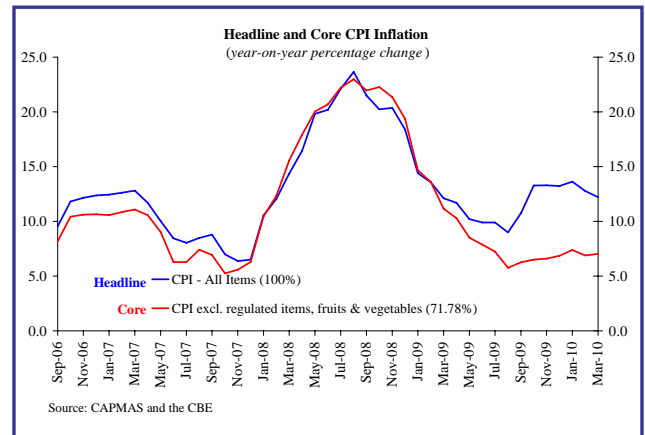
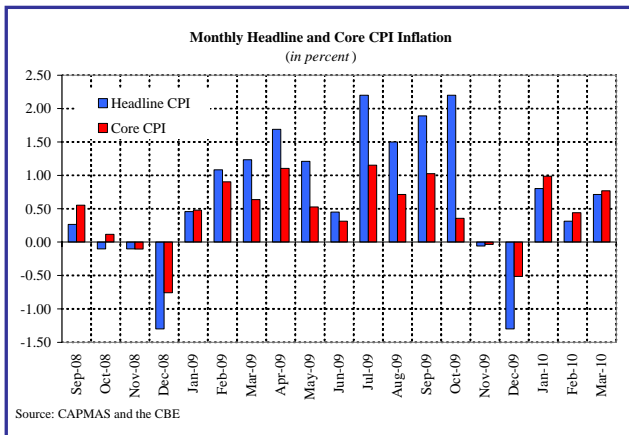


Headline and Core Inflation – March 2010

Headline CPI published by the Central Agency for Public Mobilization and Statistics on April 10, 2010, increased by 0.71 percent (m/m) in March 2010 compared to the 0.31 percent inch up in February 2010. Despite the monthly increase, favorable base effects led the annual rate to decline to 12.20 percent compared to 12.78 percent registered in the previous month. More than half of the monthly increase was accounted for by higher prices of red meat and poultry. In the meantime, core CPI computed by the Central Bank of Egypt increased by 0.77 percent (m/m) in March, mainly driven by the higher food prices mentioned above. This led the annual rate to inch up to 7.04 percent compared to 6.90 percent in February. Meanwhile, retail prices and paid services have remained broadly unchanged.¹

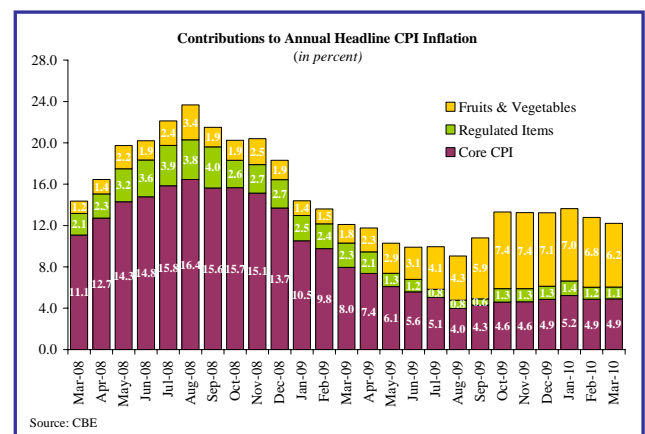
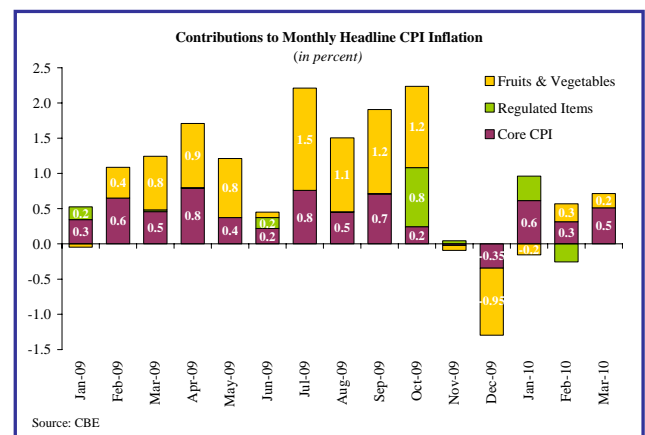


1. Headline CPI

Headline CPI inched up by 0.71 percent (m/m) in March 2010. While this month's increase is higher than the monthly outturn witnessed in February, it is considerably below the average pace of 1.1 percent (m/m) witnessed during 2009. Despite the monthly increase, favorable base effects led the annual rate to decline to 12.2 percent compared to 12.78 percent registered in the previous month.

Key Highlights

- The prices of fruits and vegetables have increased in March albeit at a tame pace of 1.4 percent (m/m) to contribute by 0.20 percentage points to monthly headline inflation. Nonetheless, this month's inch up is significantly below the average pace of increases of 6.9 percent witnessed between January and October 2009. Future changes in the prices of fruits and vegetables, however, will continue to be closely monitored, given their impact on headline inflation.

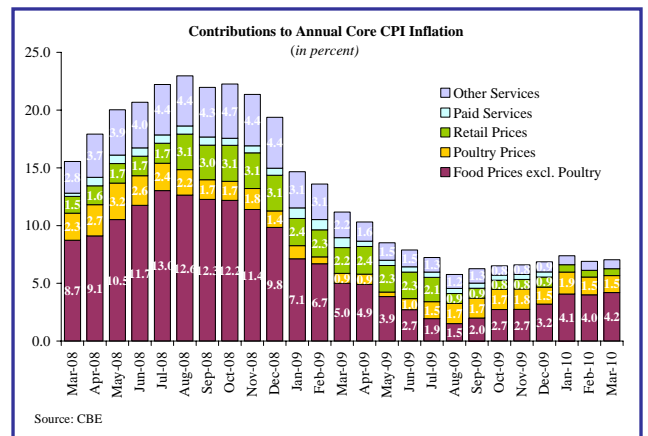
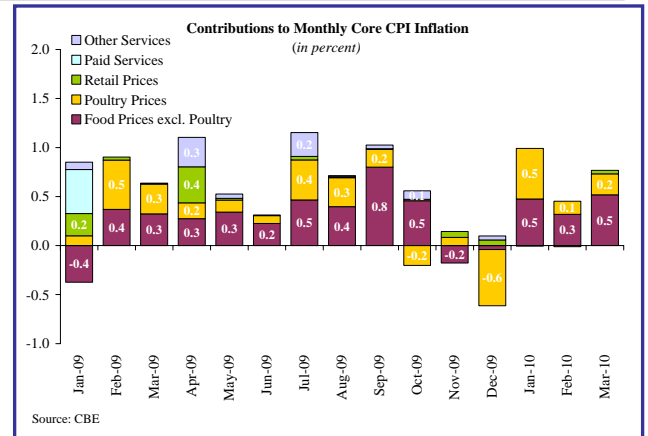


- Poultry prices accelerated further in March 2010, rising by 2.6 percent (m/m) compared to 1.6 percent (m/m) witnessed in the previous month. This coupled with a 3.9 percent (m/m) increase in the prices of red meat accounted for 0.43 percentage points of monthly headline inflation. While the continuation of the upward trend in the red meat and poultry pose an upside risk to headline and core inflation, the government's announced plans of increasing imports of red meat might help to alleviate some of the price pressures.
- Sugar prices, which had gained momentum between July and October 2009, increasing by a cumulative 38.5 percent, remained unchanged in March 2010 for the second consecutive month, bringing the cumulative increase since November 2009 to a subdued 2.85 percent.

2. Core Inflation

Core CPI increased by 0.77 percent (m/m) in March, bringing the annual rate to 7.04 percent up from the 6.90 percent recorded in the previous month. While this recent monthly rate is above the average pace of 0.56 percent (m/m) witnessed during 2009, it was largely driven by the higher prices of poultry and red meat, accounting for 0.62 percentage points of the 0.77 percent month-on-month increase.

Meanwhile, retail prices and paid services were broadly unchanged in March, in continuation of their subdued dynamics since early 2009. Hence, inflationary pressures are assessed to have remained weak through March 2010, despite sporadic price increases in a number of food items.



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.

Table 1.
Classification of All Items included in Core CPI

Food	Retail	Paid Services	Other Services
Bread and cereals	Clothing	Tailors & laundry	Rentals (new law)
Meat	Fabrics	Portman & gardener's services	Rental value of owner occupied housing
Fish and other seafood	Footwear	Cook & maid's services	Hospital services
Eggs & Dairy products	Maintenance and repair of the dwelling	Technicians to HH appliances	Public transportation
Oils and fats	Furniture	Physicians	Mobile services
Pulses	Carpets and other floor covering	Mechanics	Recreational & sporting services
Sugar and confectionery	Household (HH) textiles	Teachers	Cultural services
Other food products	HH appliances	Hairdressers	Hajj & Omra trips
Non alcoholic beverages	Glassware, tableware and HH utensils		Restaurants and Cafes
	HH small tools & supplies		Accommodation services
	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/	March 2009	March 2010	March 2010 to February 2010	March 2010 to March 2009
	(in percent)	(index)	(percentage change)		
(January 2007 = 100)					
Headline - All items	100.00	129.29	145.07	0.71	12.20
Food and non-alcoholic beverages	43.88	138.44	167.87	1.37	21.26
Tobacco and related products	2.57	120.97	120.97	0.00	0.00
Clothing and footwear	7.90	116.84	118.99	0.00	1.84
Housing, water, electricity, gas and other fuels	13.46	112.05	113.46	0.00	1.26
Furnishings, household equipment and routine maintenance of the dwelling	4.17	121.85	126.70	0.49	3.98
Medical care	3.61	117.24	117.56	0.00	0.27
Transportation	5.22	124.75	125.50	0.00	0.60
Communications	3.64	109.41	109.31	0.00	-0.10
Recreation and Culture	3.39	133.69	140.66	0.00	5.22
Education	4.38	144.07	157.59	0.00	9.38
Hotels, cafes and restaurants	3.55	155.21	171.64	0.00	10.58
Miscellaneous goods and services	4.23	118.19	139.48	0.15	18.01
Selective aggregates					
Fruits & vegetables 3/	8.80	146.55	239.55	1.40	63.46
Regulated items	19.42	124.97	133.26	0.00	6.63
Food excl. fruits & vegetables	33.27	138.76	154.47	1.42	11.32
Retail items	17.34	117.59	120.97	0.17	2.87
Paid services	4.96	118.56	118.56	0.00	0.00
Other services	16.21	122.60	126.84	0.00	3.46
Core CPI	71.78	128.60	137.65	0.77	7.04

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses