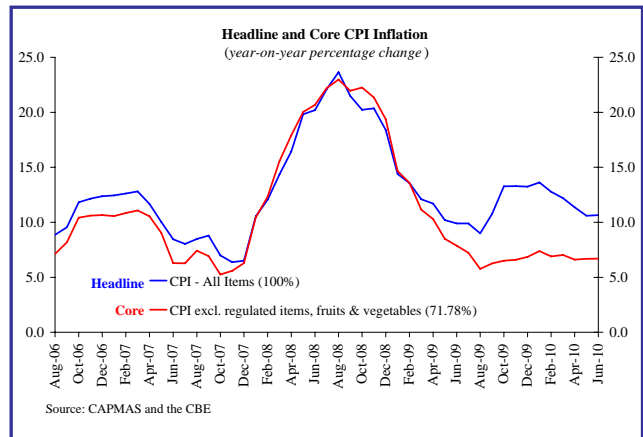
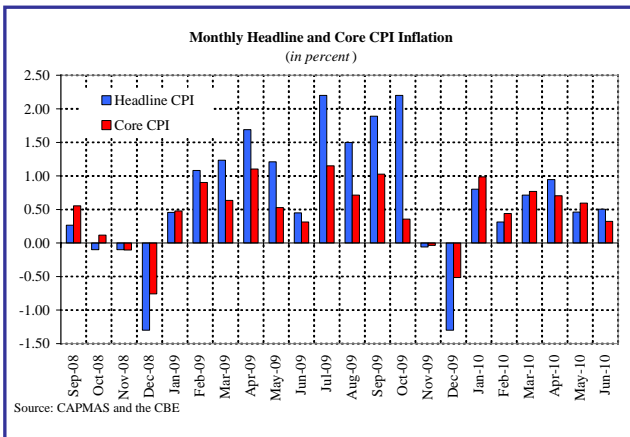


Headline and Core Inflation – June 2010

Headline CPI published by the Central Agency for Public Mobilization and Statistics on July 10, 2010 increased by 0.50 percent (m/m) in June 2010. The annual rate inched up slightly to 10.66 percent compared to 10.59 percent registered in May 2010. The monthly increase in June was mainly driven by higher prices of poultry and rice as well as an increase in the prices of package holidays organized by government agencies that take place in the summer of every year. In the meantime, core CPI computed by the Central Bank of Egypt increased by a tame 0.32 percent (m/m) in June, mainly driven by the higher food prices mentioned above while retail prices and paid services remained broadly unchanged. The annual rate was almost unchanged at 6.70 percent compared to 6.69 percent recorded in the previous month.¹

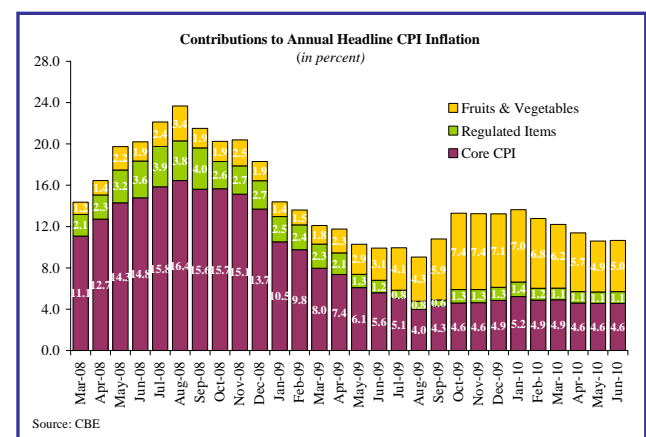
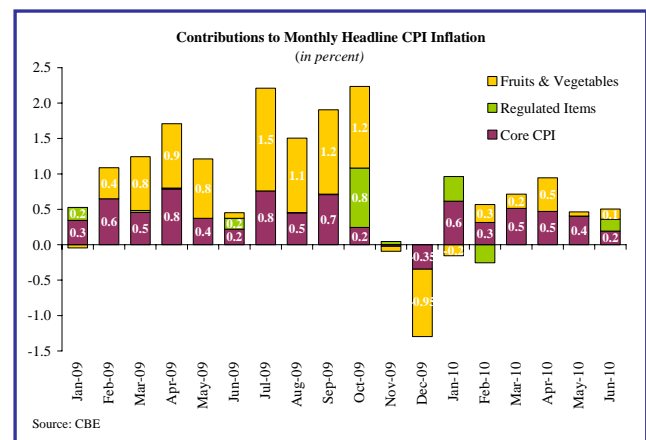


1. Headline CPI

Headline CPI maintained a tame monthly pace of 0.50 percent in June 2010 compared to 0.46 percent in May, which is well below the average acceleration of 1.1 percent recorded during 2009. The annual rate inched up slightly to 10.66 percent compared to 10.59 percent registered in May 2010.

Key Highlights

- Prices of package holidays organized by government agencies increased by 14.2 percent (m/m) in June 2010, an increase that takes place in the summer of every year. It accounted for 0.16 percentage points of the monthly headline inflation.
- The prices of fruits and vegetables have increased modestly by 0.97 percent (m/m) in June, to contribute by 0.14 percentage points to the monthly headline inflation. This month's increase 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 will continue to be closely monitored, given their impact on headline inflation.

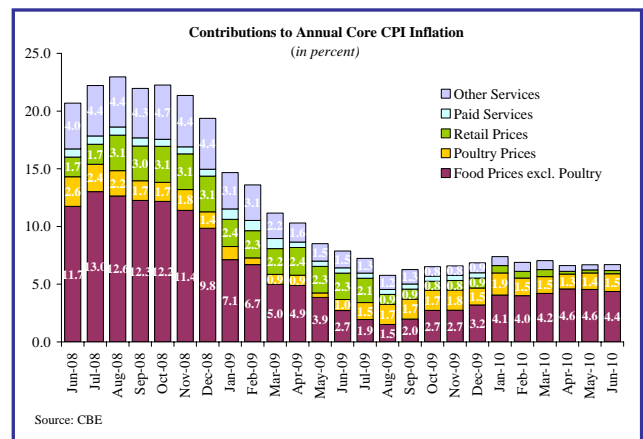
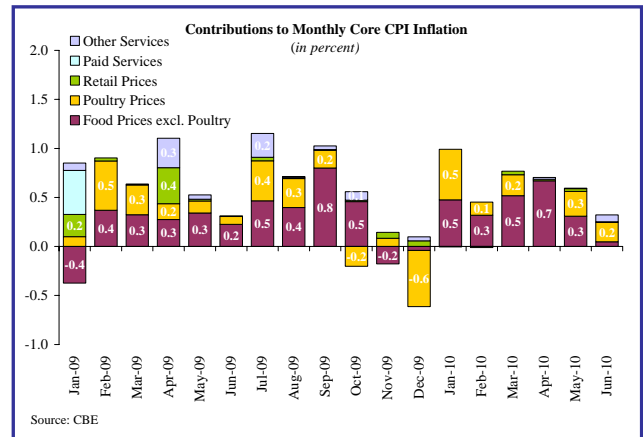
- Poultry prices rose by 2.3 percent (m/m) in June, accounting for 0.13 percentage points of the monthly headline inflation. While this rate remains slightly below the 2.8 percent average pace of increases recorded in the first five months of 2010, poultry prices have increased by over 16 percent since the beginning of the year.
- Rice prices accelerated by 7.6 percent (m/m) in June. This marks the second consecutive monthly increase since July 2009, bringing the cumulative increase to 17 percent since that date.
- Prices of red meat were unchanged in June after inching up by a tame 0.33 percent (m/m) in May. This led the cumulative acceleration in red meat prices since the beginning of the year to remain at 13.14 percent.
- Prices of fish and seafood decreased slightly from the previous month, falling by 0.83 percent after remaining unchanged in May.
- Prices of pulses fell in June for the third month this year, bringing the cumulative decline to 10 percent since the beginning of 2010.

2. Core Inflation

Core CPI increased by 0.32 percent (m/m) in June, which is below the monthly increase of 0.59 percent (m/m) recorded in May, as well as the average pace of 0.56 percent witnessed during 2009. The annual rate was almost unchanged at 6.70 percent compared to 6.69 percent recorded in the previous month.

The monthly increase in June was mainly driven by the higher prices of poultry, which accounted for 0.20 percentage points of the 0.32 percent month-on-month increase. Higher rice prices contributed by 0.11 percentage points to the monthly rise in core inflation.

Meanwhile, retail prices and paid services were broadly unchanged in June, in continuation of their subdued dynamics since early 2009. Hence, inflationary pressures are assessed to have remained weak through June 2010, despite sporadic price increases in a number of 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/ | June 2009 | June 2010 | June 2010 to May 2010 | June 2010 to June 2009 |
|---|------------------------|---------------|---------------|--------------------------|---------------------------|
| | (in percent) | (index) | (index) | (percentage change) | (percentage change) |
| (January 2007 = 100) | | | | | |
| Headline - All items | 100.00 | 133.61 | 147.86 | 0.50 | 10.66 |
| Food and non-alcoholic beverages | 43.88 | 146.23 | 173.33 | 0.55 | 18.54 |
| Tobacco and related products | 2.57 | 120.97 | 120.97 | 0.00 | 0.00 |
| Clothing and footwear | 7.90 | 118.31 | 118.99 | 0.00 | 0.58 |
| 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 | 125.22 | 126.62 | -0.07 | 1.12 |
| Medical care | 3.61 | 117.24 | 117.56 | 0.00 | 0.27 |
| Transportation | 5.22 | 125.02 | 126.76 | 0.85 | 1.39 |
| Communications | 3.64 | 109.36 | 109.26 | -0.03 | -0.10 |
| Recreation and Culture | 3.39 | 139.92 | 148.72 | 5.73 | 6.29 |
| Education | 4.38 | 144.07 | 157.59 | 0.00 | 9.38 |
| Hotels, cafes and restaurants | 3.55 | 164.60 | 172.25 | 0.07 | 4.65 |
| Miscellaneous goods and services | 4.23 | 120.74 | 140.77 | 0.22 | 16.59 |
| Selective aggregates | | | | | |
| Fruits & vegetables 3/ | 8.80 | 173.65 | 250.78 | 0.97 | 44.41 |
| Regulated items | 19.42 | 126.09 | 134.57 | 0.96 | 6.73 |
| Food excl. fruits & vegetables | 33.27 | 142.14 | 158.87 | 0.46 | 11.77 |
| Retail items | 17.34 | 119.68 | 121.58 | 0.30 | 1.59 |
| Paid services | 4.96 | 118.56 | 118.56 | 0.00 | 0.00 |
| Other services | 16.21 | 124.56 | 127.07 | 0.07 | 2.02 |
| Core CPI | 71.78 | 131.11 | 139.89 | 0.32 | 6.70 |

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses