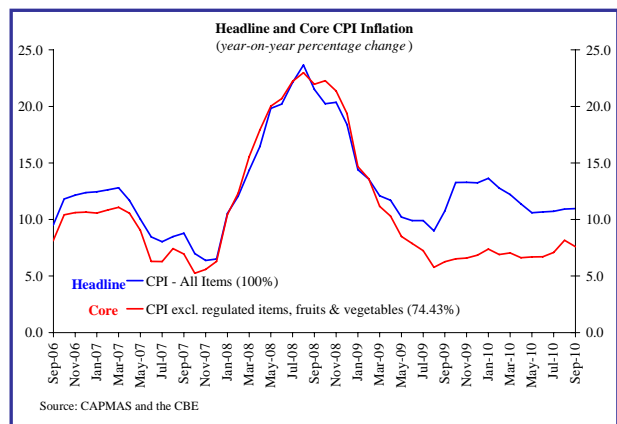
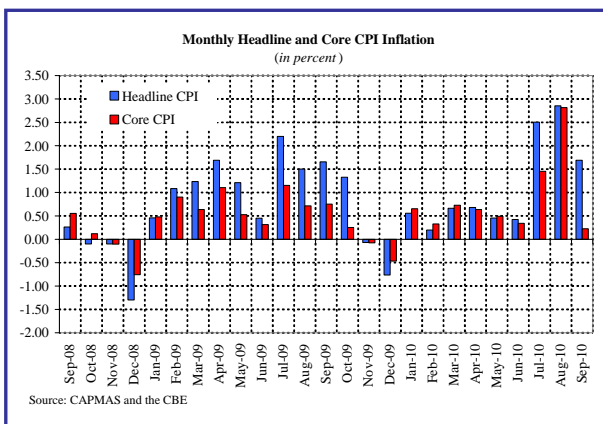


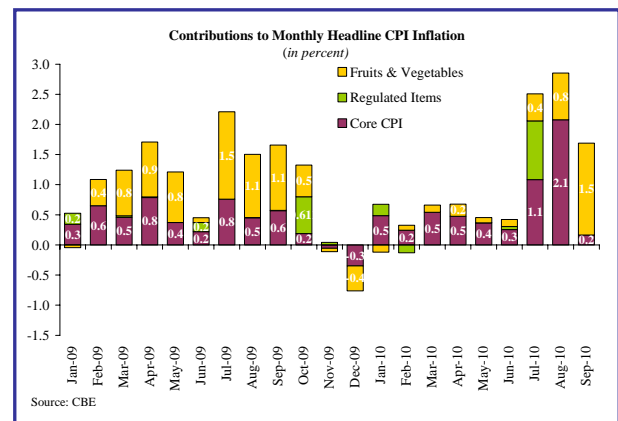
Headline and Core Inflation – September 2010

Headline CPI published by CAPMAS on October 10, 2010 increased by 1.69 percent (m/m) in September 2010, a slower pace compared to the 2.85 percent registered in August. The annual rate remained broadly unchanged at 10.97 percent. Almost all of the monthly increase came on the back of the continued and more intense acceleration in the prices of fruits & vegetables for the third consecutive month, particularly of tomatoes and green beans. In a favorable development, the prices of poultry and rice declined in September after witnessing sharp increases over the past few months in light of supply shortages. In the meantime, core CPI computed by the Central Bank of Egypt inched up 0.22 percent (m/m) in September which comes in contrast to the sharp acceleration of 2.82 percent (m/m) registered in August. The slowdown in the monthly rate was mainly driven by the above mentioned decline in poultry and rice prices along with a significantly lower increase in the prices of red meat compared to the previous month. Meanwhile, retail prices and paid services remained broadly unchanged. Despite the slight monthly increase in core CPI, the annual rate declined to 7.59 percent down from 8.16 percent registered in the previous month.¹



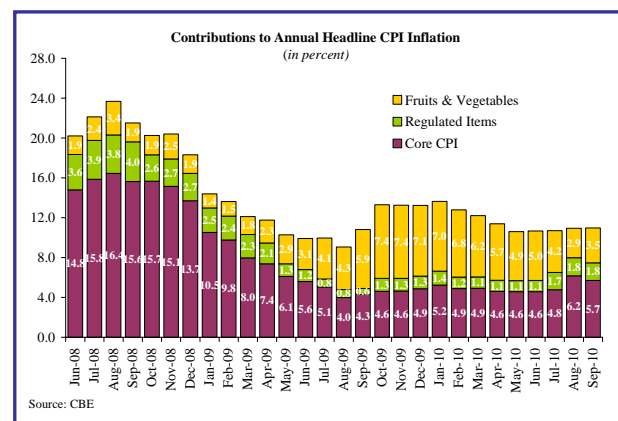
1. Headline CPI²

Headline CPI increased by 1.69 percent (m/m) in September, which marks a slowdown in the monthly pace following the 2.85 percent and the 2.51 percent recorded in August and July, respectively. Nonetheless, the average monthly pace recorded in the second half of 2010 of 2.35 percent remains well above that witnessed in the first half of the year which amounted to 0.49 percent. The annual headline rate remained broadly unchanged at 10.97 percent compared to 10.93 percent registered in August.



Key Highlights

- The prices of fruits and vegetables have increased by a record high of 18.72 percent (m/m) in September, to contribute by 1.52 percentage points to the monthly headline inflation. This month's acceleration comes as a continuation of a sharp wave of increases in the prices of fruits and vegetables



that emerged in July 2010 mainly driven by the prices of tomatoes, green beans and potatoes. In fact, the acceleration in the past three months is more than five times the increase witnessed since the beginning of the year. Future changes in the prices of fruits and vegetables will continue to be closely monitored, given their impact on headline inflation.

- After increasing by record highs over the past few months, the prices of poultry decreased by 5.41 percent (m/m) in September which marks the first decline since the beginning of the year. This month's decline is marginal compared to the cumulative monthly increase of 37.77 percent in poultry prices recorded between January and August 2010.
- While the prices of red meat continued to accelerate in September, the pace was significantly slower, rising by 3.74 percent (m/m) compared to the record high of 8.11 percent (m/m) registered in August. Nonetheless, this rate is higher than the average monthly pace of 2.24 percent recorded during 2010 H1, which led the cumulative acceleration in prices of red meat to reach 29.25 percent since January 2010. It is worth mentioning that the increase in the prices of red meat was almost outweighed by the decline in the prices of poultry which nullified its impact on monthly headline inflation in September.
- In connection to supply shortages and the subsequent sharp increases in the prices of red meat and poultry, the Central Bank of Egypt decided to waive its 50 percent cash margin requirement for imports of red meat and poultry, in an attempt to facilitate imports to increase local supply and hence mitigate rising prices.
- After accelerating sharply for four consecutive months, the price of rice declined by 4.37 percent (m/m) in September. This reduced the cumulative increase in rice prices to 31.79 percent since May. The recently announced ban on rice exports until October 2011 is expected to further alleviate price pressures over the coming months.

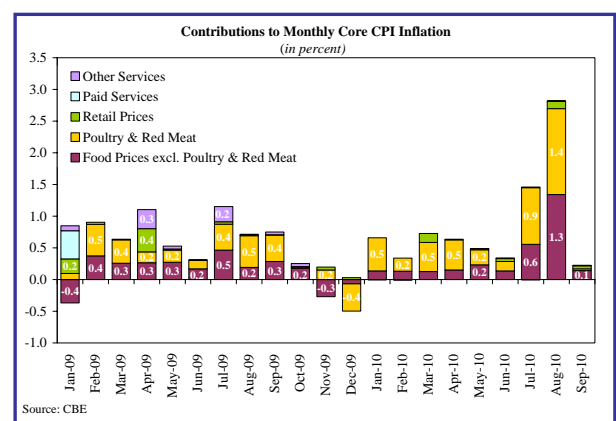
- Prices of other food items, including eggs, edible oils and sugar, increased marginally in September, contributing by 0.12 percentage points to the increase in monthly headline inflation.

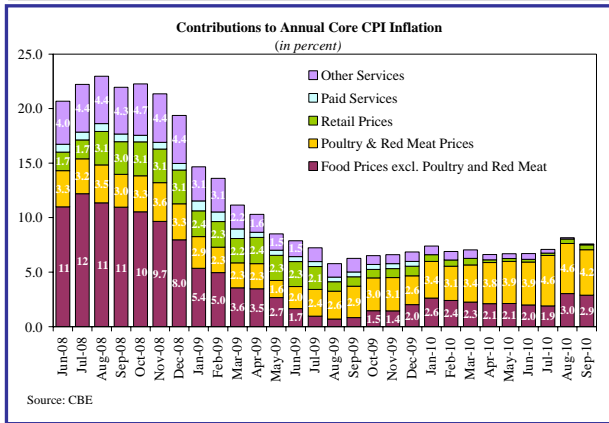
2. Core Inflation²

Core CPI inched up 0.22 percent (m/m) in September which comes in contrast to the sharp acceleration of 2.82 percent (m/m) and 1.45 percent (m/m) registered in August and July, respectively. This month's increase is well below the tame monthly pace of 0.53 percent recorded in 2010 H1. Despite the slight monthly increase in core CPI, the annual rate declined to 7.59 percent down from 8.16 percent registered in the previous month.

The slowdown in the monthly rate was mainly driven by a decline in poultry and rice prices which was enough to outweigh the significantly lower increase in the prices of red meat compared to the previous month. Hence, the bulk of the tame monthly increase in September was driven by the slight inch ups in the prices of other food items including eggs, edible oils and sugar which accounted for 0.17 percentage points of the 0.22 percent month-on-month increase.

In the meantime, prices of clothing, motor oil, and tailoring fees inched up marginally, explaining the rest of the monthly increase in core CPI.





1/ CAPMAS publishes three CPI series: (1) the CPI for urban areas which include Cairo, Alexandria, urban Lower Egypt, urban Upper Egypt, Canal cities and Frontier governorates, (2) the CPI for rural areas, and (3) the CPI for All areas. Numbers quoted in this note refer to CPI-Urban.

2/ It is important to underscore that the monthly percentage changes of both headline and core CPI between September 2009 and July 2010 do not match rates of changes presented in previous inflation notes given the replacement of the 8th CPI series by the 9th series starting from August 2009 (Full details are discussed in the Technical Appendix of the August 2010 Inflation Note).

Table 1.
Classification of All Items included in Core CPI

Food	Retail	Paid Services	Other Services
Bread and cereals	Clothing	Tailors, laundry & shoe repair	Rentals (new law)
Meat	Fabrics	Dwelling maintenance services	Rental value of owner occupied housing
Fish and other seafood	Footwear	Portman & gardener's services	Hospital services
Eggs & Dairy products	Products related to dwelling repairment	Cook & maid's services	Transportation Services
Oils and fats	Furniture	Technicians to HH appliances	Mobile & internet services
Dried fruits	Carpets and other floor covering	Repairs of Audio-visual equipment	Recreational & sporting services
Processed vegetables	Household (HH) textiles	Physicians	Cultural services
Pulses	HH appliances	Mechanics	Hajj & Omra trips
Sugar and confectionery	Glassware, tableware and HH utensils	Teachers	Restaurants and Cafes
Other food products	HH small tools & supplies	Hairdressers	Accommodation services
Beverages	HH cleaning products		Private schools
	HH miscellaneous products		
	Purchase of vehicles		
	Spare parts		
	Motor oil		
	Telephone & telefax equipment		
	Home entertainment equipment		
	Recreational equipment		
	Personal care supplies and products		
	Personal effects		
	Books		
	School supplies		
	Medical care goods		

Table 2.
Consumer Price Index and Major Components 1/

	Weight in basket 2/	September 2009	September 2010	September 2010 to August 2010	September 2010 to September 2009
	(in percent)	(index)	(index)	(percentage change)	(percentage change)
		(January 2010 = 100)			
Headline - All items	100.00	98.97	109.82	1.69	10.97
Food and beverages	39.92	99.80	121.34	3.82	21.59
Tobacco and related products	2.19	100.00	143.16	0.00	43.16
Clothing and footwear	5.41	99.39	102.04	0.40	2.66
Housing, water, electricity, gas and other fuels	18.37	98.75	99.30	0.00	0.56
Furnishings, household equipment and routine maintenance of the dwelling	3.77	99.55	102.75	0.14	3.21
Medical care	6.33	100.00	100.00	0.00	0.00
Transportation	5.68	100.00	100.91	0.21	0.91
Communications	3.12	100.00	99.87	0.00	-0.13
Recreation and Culture	2.43	100.46	102.66	0.00	2.18
Education	4.63	93.44	100.00	0.00	7.03
Hotels, cafes and restaurants	4.43	99.58	102.96	0.00	3.39
Miscellaneous goods and services	3.73	90.38	100.82	0.12	11.55
Selective aggregates					
Fruits & vegetables 3/	6.90	101.05	151.18	18.72	49.62
Regulated items	18.66	95.53	104.95	0.00	9.87
Food excl. fruits & vegetables	31.08	99.51	115.87	0.37	16.43
Retail items	14.43	99.58	101.93	0.27	2.36
Paid services	5.87	100.00	100.08	0.08	0.08
Other services	23.06	99.77	100.66	0.00	0.89
Core CPI	74.43	99.64	107.21	0.22	7.59

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits