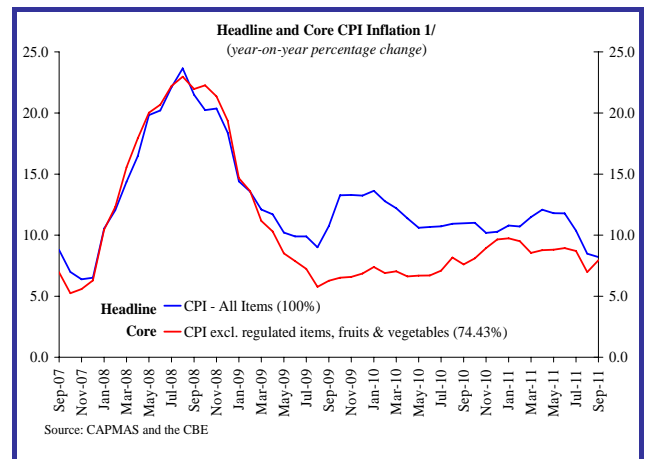
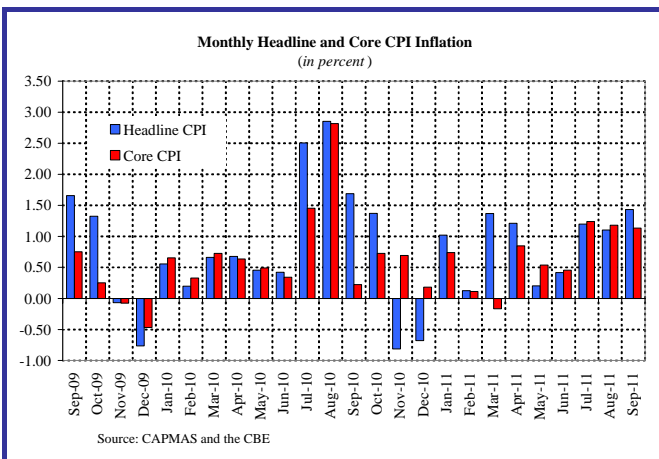


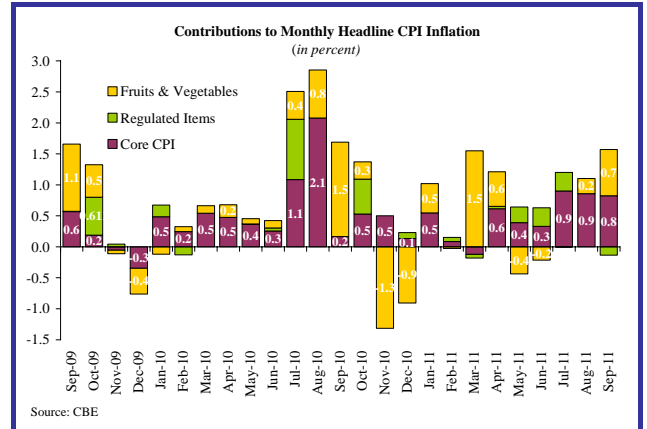
## Headline and Core Inflation – September 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on October 10, 2011, increased by 1.43 percent (m/m) in September following 1.10 percent (m/m) in August. Meanwhile, the annual rate declined slightly to 8.21 percent in September from 8.49 percent in the previous month, supported by favorable base effects from last year. More than half of the month-on-month development came on the back of an increase in housing rentals while the remaining portion was largely explained by a strong acceleration in the prices of vegetables. This was partially offset by a decline in the prices of several food items including rice and poultry. In the meantime, core CPI computed by the Central Bank of Egypt increased by 1.13 percent (m/m) in September following 1.18 percent (m/m) in August. The annual rate increased to 7.95 percent in September compared to 6.98 percent recorded in the previous month. Meanwhile, retail prices and paid services witnessed modest increases.<sup>1</sup>



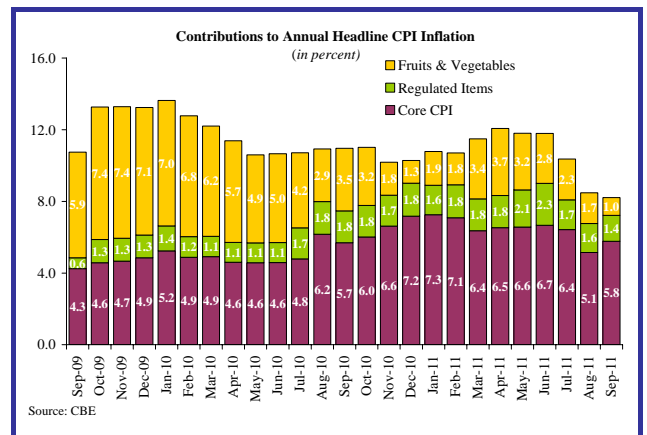
### 1. Headline CPI<sup>2</sup>

Headline CPI increased by 1.43 percent (m/m) in September following 1.10 percent (m/m) in August, which is above the average monthly pace of 0.83 percent recorded in the first eight months of 2011. For the second consecutive month, annual headline inflation was supported by favorable base effects from last year to decline further to 8.21 percent in September from 8.49 percent in August and 10.36 percent in July.



### Key Highlights

- Housing rentals (new law) and rentals of owner occupied housing increased by 9.40 percent (m/m) and 8.06 percent (m/m) respectively to contribute by 0.92 percentage points to monthly headline inflation.
- The prices of fresh vegetable increased by 11.40 percent (m/m) in September following a cumulative increase of 9 percent (m/m) in the previous two months, reflecting a broad based acceleration. In the meantime, prices of fresh



fruits continued to decline to register a cumulative decrease of 15.57 percent since June 2011.

Several food items witnessed price declines in September following the seasonal increases witnessed during the month of Ramadan to contribute by negative 0.42 percentage points to monthly headline inflation:

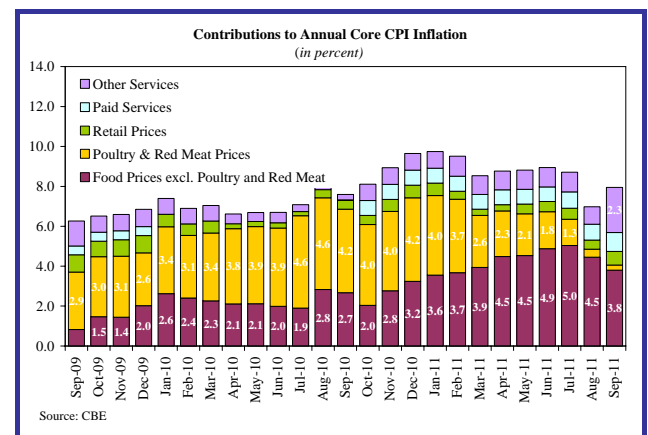
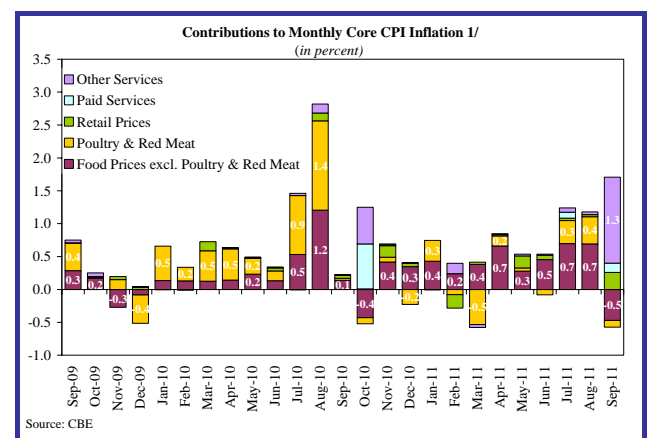
- Poultry prices registered a monthly decline of 4.98 percent (m/m) to almost fully offset the 5.97 percent (m/m) cumulative increase in the previous two months. In the meantime, red meat prices increased by 1.74 percent (m/m). The positive contribution of the latter to the monthly headline inflation was completely offset by the decline in poultry prices.
- For the first time since October 2010, rice prices recorded a decline of 14.40 percent (m/m) in September to contribute by negative 0.43 percentage points to monthly headline inflation. Despite the recent decline, rice prices witnessed a cumulative increase of 59.73 since November 2010.
- Egg prices fell by 4.30 percent (m/m) in September to partially offset the cumulative increase of 12.59 percent witnessed in the previous two months due to the Ramadan effect.
- Regulated prices declined by 10.88 percent (m/m) due to lower prices of landline telephone services which contributed by negative 0.14 percentage points to monthly headline inflation in September.
- Retail prices increased by 1.46 percent (m/m), mainly driven by higher prices of stationary & school supplies, clothing & footwear, gold, and household equipment, to contribute by 0.19 percentage points to monthly headline inflation. Meanwhile, in a delayed response to the increase in government salaries, paid services rose by 1.87 percent (m/m) to contribute by 0.10 percentage points to monthly headline inflation. This is the second monthly increase this year following a 1.17 rise in July 2011.

## 2. Core Inflation<sup>2</sup>

Core CPI increased by 1.13 percent (m/m) in September following 1.18 percent (m/m) in August.

This month's increase is well above the average monthly pace of 0.62 percent (m/m) recorded in the first eight months of 2011. In the meantime, the annual rate increased to 7.95 percent in September following a temporary decline to 6.98 percent in August which was supported by favorable base effects.

The bulk of the monthly increase in September was largely driven by higher housing rentals mentioned above and to a lesser extent by retail prices and paid services. However, the impact of these increases on monthly core inflation was partially offset by notable declines in the prices of rice, poultry, and eggs.



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 8<sup>th</sup> CPI series by the 9<sup>th</sup> 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

| <b>Food</b>             | <b>Retail</b>                           | <b>Paid Services</b>              | <b>Other Services</b>                  |
|-------------------------|---|-----------------------------------|--|
| 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<br>basket 2/ | September<br>2010 | September<br>2011   | September 2011<br>to August 2011 | September 2011 to<br>September 2010 |
|--|------------------------|-------------------|---------------------|----------------------------------|-------------------------------------|
|  | (in percent)           | (index)           | (percentage change) |                                  |                                     |
| (January 2010 = 100)   |                        |                   |                     |                                  |                                     |
| <b>Headline - All items</b>  | <b>100.00</b>          | <b>109.82</b>     | <b>118.84</b>       | <b>1.43</b>                      | <b>8.21</b>                         |
| Food and beverages   | 39.92                  | 121.34            | 132.19              | 0.73                             | 8.93                                |
| Tobacco and related products   | 2.19                   | 143.16            | 185.53              | 0.00                             | 29.59                               |
| Clothing and footwear  | 5.41                   | 102.04            | 103.88              | 1.52                             | 1.81                                |
| Housing, water, electricity, gas and other fuels                         | 18.37                  | 99.30             | 106.69              | 6.17                             | 7.44                                |
| Furnishings, household equipment and routine maintenance of the dwelling | 3.77                   | 102.75            | 108.77              | 2.01                             | 5.86                                |
| Medical care   | 6.33                   | 100.00            | 102.04              | 0.00                             | 2.04                                |
| Transportation   | 5.68                   | 100.91            | 102.38              | 0.32                             | 1.46                                |
| Communications   | 3.12                   | 99.87             | 94.88               | -5.09                            | -5.00                               |
| Recreation and Culture   | 2.43                   | 102.66            | 113.37              | 2.37                             | 10.43                               |
| Education  | 4.63                   | 100.00            | 124.31              | 0.00                             | 24.31                               |
| Hotels, cafes and restaurants  | 4.43                   | 102.96            | 114.01              | 0.79                             | 10.73                               |
| Miscellaneous goods and services   | 3.73                   | 100.82            | 104.77              | 0.75                             | 3.92                                |
| <b>Selective aggregates</b>  |                        |                   |                     |                                  |                                     |
| Fruits & vegetables 3/   | 6.90                   | 151.18            | 166.92              | 8.19                             | 10.41                               |
| Regulated items  | 18.66                  | 104.95            | 113.48              | -0.74                            | 8.12                                |
| Food excl. fruits & vegetables   | 31.08                  | 115.87            | 126.29              | -1.23                            | 9.00                                |
| Retail items   | 14.48                  | 101.92            | 105.68              | 1.46                             | 3.68                                |
| Paid services  | 5.87                   | 100.08            | 112.91              | 1.87                             | 12.82                               |
| Other services   | 23.00                  | 100.66            | 108.51              | 4.67                             | 7.80                                |
| Core CPI   | 74.43                  | 107.21            | 115.73              | 1.13                             | 7.95                                |

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits