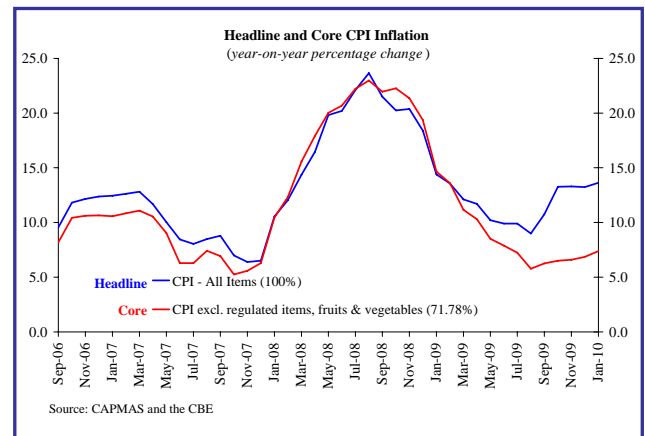
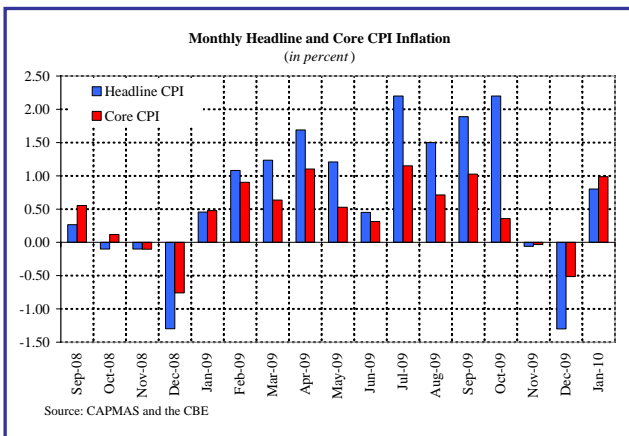


Headline and Core Inflation – January 2010

Headline CPI published by the Central Agency for Public Mobilization and Statistics (CAPMAS) on February 10, 2010, inched up by 0.8 percent (m/m) in January 2010, bringing the annual inflation rate to 13.63 percent compared to 13.24 percent registered in December 2009. The main contributors to the month-on-month increase were higher prices of several food items, namely poultry, red meat, sugar and fats, as well as a significant increase in the price of butane cylinders driven by bottlenecks in distribution. In a favorable development, the prices of fruits and vegetables, which have been the key drivers of headline inflation in 2009, continued to decline gradually for the third consecutive month. In the meantime, core CPI computed by the CBE increased by 0.99 percent (m/m) driven by the higher food prices, to bring the annual rate to 7.39 percent compared to 6.85 percent in December. Meanwhile, retail prices and unpaid services have remained unchanged.¹

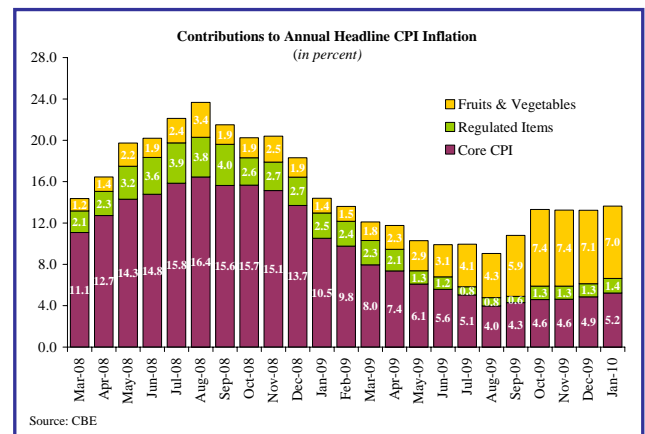
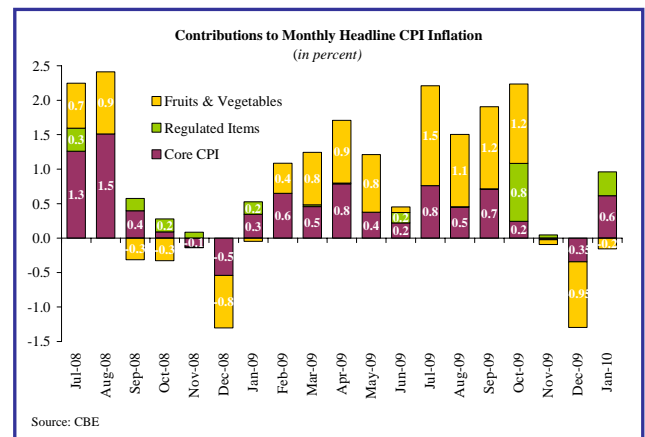


1. Headline CPI

Headline CPI inched up by 0.8 percent (m/m) in January 2010, after recording negative monthly rates for two consecutive months, to bring the annual inflation rate to 13.63 percent compared to 13.24 percent registered in December 2009. The recent acceleration in monthly headline inflation is well below the average pace of 1.1 percent (m/m) witnessed in 2009.

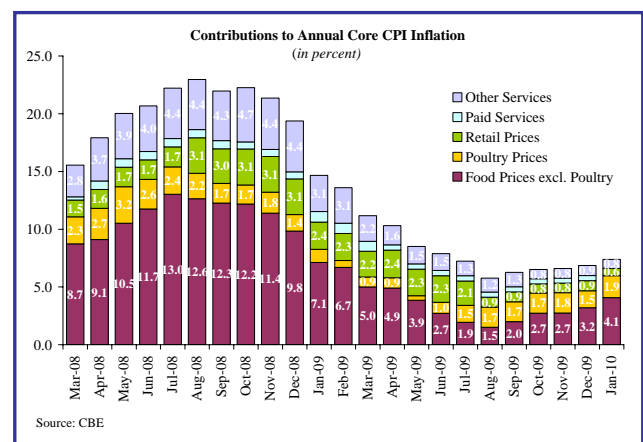
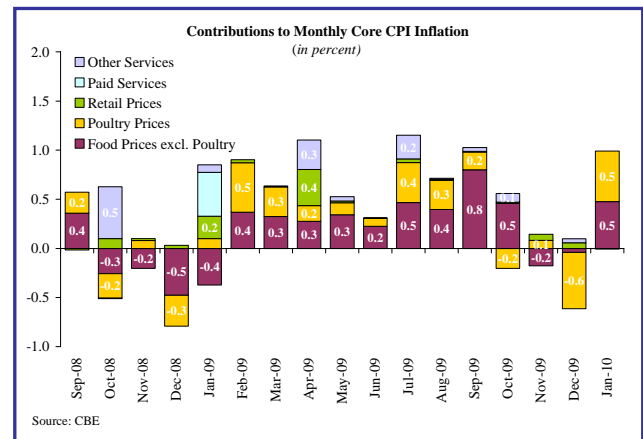
Key Highlights

- This month witnessed an additional decline in the prices of fruits and vegetables, falling by 1.1 percent (m/m), to contribute by -0.16 percentage points to monthly headline inflation. While the decline in the prices of fruits of vegetables for the third consecutive month is encouraging, the average pace of deceleration is a mere 2.6 percent which is in sharp contrast to the average pace of increases of 6.9 percent witnessed between January and October 2009. Hence, future changes in the prices of fruits and vegeta-



bles will continue to be closely monitored, given their impact on headline inflation.

- The decline in poultry prices witnessed in December was short-lived, inching up by 6.7 percent (m/m) in January on the back of supply shortages. This coupled with a 2.5 percent (m/m) increase in the prices of red meat accounted for 0.52 percentage points of monthly headline inflation. Whether the upward trend witnessed in 2009 in poultry prices will re-emerge or not 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, inched up again in January. This accounted for 0.06 percent of January's 2010 monthly inflation.
- Prices of fats, which have been increasing steadily since June 2009, inched up by 5.8 percent this month, to account for 0.12 percent of January's 2010 monthly inflation.
- Bottlenecks in the distribution of butane cylinders and the resulting supply shortages have caused their prices to increase excessively by 59.5 percent (m/m) in January, to account for 0.35 percentage points of the 0.8 percent monthly inflation.



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. Core Inflation

Core CPI increased by 0.99 percent (m/m) in January 2010, after recording negative monthly rates for two consecutive months, to bring the annual rate to 7.39 percent compared to 6.85 percent in December. While the recent inch up in monthly core inflation is significantly above the average pace of 0.56 percent (m/m) witnessed in 2009, it was largely driven by higher food prices of poultry and red meat, which together accounted for 0.77 percentage points of the month-on-month increase.

Meanwhile, retail prices and paid services were unchanged in January, in continuation of their subdued dynamics since early 2009. Hence, inflationary pressures are assessed to have remained weak through January 2010.

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/	January 2009	January 2010	January 2010 to December 2009	January 2010 to January 2009
	(in percent)	(index)	(index)	(percentage change)	(percentage change)
(January 2007 = 100)					
Headline - All items	100.00	126.37	143.59	0.80	13.63
Food and non-alcoholic beverages	43.88	131.92	163.77	0.97	24.14
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	116.10	3.27	3.84
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	109.33	0.00	-0.07
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	117.32	139.52	-0.09	18.93
Selective aggregates					
Fruits & vegetables 3/	8.80	129.23	232.09	-1.08	79.59
Regulated items	19.42	124.80	135.16	1.92	8.30
Food excl. fruits & vegetables	33.27	134.65	150.98	1.95	12.13
Retail items	17.34	117.38	120.83	-0.03	2.94
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	126.64	136.00	0.99	7.39

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses