

Headline and Core Inflation – October 2009

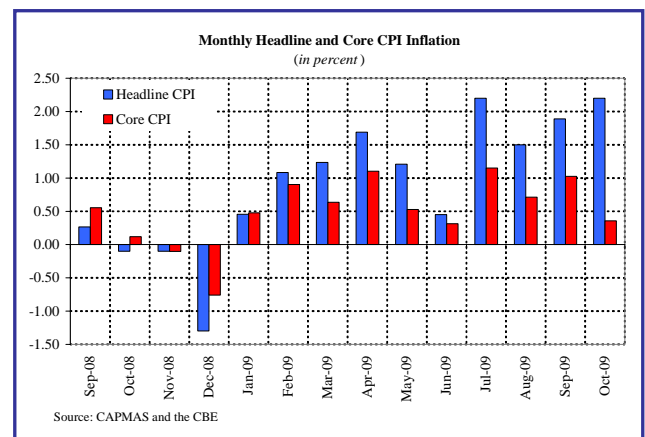
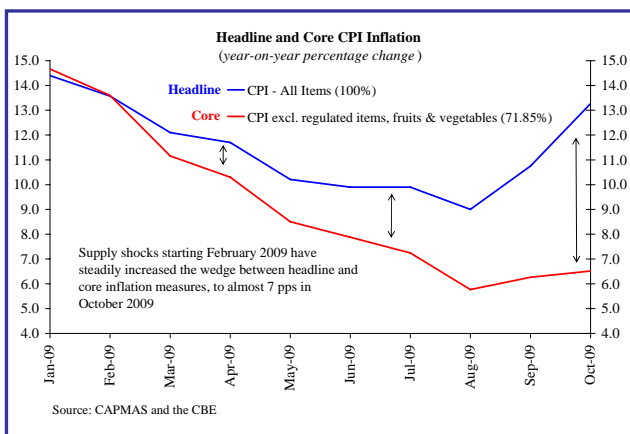
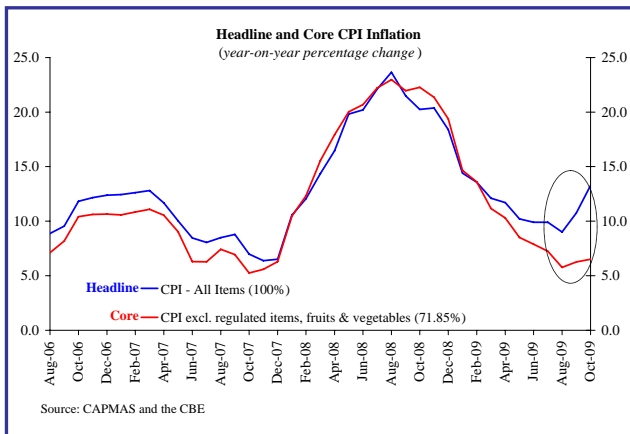
Headline CPI published by the Central Agency for Public Mobilization and Statistics (CAPMAS) on November 10, 2009, increased by 2.2 percent (m/m) in October 2009, bringing the annual rate to 13.3 percent (y/y) up from 10.8 percent recorded in the previous month. The main contributors to the month-on-month increase in the headline CPI were prices of fruits & vegetables as well as regulated price adjustments related to health insurance and school tuition. In the meantime, the core inflation measure computed by the CBE, which excludes fruits & vegetables and regulated prices, recorded an annual rate of 6.5 percent (y/y), compared to 6.3 percent (y/y) in September, while the monthly change in October registered 0.34 percent. The main contributor to the month-on-month increase in the CBE's Core CPI was food prices, particularly meat and sugar, while retail prices and paid services have remained broadly unchanged since April and February 2009, respectively.¹

Annual headline inflation continued to be adversely affected by the sharp acceleration in the prices of volatile food items, namely fruits and vegetables, which mainly explain the jump in the annual rate from 10.8 percent in September to 13.3 percent in October 2009. This was intensified by regulated price adjustments, related to health insurance and school tuition, which took place in October 2009. This month's outturn comes as a continuation of a trend that started in February 2009 whereby shocks related to fruits & vegetables intensified the wedge between the headline and the core measure. While the annual headline inflation rate remained elevated in October, annual core inflation currently stands within the CBE's comfort zone.

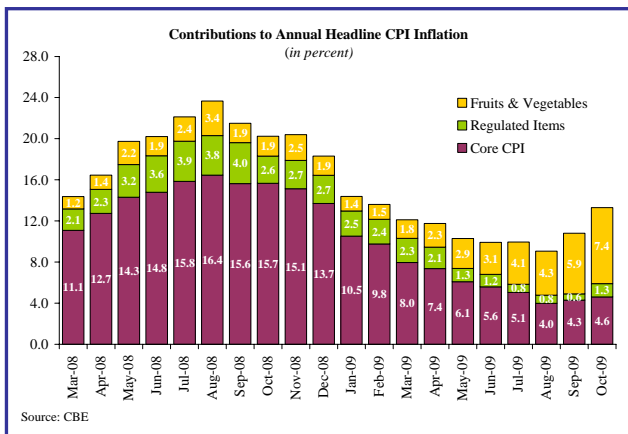
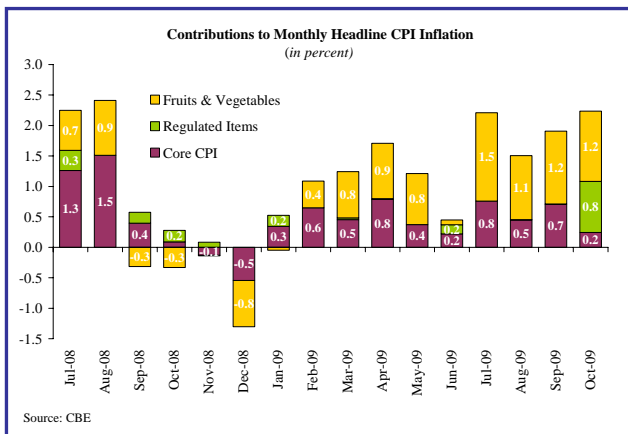
In sharp contrast to the recent developments in the headline, annual core inflation dropped by 7.1 percentage points over the past nine months, starting February 2009, compared to 0.3 percentage points drop in the headline. This mainly reflected the tame pace of increase in core prices compared to the sharp pace of increase in the prices of fruits & vegetables, which magnified the headline inflation rate between February and October 2009. Consequently, annual core inflation currently stands below the headline by almost seven percentage points for the first time since the beginning of the core series in January 2005.

1. Headline CPI

Annual headline inflation reached 13.3 percent in October 2009, compared to 10.8 percent in September, down from the 23.6 percent peak recorded in August 2008. In the meantime, the monthly rate inched up by a strong pace of 2.2 percent (m/m) in October up from 1.9 percent (m/m) recorded in the previous month and from an average of 1 percent (m/m) in 2009 H1.



The pick-up in monthly headline inflation over the past four months, while high, is not alarming as 62 percent of the increase was accounted for by 38.9 percent acceleration in the prices of fruits and vegetables. In fact, headline inflation excluding fruits and vegetables accumulated in the first ten months of 2009 reached 5.9 percent compared to the 15.8 percent accumulated during the same period in 2008.



The recent inch up in monthly headline inflation, namely between January and October 2009, has been mainly linked to supply shocks, which do not constitute underlying inflationary pressures.

- While the prices of volatile food items, namely fruits & vegetables, increased monthly in the first ten months of 2009 by a cumulative 69 percent, core prices have inched up by only 5 percent.
- In fact, the monthly contributions show that almost 57 percent of the monthly increases in the headline between January and October 2009 accounted for a sharp acceleration in volatile food items, namely fruits & vege-

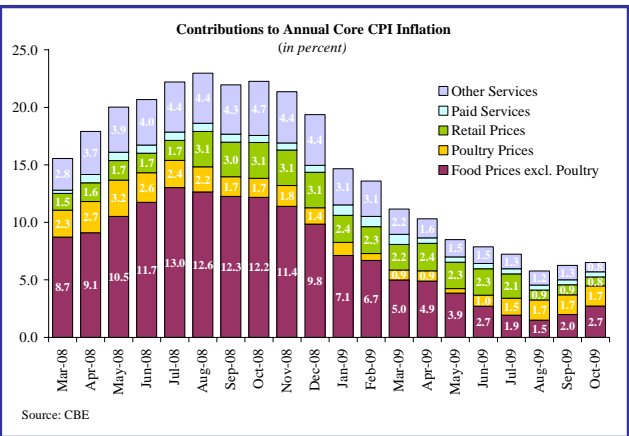
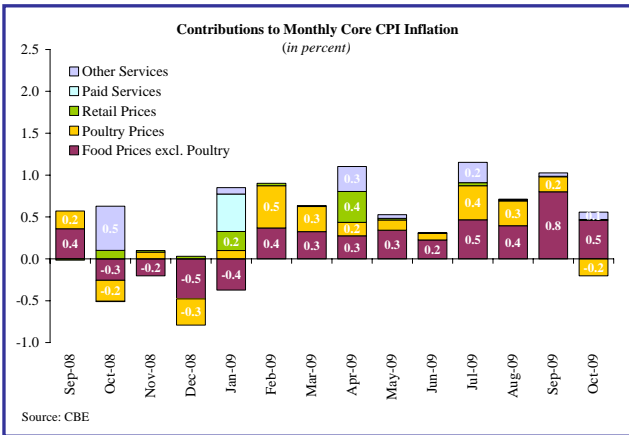
tables, while another 10 percent accounted for a rebound in the prices of poultry driven by the re-surfacing of the avian flu shock in early 2009. It is worth mentioning, however, that poultry prices fell in October by 2.4 percent (m/m) after accelerating continuously between January and September 2009.

- While the contribution of regulated price adjustments to monthly headline inflation was almost negligible between January and September 2009, the recent inch up in health insurance and school tuition in October 2009 pushed it up to account for 8.8 percent of the monthly increases in the headline since January 2009.
- Out of the remaining 24 percent: (i) 8.1 percent accounted for a pick up in red meat and fish and seafood prices, (ii) 8.5 percent accounted for sporadic tame inch ups in some food items that had previously declined in December and January, (iii) 4 percent were due to 1.15 percent and 1.67 percent (m/m) increases in retail prices in January and April, respectively, and (iv) 2.3 percent were the result of 7.4 percent (m/m) inch up in paid services also witnessed in January.

2. Core Inflation

Annual core inflation remained broadly unchanged in October 2009, standing at 6.5 percent, compared to 6.3 percent in September, down from the 23 percent peak recorded in August 2008. In the meantime, the monthly rate edged up by a tame pace of 0.34 percent (m/m) in October down from 1.03 percent (m/m) recorded in the previous month, and an average of 0.76 percent (m/m) recorded in the first three quarters of 2009.

The significant slowdown in the monthly pace of core inflation in October was mainly due to the decline in poultry prices which was the key driver of core prices between January and September 2009, accounting for more than 30 percent of the monthly accelerations.



Meanwhile, retail prices and paid services remained broadly unchanged since April and February 2009, respectively, reflecting subdued underlying inflationary pressures through October 2009.

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/	October 2008	October 2009	October 2009 to September 2009	October 2009 to October 2008
	(in percent)	(index)	(percentage change)		
	(January 2007 = 100)				
Headline - All items	100.00	127.5	144.4	2.2	13.3
Food and non-alcoholic beverages	43.88	136.8	167.2	2.5	22.2
Tobacco and related products	2.57	121.0	121.0	0.0	0.0
Clothing and footwear	7.90	114.7	118.3	0.0	3.1
Housing, water, electricity, gas and other fuels	13.46	109.9	112.1	0.0	2.0
Furnishings, household equipment and routine maintenance of the dwelling	4.17	120.4	125.3	0.0	4.1
Medical care	3.61	112.1	117.6	0.0	4.9
Transportation	5.22	123.0	125.5	0.0	2.0
Communications	3.64	109.5	109.4	0.0	-0.1
Recreation and Culture	3.39	133.3	140.9	0.0	5.7
Education	4.38	144.1	157.6	9.4	9.4
Hotels, cafes and restaurants	3.55	154.4	170.6	0.1	10.5
Miscellaneous goods and services	4.23	111.5	138.7	13.7	24.4
Selective aggregates					
Fruits & vegetables 3/	8.80	141.1	251.4	8.0	78.3
Regulated items	19.42	123.1	132.3	4.9	7.5
Food excl. fruits & vegetables	33.27	137.9	150.2	0.5	8.9
Retail items	17.34	115.8	120.2	0.1	3.8
Paid services	4.96	110.4	118.6	0.0	7.4
Other services	16.21	122.3	126.6	0.4	3.5
Core CPI	71.78	127.1	135.4	0.4	6.5

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses