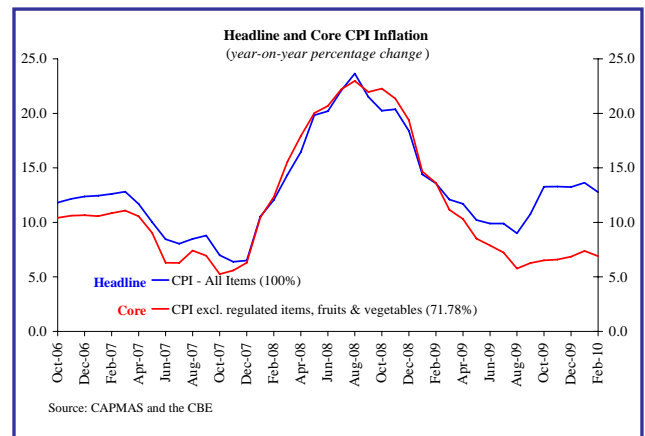
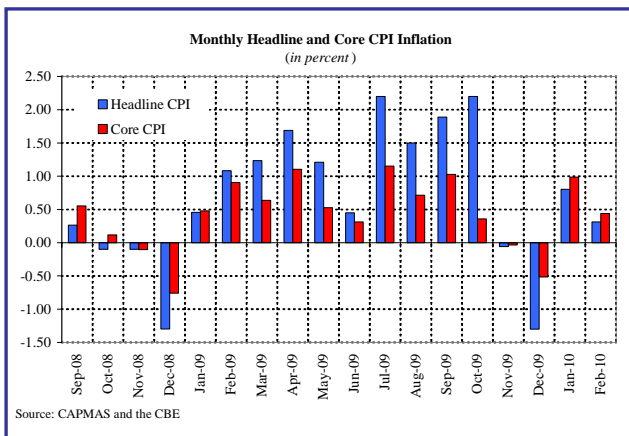


Headline and Core Inflation – February 2010

Headline CPI published by the Central Agency for Public Mobilization and Statistics on March 10, 2010, inched up by 0.31 percent (m/m) in February 2010 compared to the 0.80 percent increase in January 2010. This led the annual rate to decline to 12.78 percent compared to 13.63 percent registered in the previous month. The main contributors to the month-on-month increase were higher prices of several food items, namely vegetables, poultry, red meat, fish, eggs, sweets and fats. It is worth noting that the sharp increase in the prices of butane cylinders witnessed in the previous month was partly reversed in February, alleviating pressures on the headline index. In the meantime, core CPI computed by the Central Bank of Egypt inched up by 0.44 percent (m/m) in February compared to the 0.99 percent increase in January, driven by the higher food prices. This led the annual rate to decline to 6.90 percent compared to 7.39 percent in January. Meanwhile, retail prices and paid services have remained unchanged.¹

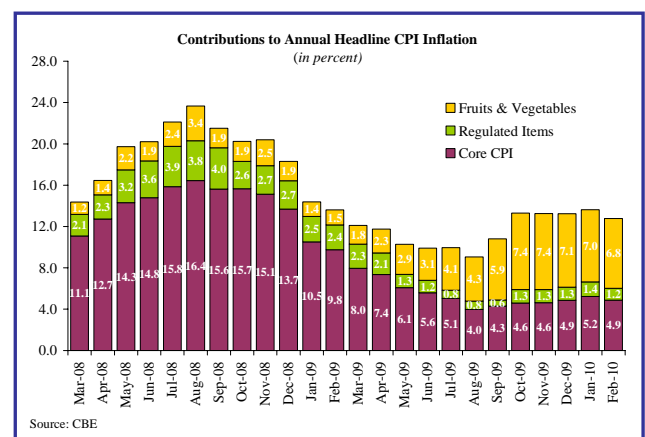
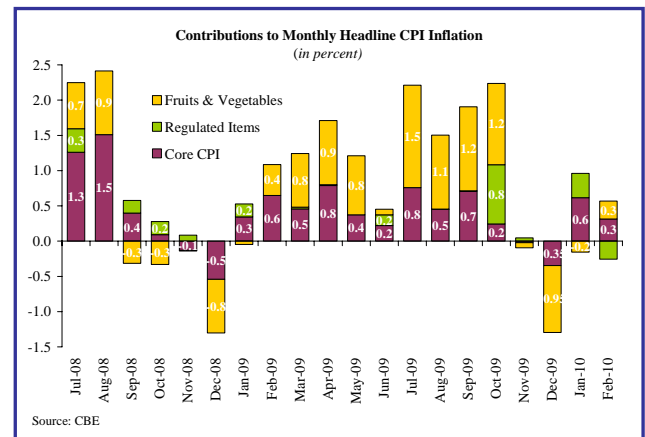


1. Headline CPI

After accelerating monthly by 0.8 percent in January 2010, headline CPI inched up by a mere 0.31 percent (m/m) in February, bringing the annual inflation rate down to 12.78 percent compared to 13.63 percent registered in the previous month. This recent monthly rate is well below the average pace of 1.1 percent (m/m) witnessed in 2009.

Key Highlights

- The prices of fruits and vegetables have increased in February albeit at a tame pace of 1.8 percent (m/m) to contribute by 0.26 percentage points to monthly headline inflation. Nonetheless, this month's inch up is significantly below the average pace of increases of 6.9 percent witnessed between January and October 2009. Future changes in the prices of fruits and vegetables, however, will continue to be closely monitored, given their impact on headline inflation.



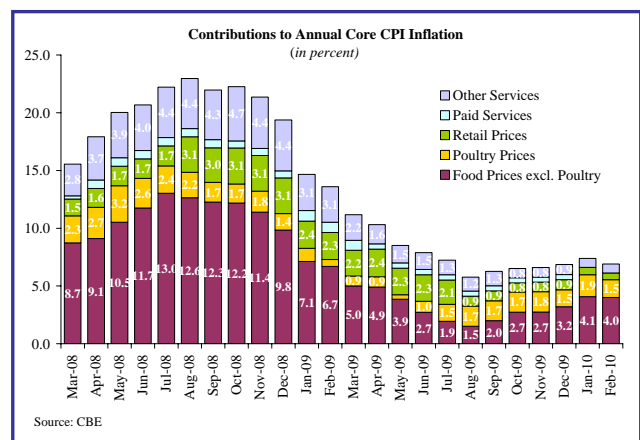
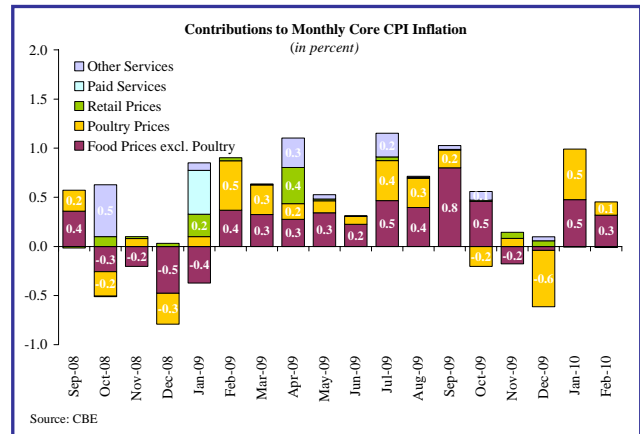
- Unlike January 2010, the price of poultry has normalized in February rising by 1.6 percent (m/m) down from the 6.7 percent (m/m) witnessed in the previous month. This coupled with a 1.5 percent (m/m) increase in the prices of red meat accounted for 0.2 percentage points of monthly headline inflation. Whether these recent developments mark a moderation of the upward trend witnessed in 2009 in poultry prices will depend largely on developments in international prices and domestic supply.
- Sugar prices, which had gained momentum between July and October 2009, increasing by a cumulative 38.5 percent, remained unchanged in February 2010, bringing the cumulative increase since November 2009 to a subdued 2.85 percent.
- Prices of oils and fats, which have been increasing steadily since June 2009, inched up by 0.6 percent this month, to account for 0.02 percent of February's 2010 monthly inflation.
- As bottlenecks in the distribution of butane cylinders eased, the significant increase in their prices witnessed in the previous month was partly reversed, declining by almost 30 percent (m/m), contributing by negative 0.26 percentage points to the monthly inflation.

2. Core Inflation

After accelerating by 0.99 percent (m/m) in January 2010, core CPI inched up by 0.44 percent (m/m) in February, bringing the annual rate to 6.9 percent down from the 7.39 percent recorded in the previous month. This recent monthly rate is below the average pace of 0.56 percent (m/m) witnessed in 2009. The monthly increase was largely driven by higher food prices of poultry and red meat, accounting for 0.29 percentage points of the 0.44 percent month-on-month increase.

Meanwhile, retail prices and paid services were unchanged in February, in continuation of their subdued dynamics since early 2009. Hence, inflationary

pressures are assessed to have remained weak through February 2010.



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

Food	Retail	Paid Services	Other Services
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/	February 2009	February 2010	February 2010 to January 2010	February 2010 to February 2009
	(in percent)	(index)	(index)	(percentage change)	(percentage change)
(January 2007 = 100)					
Headline - All items	100.00	127.72	144.04	0.31	12.78
Food and non-alcoholic beverages	43.88	134.95	165.61	1.12	22.71
Tobacco and related products	2.57	120.97	120.97	0.00	0.00
Clothing and footwear	7.90	116.84	118.99	0.00	1.84
Housing, water, electricity, gas and other fuels	13.46	111.81	113.46	-2.27	1.48
Furnishings, household equipment and routine maintenance of the dwelling	4.17	121.85	126.08	0.00	3.47
Medical care	3.61	117.24	117.56	0.00	0.27
Transportation	5.22	124.75	125.50	0.00	0.60
Communications	3.64	109.41	109.31	-0.02	-0.10
Recreation and Culture	3.39	133.69	140.66	0.00	5.22
Education	4.38	144.07	157.59	0.00	9.38
Hotels, cafes and restaurants	3.55	155.21	171.64	0.00	10.58
Miscellaneous goods and services	4.23	117.97	139.27	-0.18	18.05
Selective aggregates					
Fruits & vegetables 3/	8.80	135.52	236.24	1.79	74.33
Regulated items	19.42	124.80	133.26	-1.41	6.78
Food excl. fruits & vegetables	33.27	137.03	152.31	0.88	11.15
Retail items	17.34	117.54	120.76	-0.06	2.75
Paid services	4.96	118.56	118.56	0.00	0.00
Other services	16.21	122.60	126.84	0.00	3.46
Core CPI	71.78	127.79	136.60	0.44	6.90

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses