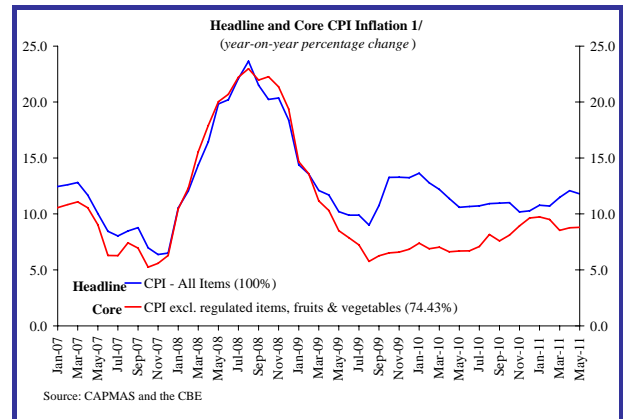
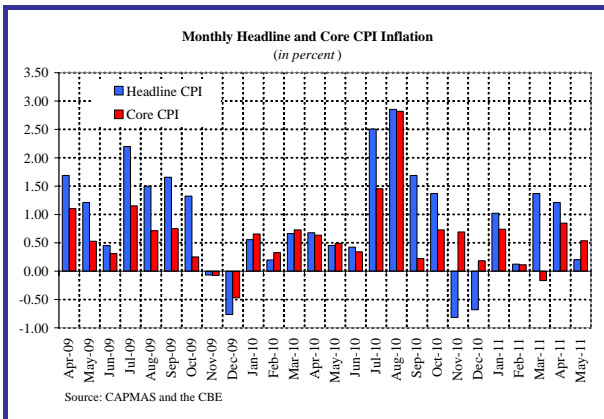


Headline and Core Inflation – May 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on June 9, 2011, increased by 0.20 percent (m/m) in May following 1.21 percent (m/m) in April, bringing the annual rate to 11.79 percent in May compared to 12.08 percent in April. The month-on-month development came on the back of sporadic price increases in a number of food items including rice, edible oils and fish & seafood, which were partly offset by the decline in the prices of vegetables. In the meantime, core CPI computed by the Central Bank of Egypt increased by 0.54 percent (m/m) in May following 0.85 percent in April, while the annual rate inched up to 8.81 percent in May compared to 8.76 percent in April. Meanwhile, retail prices inched up slightly while paid services remained broadly unchanged.¹

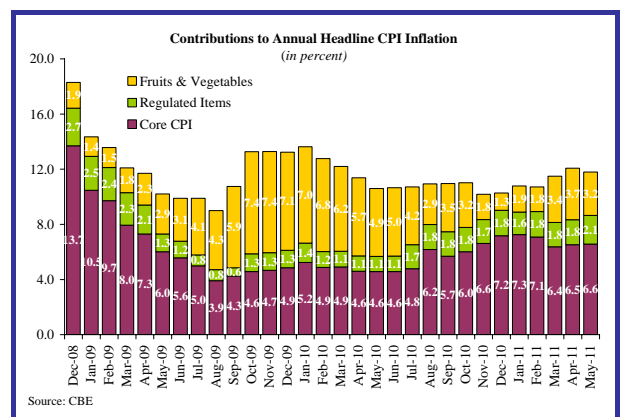
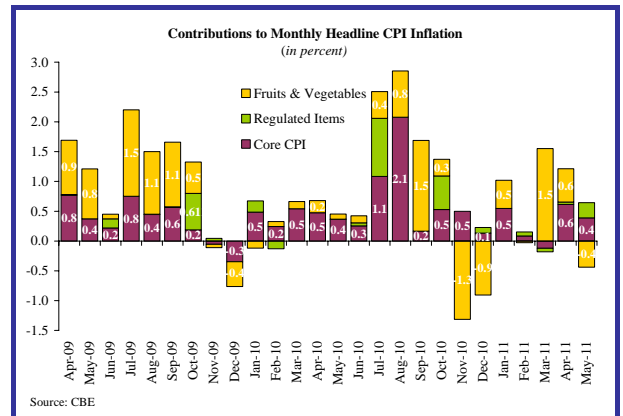


1. Headline CPI²

Headline CPI inched up by 0.20 percent (m/m) in May following the 1.21 percent (m/m) increase in April, which is below the average monthly pace of 0.85 recorded in 2010 and through April 2011. The annual rate declined to 11.79 percent in May compared to 12.08 percent in the previous month.

Key Highlights

- Regulated prices rose by 1.42 percent (m/m) in May on the back of: (i) a 4.98 percent (m/m) increase in tobacco prices, and (ii) a 34.58 percent (m/m) increase in the prices of butane gas cylinders for the second consecutive month, on the back of disruptions in transport networks and the resulting limited supply. These increases, combined, contributed by 0.25 percentage points to the monthly headline inflation.

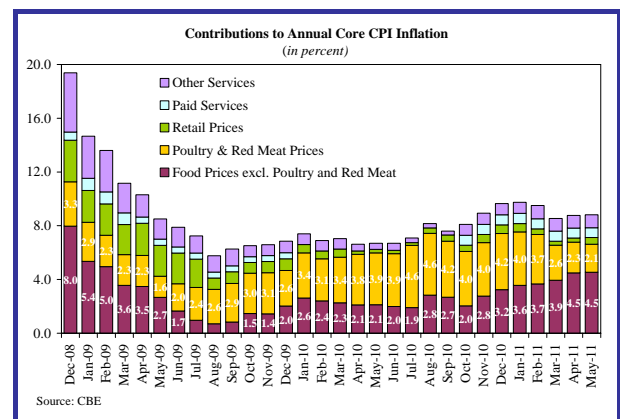
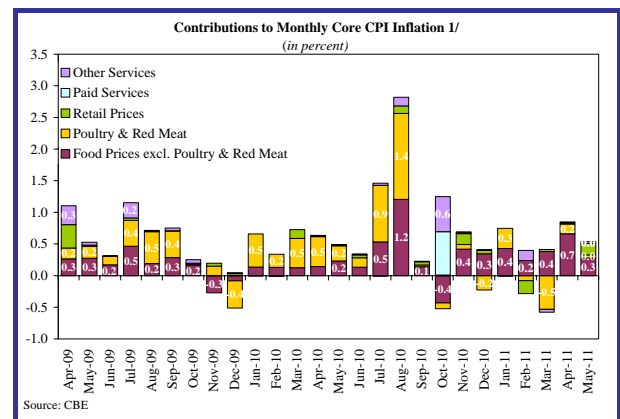


- Prices of vegetables declined by 7.81 percent in May, after increasing cumulatively by 32.92 percent in the previous two months, contributing by negative 0.56 percentage points to monthly headline inflation in May. In the meantime, prices of fruits increased by 4.95 percent in May, which is higher than the 1.81 percent average monthly increase witnessed in 2011 Q1. The increase in the prices of fruits contributed by 0.13 percentage points to monthly headline inflation.
- Rice prices continued to rise for the third consecutive month, registering a monthly increase of 6.89 percent in May, which contributed by 0.15 percentage points to monthly headline inflation. This brings the cumulative increase since November 2010 to 48.84 percent, despite the announced ban on rice exports through October 2011.
- Poultry prices were largely unchanged in May, inching up by only 0.66 percent. Similarly, prices of red meat remained almost unchanged in May. Together, red meat and poultry prices contributed by a mere 0.04 percentage points to monthly inflation. It is worth mentioning that the CBE decided to extend the exemption of imports of some food items from the minimum cash cover requirement until December 2011.
- Other food prices experienced price increases, including cheese, oils and fats, fish and seafood, and to a lesser extent, processed meat, dried fruits, milk and other food products, which together contributed by 0.12 percentage points to monthly headline inflation.
- Retail prices inched up by 1.01 percent mainly driven by higher prices of clothing, HH cleaning products and HH textiles, while prices of other services recorded a minor increase of 0.09 percent (m/m) on the back of price increases in Haj and Omra trips.

2. Core Inflation²

Core CPI increased by 0.54 percent in May, following a 0.85 percent (m/m) increase in April. This month's increase stands slightly below the average monthly pace of 0.68 percent recorded in 2010 and through April 2011. The annual rate inched up to 8.81 percent in May compared to 8.76 percent in April.

The monthly increase in May was mainly driven by higher food prices mentioned above which accounted for 0.33 percentage points of the monthly increase in core inflation. The marginal increases in retail prices and modest inch ups in other services accounted for the remaining 0.21 percentage points while paid services remained unchanged.



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/	May 2010	May 2011	May 2011 to April 2011	May 2011 to May 2010
	(in percent)	(index)		(percentage change)	
(January 2010 = 100)					
Headline - All items	100.00	102.00	114.04	0.20	11.79
Food and beverages	39.92	105.02	125.85	-0.45	19.83
Tobacco and related products	2.19	100.00	154.20	4.98	54.20
Clothing and footwear	5.41	100.00	101.80	1.72	1.80
Housing, water, electricity, gas and other fuels	18.37	99.30	100.42	0.70	1.12
Furnishings, household equipment and routine maintenance of the dwelling	3.77	102.65	104.90	1.08	2.19
Medical care	6.33	100.00	101.93	0.00	1.93
Transportation	5.68	100.08	101.66	0.13	1.57
Communications	3.12	99.92	100.03	0.00	0.11
Recreation and Culture	2.43	100.00	107.82	0.83	7.82
Education	4.63	100.00	124.31	0.00	24.31
Hotels, cafes and restaurants	4.43	100.16	112.37	0.00	12.19
Miscellaneous goods and services	3.73	100.53	102.59	0.21	2.05
Selective aggregates					
Fruits & vegetables 3/	6.90	107.15	153.74	-4.49	43.48
Regulated items	18.66	99.33	110.65	1.42	11.40
Food excl. fruits & vegetables	31.08	104.86	121.08	0.72	15.47
Retail items	14.48	100.81	103.39	1.01	2.56
Paid services	5.87	100.00	109.55	0.00	9.55
Other services	23.00	100.04	103.21	0.09	3.17
Core CPI	74.43	102.20	111.21	0.54	8.81

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits