



Irish HICP inflation now close to highest rate in the euro area

The news yesterday the CSO's flash estimate of Irish HICP inflation rose to 3.6% in March was almost exactly in line with our expectations - driven up by rising petrol and diesel prices. However, Irish consumers also have the 3rd highest exposure in Europe to the 80% rise in home heating oil prices over the past month. Hence, Ireland's 3.6% HICP inflation rate is now close to the highest in Europe, well above the 2.5% euro area aggregate. Government actions on energy taxes may push down HICP inflation slightly in April, but it remains to be seen how quickly and by how much, Irish energy companies will raise household electricity and gas bills.

Yesterday's European Commission (EC) survey of Irish consumer confidence showed sentiment falling to a three-and-a-half year low, hurt by expectations of elevated HICP inflation. Survey questions on expected inflation rose close to levels last seen during the outbreak of the war in Ukraine - which may be too pessimistic a view. However, expectations for major purchases showed a softer decline. The survey indicates Irish households plan to reduce their savings to the lowest level in a decade, albeit from elevated levels, to help sustain spending.

Irish HICP inflation rises to 3.6% in March: The CSO's flash Irish HICP release indicated inflation had accelerated from 2.5% in February, to 3.6% in March, almost exactly in line with our expectations. This reflected an 11% rise in energy prices on the month, as higher petrol, diesel and home heating oil prices were captured in the HICP index. Looking ahead to April, HICP inflation could fall back slightly, as recent government actions on excise duties, and other taxes on energy, get passed through to customers.

However, the key uncertainty remains how events in the Middle East unfold and will oil prices fall back from \$113 per barrel at the time of writing. Also, Irish energy companies have not yet raised household electricity and retail natural gas prices, which could eventually put further upward pressure on the HICP. Irish energy companies hedge their exposure to energy prices, but do not set out their position publicly.

Ireland's standout HICP inflation rate reflects exposure to home heating oil. Ireland's HICP inflation now exceeds most European countries; euro area (2.5%), France (1.9%), Germany (2.8%), Italy (1.5%) and Spain (3.3%). The explanation is Irish households' relatively high exposure to home heating oil. Prices for refined products such as kerosene and jet fuel have surged, far more than crude oil itself, due to the hit to refinery activity in the Gulf. For example, the price of Irish home heating oil rose by 80% from €482 in February for 500 liters, to €872 in March. Also, Ireland has the third highest exposure to home heating oil prices across the euro area, the weight within the HICP index at 0.85%, more than three-times that for the euro area 0.26% (**see chart below**). Home heating oil likely made a stronger contribution to Ireland's 3.6% HICP inflation rate than petrol and diesel prices combined.

Irish consumer confidence takes a hit in March: Yesterday's, European Commission (EC) measure of Irish consumer confidence survey for March fell to a three-and-a-half year low. However, the deterioration is less severe than at the time of the outbreak of the war in Ukraine. (**see chart below**). Notably, Irish households' expectations for CPI inflation jumped in March, to their highest level in four years. It is hard to assert they are being too pessimistic, given the uncertain situation in the Middle East, but so far energy prices haven't surged as much as in 2022 (e.g. TTF natural gas at €350/mg/hr) so the likelihood of close to double-digit HICP inflation this time around looks less likely.

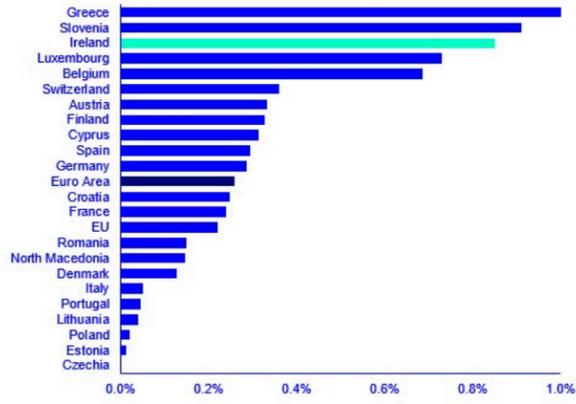
Expectations for household savings fall back to their lowest level in a decade. Elsewhere, the survey showed a marked decline in households' expectations for their personal financial situation (to a 3-year low). This no doubt reflects concerns higher prices will eat into purchasing power. However, there was a less marked decline in expectations for the broad economic outlook (11-month low), or for major purchases (2-year low). Notably, Irish households' expectations on savings fell to their lowest level since 2016, perhaps indicating they expect to sustain consumer spending, but cut back on the aggregate savings ratio from its current elevated level of 12%.

Irish business confidence shows muted reaction so far: Yesterday, the European Commission also released its Economic Sentiment Indicator (ESI). As in Europe, the Irish ESI reading showed only a limited impact so far from the war in the Middle East. Ireland's ESI was flat in March, an improvement in the manufacturing sector offsetting a fall amongst service sector firms, albeit only to a 5-month low. Remarkably, the survey questions on firms' employment intentions, production in industry, and expectations for demand over the next 3-months in the services sector, actually showed some improvement. The most plausible explanation is that March's EC survey simply came too early to register any negative impact from events in the Middle East onto business confidence.

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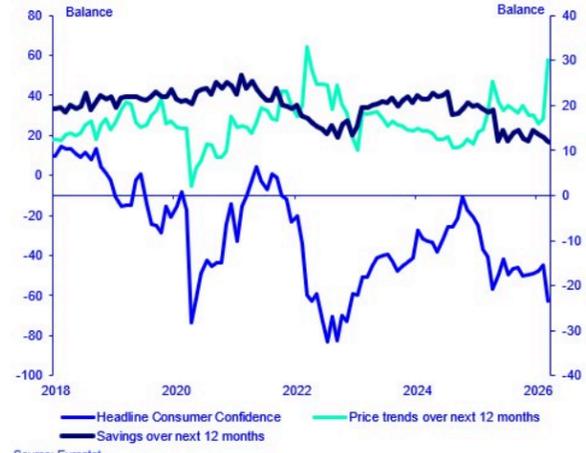
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Weight of Home Heating Oil in HICP



Source: Eurostat

Irish Consumer Confidence



Source: Eurostat

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