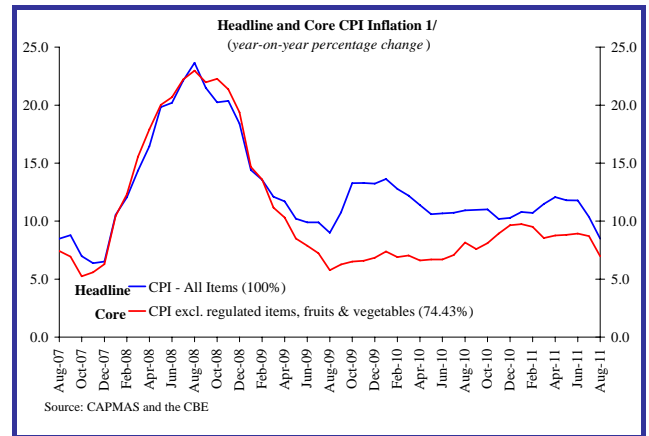
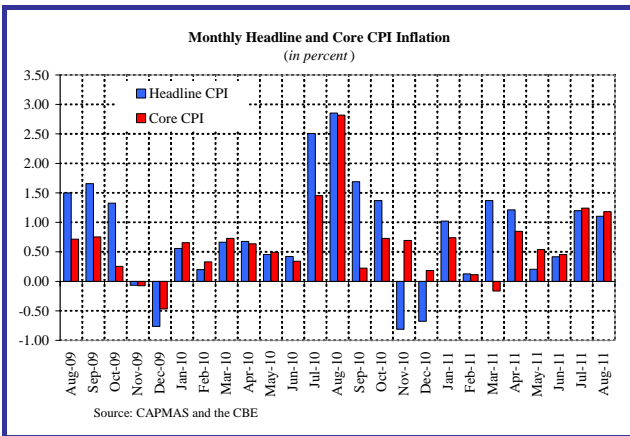


Headline and Core Inflation – August 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on September 10, 2011, increased by 1.10 percent (m/m) in August following 1.20 percent (m/m) in July. Meanwhile, the annual rate dropped to 8.49 percent in August from 10.36 percent in the previous month, supported by favorable base effects from last year. In the meantime, core CPI computed by the Central Bank of Egypt increased by 1.18 percent (m/m) in August following 1.24 percent (m/m) in July. Despite this monthly increase, the annual rate declined to 6.98 percent in August from 8.71 percent recorded in July, on the back of favorable base effects. The monthly developments in both headline and core inflation were almost entirely explained by increases in the prices of some food items which coincided with the month of Ramadan. On the other hand, paid services remained unchanged while retail prices witnessed a modest inch up.¹

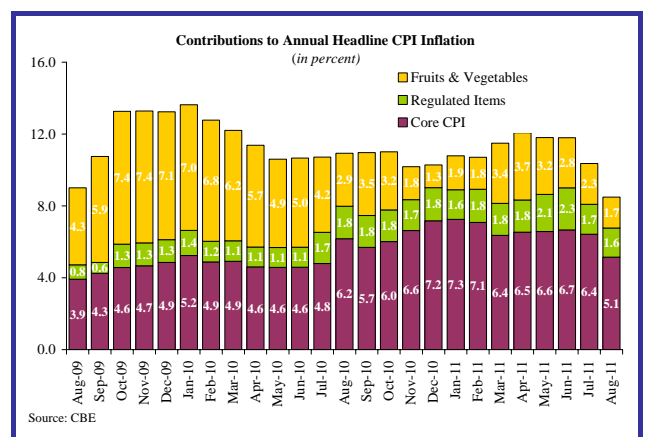
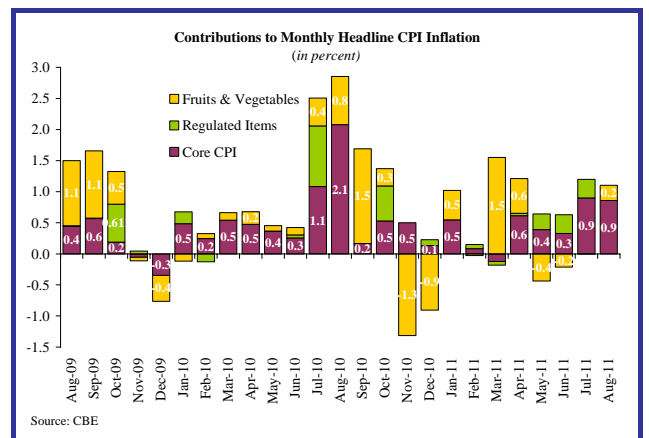


1. Headline CPI²

Headline CPI increased by 1.10 percent (m/m) in August following 1.20 percent (m/m) in July which is above the average monthly pace of 0.79 recorded in the first seven months of 2011. Supported by favorable base effects from last year, the annual rate dropped to 8.49 percent in August from 10.36 percent in the previous month.

Key Highlights

- The prices of vegetables increased in August to record 5.54 percent (m/m). However, its impact was partially offset by a 4.94 percent (m/m) decline in the prices of fruits. Together, they contributed by 0.25 percentage points to monthly headline inflation.

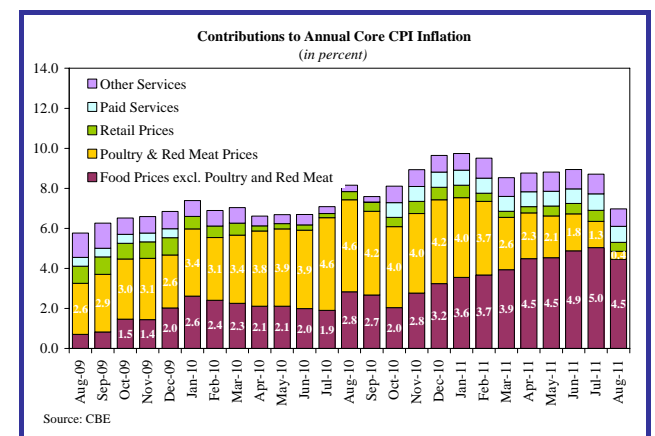
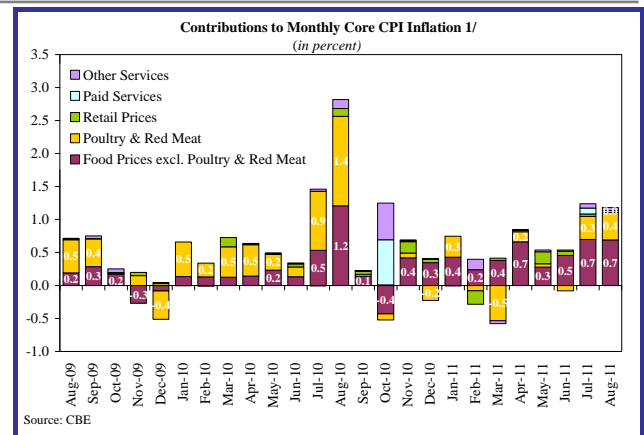


- Despite witnessing seasonal increases of varying magnitudes during the month of Ramadan, food items contributed by 0.80 percentage points to monthly headline inflation.
- Rice prices continued to rise for the sixth consecutive month, registering an increase of 9.48 percent (m/m) in August, which contributed by 0.26 percentage points to monthly headline inflation. This brings the cumulative increase since November 2010 to 74.13 percent, despite the announced ban on rice exports through October 2011.
- Prices of red meat and poultry rose by 2.56 percent (m/m) and 2.98 percent (m/m) respectively. Together they contributed by 0.30 percentage points to monthly headline inflation.
- Among other food items, which together contributed by 0.24 percentage points to headline inflation, are eggs, fish & seafood, milk and butter.
- Modest increases in the prices of gold and Haj & Omra trips were behind the slight inch up in the prices of retail items and other services.

2. Core Inflation²

Core CPI increased by 1.18 percent (m/m) in August following 1.24 percent (m/m) in July. This month's increase is well above the average monthly pace of 0.54 percent (m/m) recorded in the first seven months of 2011. Despite the monthly increase, the annual rate declined to 6.98 percent in August from 8.71 percent in July, supported by favorable base effects.

The bulk of the monthly increase in August was driven by the higher food prices mentioned above which accounted for 1.10 percentage points of the monthly increase in core inflation. The remaining negligible portion is accounted for by tame increases in retail prices and other services.



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/	August 2010	August 2011	August 2011 to July 2011	August 2011 to August 2010
	(in percent)	(index)		(percentage change)	
(January 2010 = 100)					
Headline - All items	100.00	108.00	117.16	1.10	8.49
Food and beverages	39.92	116.88	131.22	2.37	12.27
Tobacco and related products	2.19	143.16	185.53	0.00	29.59
Clothing and footwear	5.41	101.63	102.32	0.00	0.69
Housing, water, electricity, gas and other fuels	18.37	99.30	100.49	0.00	1.20
Furnishings, household equipment and routine maintenance of the dwelling	3.77	102.61	106.63	0.03	3.92
Medical care	6.33	100.00	102.04	0.00	2.04
Transportation	5.68	100.69	102.06	0.00	1.35
Communications	3.12	99.87	99.97	0.00	0.10
Recreation and Culture	2.43	102.66	110.74	1.31	7.87
Education	4.63	100.00	124.31	0.00	24.31
Hotels, cafes and restaurants	4.43	102.96	113.12	0.00	9.86
Miscellaneous goods and services	3.73	100.70	103.99	0.71	3.27
Selective aggregates					
Fruits & vegetables 3/	6.90	127.34	154.29	2.74	21.16
Regulated items	18.66	104.95	114.33	0.00	8.93
Food excl. fruits & vegetables	31.08	115.43	127.86	2.40	10.77
Retail items	14.48	101.65	104.16	0.19	2.47
Paid services	5.87	100.00	110.83	0.00	10.83
Other services	23.00	100.66	103.67	0.15	2.99
Core CPI	74.43	106.97	114.43	1.18	6.98

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits