure from double-digit CPI inflation and energy price hikes. Thankfully, the current pace of HICP inflation is well below the 4-5% pay growth expected in 2024.

But housing pressures not fully captured by price indices: The Irish CPI private rents index rose by 5.1% in the year to April. However, official consumer price indices such as the CPI and HICP do not explicitly include house prices. Here, Ireland stands out from the euro area. Irish residential property price inflation stood at 3.2% in Q4 2023 (accelerating to 6.1% in February), whereas euro area house prices fell by 1.1% last year. This included sharp declines of 4% and 7% in France and German house prices. Clearly, the lack of housing supply in Ireland is one bottleneck hurting living standards but which may also act as a growing constraint on GDP growth, if construction activity fails to respond.

Bank of Ireland Group Chief Economist Conall MacCoille will be hosting an Interest Rate Outlook Webinar on Tuesday 21st May at 9am. If you would like to attend, please register at the link below.

https://events.bizzabo.com/603583

Group Chief Economist: Conall MacCoille



Source: CSO, Eurostat

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