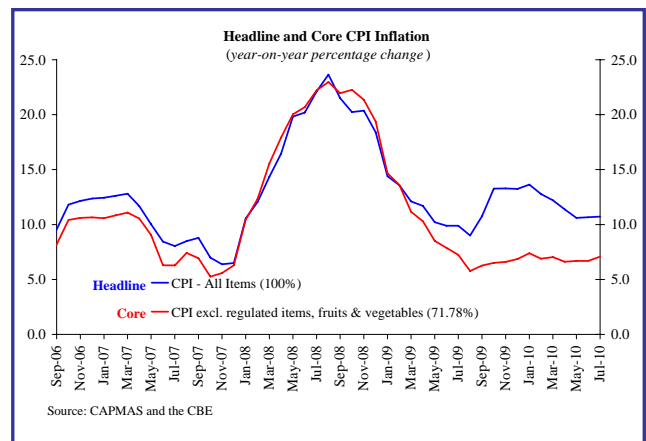
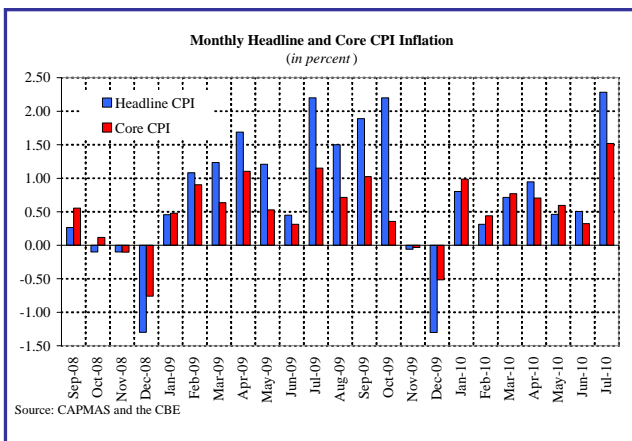


## Headline and Core Inflation – July 2010

Headline CPI published by the Central Agency for Public Mobilization and Statistics on August 10, 2010 increased by 2.28 percent (m/m) in July 2010. More than half of the monthly increase came on the back of the regulated price adjustments of tobacco and related products which took effect on July 1 and the acceleration in the prices of fruits and vegetables. The remaining portion was explained by sporadic increases in the prices of food items ahead of the month of Ramadan. Despite the monthly increase, the annual headline rate remained broadly unchanged at 10.72 percent supported by favorable base effects. In the meantime, core CPI computed by the Central Bank of Egypt increased by 1.52 percent (m/m) in July, mainly driven by higher prices of poultry and red meat, while retail prices and paid services remained broadly unchanged. The annual rate inched up to 7.08 percent compared to 6.70 percent recorded in the previous month.<sup>1</sup>

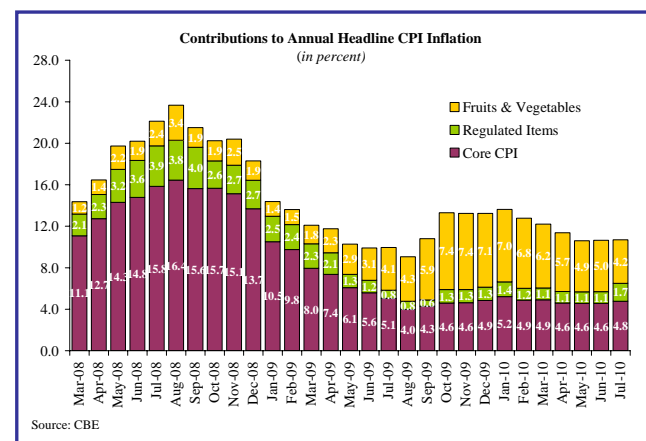
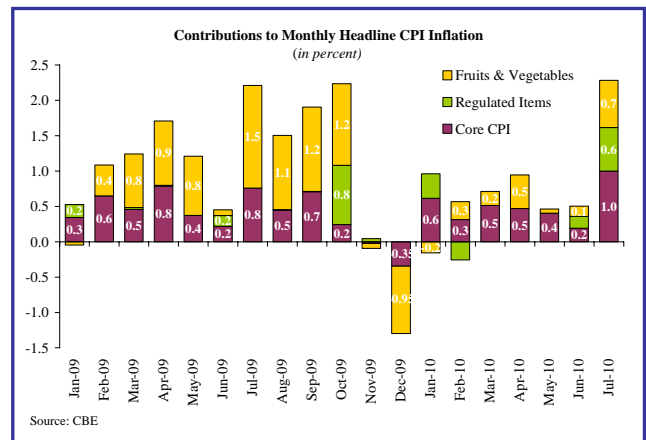


### 1. Headline CPI

After maintaining a tame monthly pace of 0.62 percent in 2010 H1, headline CPI accelerated by 2.28 percent in July. Despite the strong monthly increase, the annual headline rate remained broadly unchanged at 10.72 percent supported by favorable base effects from last year.

#### Key Highlights

- Sales taxes imposed by the government on tobacco and related products as part of the 2010/2011 budget led their prices to increase by 29.22 percent (m/m) in July 2010. This accounted for 0.61 percentage points of the monthly headline inflation.
- The prices of fruits and vegetables have increased by 4.48 percent (m/m) in July, to contribute by 0.67 percentage points to the monthly headline inflation. This month's increase is significantly higher than the average monthly pace of 0.16 percent witnessed in 2010 H1.



Future changes in the prices of fruits and vegetables will continue to be closely monitored, given their impact on headline inflation.

In July, most food prices witnessed seasonal increases of varying degrees ahead of the holy month of Ramadan. The Ramadan effect exacerbated the impact of shortages in poultry, red meat and rice, witnessed since early 2010. This has in turn led to an exceptional surge in their prices during July. In the meantime, prices of other food items experienced modest increases.

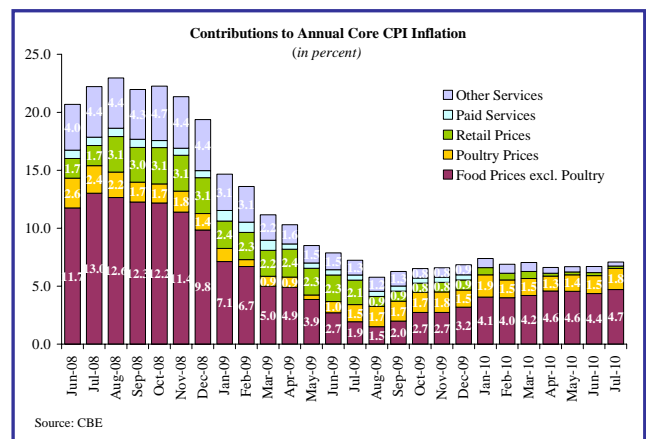
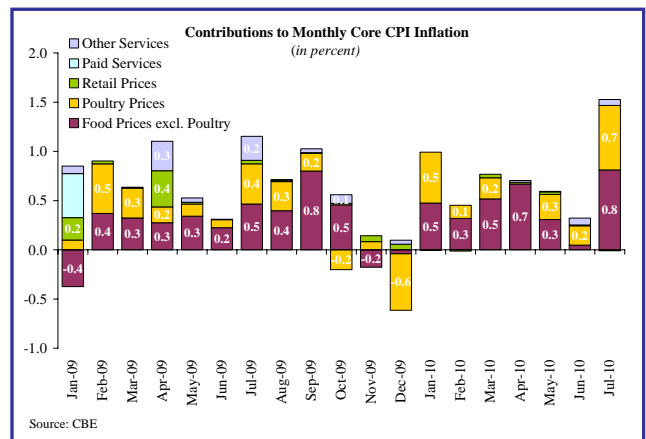
- Poultry prices rose by 7.49 percent (m/m) in July, the highest monthly increase over the past four years. This led the cumulative monthly increase in poultry prices to reach 23.75 percent since January 2010.
- After remaining unchanged in June, prices of red meat accelerated by 3.92 percent (m/m) in July. This rate is significantly above the 2.20 percent average pace of monthly increases recorded in 2010 H1, which led the cumulative acceleration in red meat prices to reach 17.10 percent since January 2010. It is worth mentioning that the increase in the prices of red meat and poultry contributed by 0.74 percentage points to the monthly headline inflation in July.
- Rice prices accelerated by 14.13 percent (m/m) in July which marks the third consecutive monthly increase since May 2010, bringing the cumulative increase to 31.18 percent since that date.
- Prices of other food items, namely eggs, fish & seafood, imported and local butter, witnessed modest increases in July to account for 0.1 percentage points of the monthly headline inflation.

## 2. Core Inflation

After maintaining a tame monthly pace of 0.63 percent in 2010 H1, core CPI accelerated by 1.52 percent in July. This led the annual rate to inch up to 7.08 percent compared to 6.70 percent recorded in the previous month.

The bulk of the monthly increase in July was driven by the higher prices of poultry, red meat and rice which accounted for 1.30 percentage points of the 1.52 percent month-on-month increase. Sporadic price increases of other food items accounted for the remaining portion.

Meanwhile, retail prices and paid services were broadly unchanged in July, in continuation of their subdued dynamics since early 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

<b>Food</b>	<b>Retail</b>	<b>Paid Services</b>	<b>Other Services</b>
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/	July 2009	July 2010	July 2010 to June 2010	July 2010 to July 2009
	(in percent)	(index)	(percentage change)		
(January 2007 = 100)					
<b>Headline - All items</b>	<b>100.00</b>	<b>136.59</b>	<b>151.23</b>	<b>2.28</b>	<b>10.72</b>
Food and non-alcoholic beverages	43.88	152.44	178.83	3.17	17.31
Tobacco and related products	2.57	120.97	156.32	29.22	29.22
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	125.34	126.62	0.00	1.02
Medical care	3.61	117.24	117.56	0.00	0.27
Transportation	5.22	125.46	126.76	0.00	1.03
Communications	3.64	109.36	109.26	0.00	-0.10
Recreation and Culture	3.39	139.92	149.32	0.40	6.72
Education	4.38	144.07	157.59	0.00	9.38
Hotels, cafes and restaurants	3.55	170.33	173.41	0.67	1.81
Miscellaneous goods and services	4.23	121.43	140.77	-0.16	15.93
<b>Selective aggregates</b>					
Fruits & vegetables 3/	8.80	196.94	262.00	4.48	33.04
Regulated items	19.42	126.09	139.28	3.50	10.46
Food excl. fruits & vegetables	33.27	144.61	163.29	2.79	12.92
Retail items	17.34	120.01	121.52	-0.05	1.26
Paid services	4.96	118.56	118.56	0.00	0.00
Other services	16.21	125.82	127.45	0.30	1.30
Core CPI	71.78	132.62	142.02	1.52	7.08

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses