

## Inflation trends and prospects

### Trends

This note describes price inflation trends in Ireland over recent years and provides information on the various institutional forecasts of future price inflation trends out to mid-2026. Table 1 shows annual Consumer Price Inflation (CPI) for the most recent years. Prices increased 6.3% in 2023 following an increase of 7.8% in 2022 and 2.4% in 2021. The alternative HICP<sup>1</sup> measure of inflation was 5.2% in 2023.

Consumer prices measured by the CPI increased 17.3% between 2020 and 2023, whereas the HICP measure increased by 16.4%. Price inflation is slightly lower when considered over the four years from 2019 to 2023. The CPI increased 16.9% and the HICP increased 15.8%.

**Table 1: Annual Consumer Price Inflation (CPI) and Harmonised Index of Consumer Prices (HICP), %**

	2019	2020	2021	2022	2023	2020 to 2023	2019 to 2023
CPI	0.9	-0.3	2.4	7.8	6.3	17.3	16.9
HICP	0.9	-0.5	2.4	8.1	5.2	16.4	15.8

Sources: CSO ([CPI](#)), Eurostat ([HICP](#))

Table 2 focuses specifically on 2023 and shows inflation in each of its 12 calendar months on a 1-month, 3-month, 1-year, 2-year and 3-year basis. We can see that 3-year CPI inflation as of December 2023 was 19.4%. The 3-year rate peaked in October at 20.5%. We can discern a generally downward trend for the 1-year rate when considered over the whole year. This is also true for the 3-month rate.

Table 3 shows the year-on-year trend as it evolved in recent years. The December 2023 CPI rate was 4.6%.<sup>2</sup> We can see that prices started to accelerate between June (1.6%) and October 2021 (5.1%). The acceleration reflected the then mismatch between supply and demand with residual global supply

<sup>1</sup> The HICP is very similar to the CPI but differs in a number of ways. Most important for our purposes is that the HICP excludes mortgage interest. Mortgage interest costs increased rapidly in 2023 on account of tightening monetary policy and this has led to a temporary divergence between the CPI and the HICP with CPI growth currently running higher than HICP growth.

<sup>2</sup> The HICP which excludes mortgage costs was 3.2% in December 2023.

constraints from Covid restrictions unable to keep-up with pent-up consumer demand as restrictions were loosened.

The Ukraine war subsequently triggered an energy supply shock and a second phase of inflation with prices rising from 5.6% in February 2022 to 9.1% in June 2022 peaking at 9.2% in October. Energy is an input into all economic activity meaning that an increase in energy prices eventually caused price increases to take hold across the broader economy. While energy prices are now falling from their peaks, structurally higher prices are now embedded across the economy. The divisions with the largest increases in the 12 months to December 2023 were Recreation & Culture (10.3%) and Restaurants & Hotels (6.6%) with certain subcategories such as Mortgage Interest (36.7%) also notably high.

**Table 2: Multi-year price inflation, Consumer Price Index, % change in 2023**

	1 month	3 months	1 year	2 years	3 years
<b>January (114.9) *</b>	-0.8	-0.6	7.8	13.2	13.0
<b>February (116.7)</b>	1.6	0.6	8.5	14.5	14.1
<b>March (118.0)</b>	1.1	1.9	7.7	14.9	14.9
<b>April (118.6)</b>	0.5	3.2	7.2	14.7	15.9
<b>May (119.0)</b>	0.3	2.0	6.6	15.0	16.9
<b>June (120.0)</b>	0.8	1.7	6.1	15.7	17.5
<b>July (120.2)</b>	0.2	1.3	5.8	15.5	18.0
<b>August (121.0)</b>	0.7	1.7	6.3	15.6	18.9
<b>September (121.1)</b>	0.1	0.9	6.4	15.1	19.4
<b>October (121.5)</b>	0.3	1.1	5.1	14.7	20.5
<b>November (120.5)</b>	-0.8	-0.4	3.9	13.1	19.2
<b>December (121.1)</b>	0.5	0.0	4.6	13.2	19.4

Note: The numbers in brackets to the right of the month are relative to a base of 100 in December 2016. Thus, the 114.9 in January means that average prices increased 14.9% between December 2016 and January 2023.

Source: CSO ([CPI](#))

The European Central Bank responded to the surge in inflation via a 15-month streak of interest rate hikes. Irish price inflation (CPI) has halved in the 14 months since it peaked. ECB rate hikes are now

paused with cuts expected from mid-2024.<sup>3</sup> There is uncertainty around the timing of these cuts given unknowns about the precise rate of disinflation and the stickiness of core inflation.

**Table 3: Annual CPI inflation, % change**

	2019	2020	2021	2022	2023
<b>January</b>	0.7	1.3	-0.2	5.0	7.8
<b>February</b>	0.5	1.1	-0.4	5.6	8.5
<b>March</b>	1.1	0.7	0.0	6.7	7.7
<b>April</b>	1.7	-0.1	1.1	7.0	7.2
<b>May</b>	1.0	-0.5	1.7	7.8	6.6
<b>June</b>	1.1	-0.4	1.6	9.1	6.1
<b>July</b>	0.5	-0.4	2.2	9.1	5.8
<b>August</b>	0.7	-1.0	2.8	8.7	6.3
<b>September</b>	0.9	-1.2	3.7	8.2	6.4
<b>October</b>	0.7	-1.5	5.1	9.2	5.1
<b>November</b>	1.1	-1.1	5.3	8.9	3.9
<b>December</b>	1.3	-1.0	5.5	8.2	4.6

Source: CSO ([CPI](#))

### Projecting ahead

Supply chain issues are mostly eased though energy prices may remain volatile given geopolitics. Core inflation (which excludes volatile energy and unprocessed food) tends to better predict future inflation trends than does headline inflation. The core CPI rate was 5.8% in December. There is therefore a meaningful possibility that price inflation will be persistent or ‘sticky’ and take some time to fall to its 2% target. Monetary tightening (i.e. high interest rates) should continue to hit demand across the Euro area via less investment and consumption and via rising rates of saving. The NERI anticipate that the 2% target will be achieved around the middle of 2025. Crucially, the downward path of inflation does not mean falling prices. It means here will be a slower rate of increase.

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<sup>3</sup> The HICP peaked at 9.6% in June and July 2022 and was 3.2% in December 2023. The CPI peaked at 9.2% in October 2022 and was 4.6% in December 2023.

There is a broad institutional consensus that inflation will average close to but below 3% in 2024 with a forecast range of 2.3% (Central Bank, HICP) to 3.1% (IBEC, CPI) and close to but above 2% in 2025 with a forecast range of 1.9% (IBEC) to 2.4% (Department of Finance and IMF, both HICP). Table 4 shows the latest institutional forecasts for price inflation.

**Table 4: Institutional inflation projections, % change, CPI unless stated<sup>4</sup>**

	2024	2025	2026
D Finance (CPI)	2.9	2.1	2.0
D Finance (HICP)	2.9	2.4	1.9
Central Bank (HICP)	2.3	2.1	1.4
ESRI (CPI)	2.9		
ESRI (HICP)	2.4		
NERI (CPI)	3.0		
EU Commission (HICP)	2.7	2.1	
IMF (HICP)	3.0	2.4	2.0
IBEC (CPI)	3.1	1.9	

Sources: Department of Finance (October, [Economic and fiscal Outlook](#)); Central Bank (December, [Quarterly](#)); ESRI (December, [Quarterly](#)); NERI (December, [Report](#)); European commission (November, [Autumn Forecast](#)), IMF (October, [WEO](#)) IBEC (December, [Quarterly](#))

It is worth considering the cumulative effect of such price increases out to the middle of 2026. The Department of Finance projection for CPI implies price inflation of 6.1% over the two and a half years out to the middle of 2026. The Department's projections for the HICP imply price inflation of 6.4% over the same period. Finally, the Central Bank's HICP projections imply price inflation of 5.2% over the period.

<sup>4</sup> The Department of Finance also project developments for the personal consumption deflator. These are +3.5% in 2024, +2.7% in 2025 and +2.3% in 2026. The Central Bank estimates are +3.5% in 2024, +1.5% in 2025 and +1.5% in 2026. The personal consumption deflator is a measure of inflation based on personal consumption and is not reported on a monthly basis.