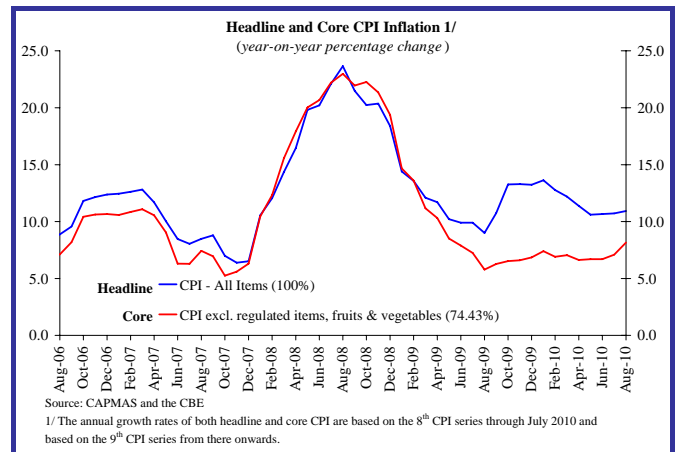
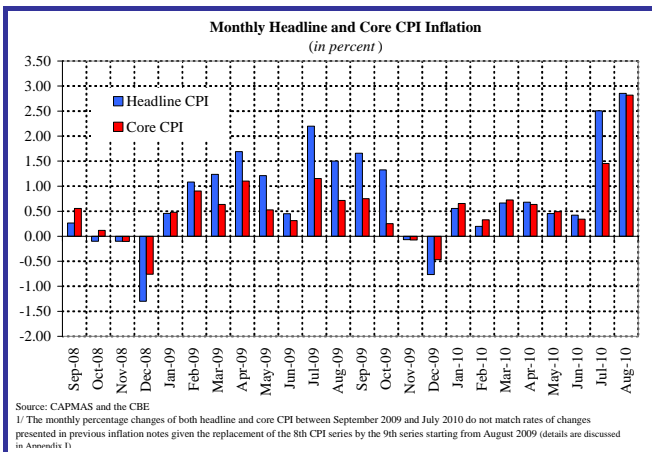


Headline and Core Inflation – August 2010

Starting from the August 2010 release, the Central Agency for Public Mobilization & Statistics (CAPMAS) will begin to publish the 9th series of the consumer price index which is based on the 2008/2009 Household, Income, Expenditure and Consumption (HIEC) Survey to replace the 8th series which was based on the 2004/2005 HIEC Survey. Full details are discussed in the Technical Appendix.

Headline CPI published by CAPMAS on September 10, 2010 increased by 2.85 percent (m/m) in August 2010, and the annual rate registered 10.93 percent. The bulk of the monthly increase came on the back of the continued acceleration in the prices of food items during the holy month of Ramadan which exacerbated ongoing supply shortages, particularly of red meat and poultry. In addition, prices of fruits & vegetables continued to increase for the second consecutive month further pushing up headline inflation. In the meantime, core CPI computed by the Central Bank of Egypt accelerated by 2.82 percent (m/m) in August, mainly driven by the higher prices of food items dominated by supply shortages. Meanwhile, the prices of clothing, footwear, and meals in restaurants and cafes inched up marginally. Annual core inflation jumped to 8.16 percent.¹

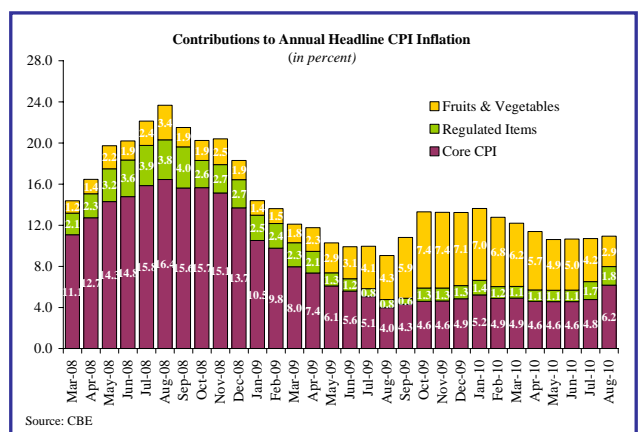
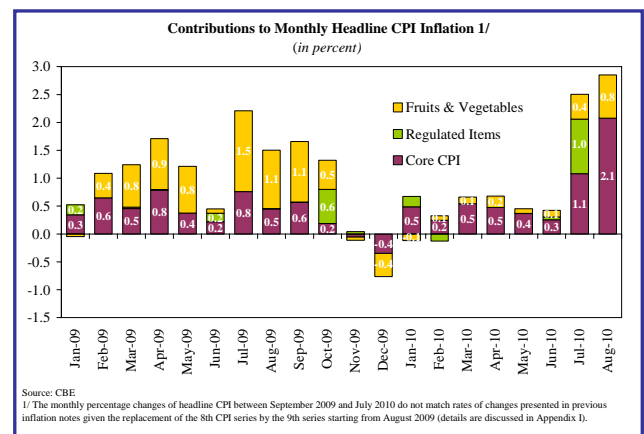


1. Headline CPI ²

After maintaining a tame monthly pace of 0.50 percent in 2010 H1, headline CPI accelerated by 2.85 percent in August following the 2.51 percent in July. The annual headline rate registered 10.93 percent in August.

Key Highlights

- The prices of fruits and vegetables have increased by 10.21 percent (m/m) in August, to contribute by 0.79 percentage points to the monthly headline inflation. This month's increase is significantly higher than the average pace of 1.16 percent witnessed during 2010 H1. Future changes in the prices of fruits and vegetables will continue to be closely monitored, given their impact on headline inflation.



In August, most food prices witnessed seasonal increases of varying degrees during the holy month of Ramadan. The Ramadan effect exacerbated the impact of supply shortages in poultry, red meat and rice since early 2010, which continued to be reflected in their prices in August following the exceptional surge witnessed in July.

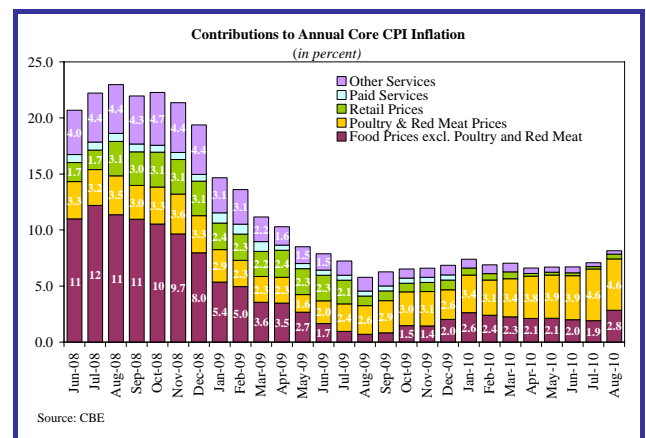
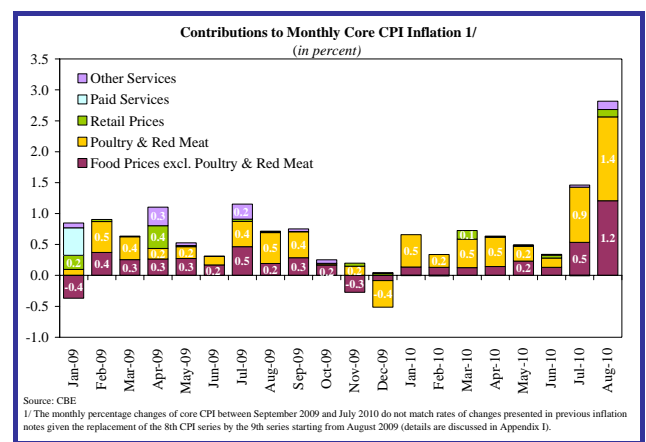
- Poultry prices rose by 10.07 percent (m/m) in August following the 9.73 percent (m/m) in July, marking the highest monthly increase over the past few years. This led to a cumulative monthly increase of 37.77 percent in poultry prices since January 2010.
- Prices of red meat accelerated significantly by 8.11 percent (m/m) in August, the highest monthly increase on record. This rate is markedly above the average monthly pace of 2.24 percent recorded during 2010 H1, which led the cumulative acceleration in prices of red meat to reach 25.52 percent since January 2010. It is worth mentioning that the increase in the prices of red meat and poultry contributed by 1 percentage point to the monthly headline inflation in August.
- The price of rice accelerated by 8.53 percent (m/m) in August following the 18.25 percent (m/m) increase in July which marks the fourth consecutive monthly increase since May 2010. This brings the cumulative increase to 43.47 percent since May.
- Prices of other food items, namely pasta, milk, cheese, and eggs, wheat and wheat flour, bakery products, oil and fats and fish and seafood, also increased, contributing by 0.66 percentage points to the increase in monthly headline inflation.

2. Core Inflation²

After maintaining a tame monthly pace of 0.53 percent in 2010 H1, core CPI accelerated by 2.82 percent in August after recording a 1.45 percent monthly increase in July. The annual rate jumped to 8.16 percent in August.

Similar to July, the bulk of the monthly increase in August was driven by the higher prices of poultry, red meat and rice which accounted for 1.54 percentage points of the 2.82 percent month-on-month increase.

In the meantime, clothing, footwear, and meals in restaurants and cafes inched up marginally, contributing by 0.25 percentage points. The marginal pick up in the prices of clothing and footwear reflected the seasonal impact ahead of Eid. Sporadic price increases of other food items accounted for the remaining portion of the monthly rate of change 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).

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	HH 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
Non alcoholic 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 2009	August 2010	August 2010 to July 2010	August 2010 to August 2009
	(in percent)	(index)	(index)	(percentage change)	(percentage change)
(January 2010 = 100)					
Headline - All items	100.00	97.36	108.00	2.85	10.93
Food and non-alcoholic beverages	39.92	95.85	116.88	6.38	21.95
Tobacco and related products	2.19	100.00	143.16	0.00	43.16
Clothing and footwear	5.41	99.39	101.63	1.63	2.25
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	102.61	0.01	3.07
Medical care	6.33	100.00	100.00	0.00	0.00
Transportation	5.68	99.99	100.69	0.03	0.71
Communications	3.12	100.00	99.87	0.00	-0.13
Recreation and Culture	2.43	99.21	102.66	-0.04	3.48
Education	4.63	93.44	100.00	0.00	7.03
Hotels, cafes and restaurants	4.43	99.60	102.96	2.33	3.38
Miscellaneous goods and services	3.73	90.27	100.70	0.12	11.55
Selective aggregates					
Fruits & vegetables 3/	6.90	85.79	127.34	10.21	48.44
Regulated items	18.66	95.49	104.95	0.00	9.91
Food excl. fruits & vegetables	31.08	97.84	115.43	5.85	17.98
Retail items	14.43	99.56	101.66	0.63	2.11
Paid services	5.87	100.00	100.00	0.00	0.00
Other services	23.06	99.63	100.66	0.46	1.03
Core CPI	74.43	98.90	106.97	2.82	8.16

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits

Technical Appendix

The Release of the 9th CPI Series

Starting from the August 2010 release, the Central Agency for Public Mobilization & Statistics (CAPMAS) will begin to publish the 9th series of the consumer price index which is based on the 2008/2009 Household, Income, Expenditure and Consumption (HIEC) Survey to replace the 8th series which was based on the 2004/2005 HIEC Survey. The new series covers 964 goods and services which represents an addition of 138 goods and services over the 8th series.

Why release a new CPI series?

Statistical offices worldwide are required to periodically reevaluate the national CPI series through the revision of the CPI basket to ensure that it represents an accurate reflection of current consumer behavior given possible changes in income structure, demographics, products through enhanced technology, changing habits, and consequently, spending patterns. Hence, revisions to the basket might include changes in commodity weights or definition modifications or the inclusion of a broader range of products and services.

How is the CPI basket revised?

In order to generate a basket that provides an accurate representation of the typical Egyptian consumer spending, CAPMAS has been conducting a comprehensive Household, Income, Expenditure and Consumption (HIEC) Survey for urban and rural households every five years starting from 1990/1991. The results of these Surveys were used to update the consumption expenditure weights of the CPI basket. The weight of any commodity in the CPI basket is measured as the ratio of the commodity expenditure to the total of all consumption expenditure.

How are the weights for the 9th CPI series compiled?

The weights for the 9th CPI series are compiled based on the results of the 2008/2009 HIEC Survey which has been conducted between April 2008 and March 2009, sampling 48,000 households from various governorates to provide a snapshot of the population, and identifying the latest developments in consumption patterns.

What are the key weight changes in the 2008/2009 CPI basket?

The 2008/2009 consumer basket shows a decline in the expenditure share of food and beverage, clothing and footwear, and recreation and culture and an increase in the expenditure share of health care, shelter, and education compared to the 2004/2005 basket. These changes are reflected in the weights assigned to the different CPI groups and subsets under the 9th series (as shown in Figure A.1 and Tables A.1, A.2).

Figure A.1: Weights of Main Groups in the 9th and the 8th CPI Series

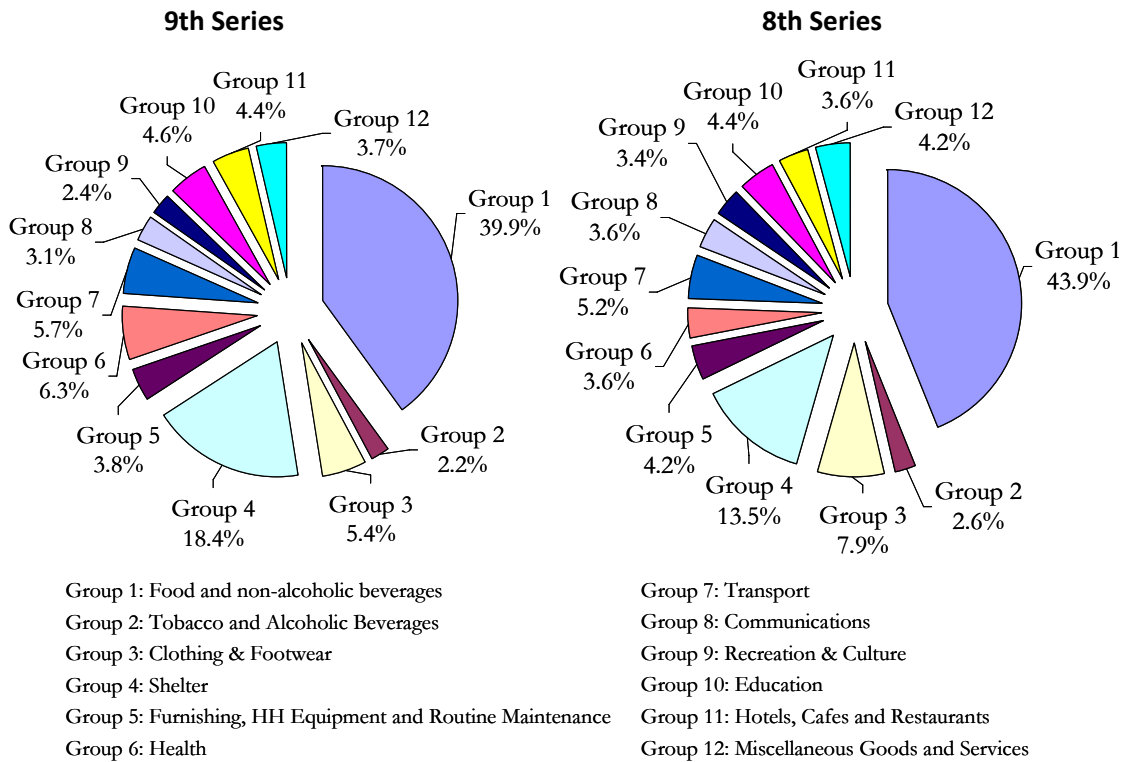


Table A.1: Changes in Weights of Selected Items

	9 th Series	8 th Series	Increase/ (Decrease)
	(in percent)	(in percent)	
Red Meat	6.28	7.47	-1.18
Poultry	3.73	4.61	-0.88
Fruits	2.79	3.07	-0.28
Vegetables	5.35	6.53	-1.18
Rental Value of Owner Occupied Housing	11.71	7.13	4.58
Medical products, appliances and equipment	3.90	2.09	1.80
Out-Patient Services	1.35	1.02	0.33
Public Hospitals	0.23	0.08	0.15
Private Hospitals	0.85	0.42	0.43
Newspapers, Books and Stationery	0.59	0.99	-0.41
Expenditure on Restaurants & Cafes	4.38	3.49	0.89

Table A.2: Changes in Weights of Core CPI and Selected Aggregates

	9 th Series	8 th Series	Increase/ (Decrease)
	(in percent)	(in percent)	
Core CPI	74.43	71.78	2.65
Regulated Items	18.66	19.42	-0.75
Volatile Food Items	6.90	8.80	-1.90
Food Prices	31.08	33.27	-2.19
Retail Prices	14.48	17.34	-2.86
Paid Services	5.87	4.96	0.90
Other Services	23.00	16.21	6.79

What kind of products and services were added to the 2008/2009 basket?

New items added to the 2008/2009 basket reflecting changes in consumption behavior over the past five years include internet services, laptops and LCD television sets, postgraduate studies, a larger variety of car brands, vocational trainings, and professional courses like SPSS and IC DL.

How is the 2008/2009 basket reflected in the Core CPI?

The changes in the 2008/2009 basket compared to the 2004/2005 basket are also reflected in the Core CPI, raising its weight from 71.78 percent to 74.43 percent as the weights of regulated items and fruits & vegetables declined from 19.42 percent and 8.80 percent to 18.66 percent and 6.90 percent, respectively (Table A.2).

Against the changes mentioned above, the monthly percentage changes in the headline and core CPI according to the 8th and 9th series do not exactly overlap which is expected given the change in weights assigned to different CPI groups and subsets (Figures A.2 and A.3).

Figure A.2: Monthly Percentage Changes in Headline CPI under the 9th vs. the 8th Series

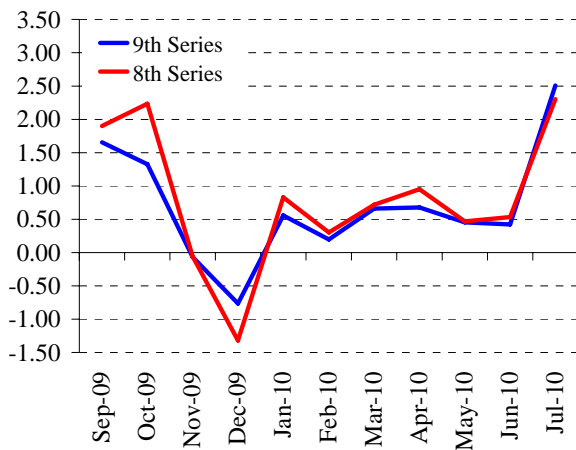


Figure A.3: Monthly Percentage Changes in Core CPI under the 9th vs. the 8th Series

