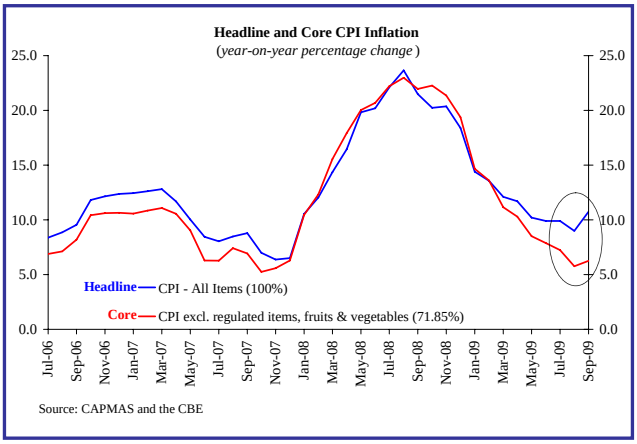
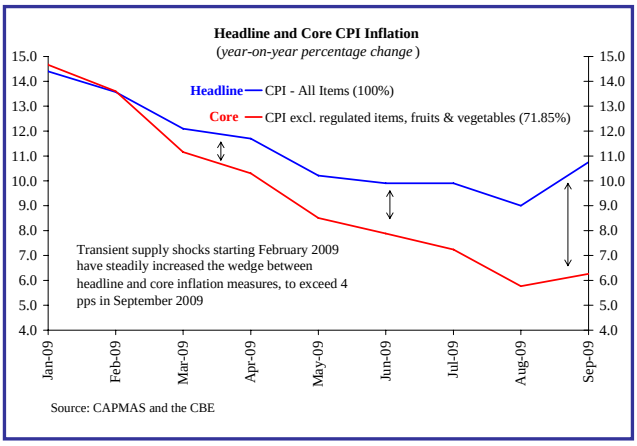
Headline and Core CPI Inflation – September 2009

Headline CPI inflation published by the Central Agency for Public Mobilization and Statistics (CAPMAS) on October 10, 2009, inched up by 1.9 percent (m/m) in September 2009, bringing the annual rate to 10.8 percent (y/y) from 9 percent recorded in the previous month. The main contributor to the month-on-month increase in the headline CPI was prices of fresh vegetables. In the meantime, the core inflation measure computed by the CBE, which excludes fruits & vegetables and regulated prices, recorded an annual rate of 6.3 percent (y/y). The main contributor to the month-on-month increase in the CBE's Core CPI was food prices, particularly meat and sugar, while retail prices and paid services have remained broadly unchanged since April and February 2009, respectively.[1]

Annual headline continued to be adversely affected by the sharp acceleration in the prices of vegetables which mainly explain the jump in the annual rate from 9 percent in August to 10.8 percent in September 2009. In fact, this month's outturn comes as a continuation of a trend that started in February 2009 whereby shocks related to volatile food items, namely fruits & vegetables, intensified the wedge between the headline and the core measure. While the annual headline inflation rate remained elevated in September, annual core inflation currently stands within the CBE's comfort zone.

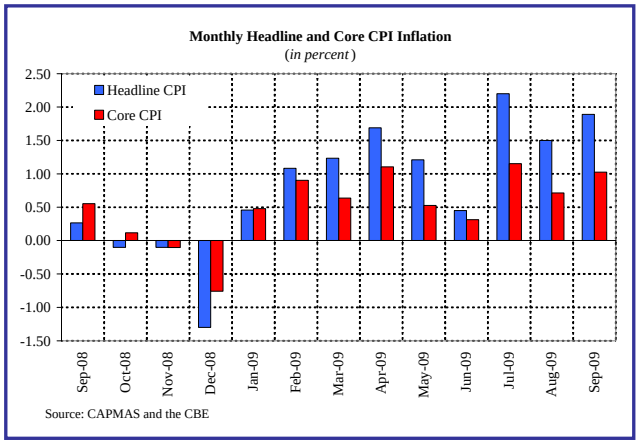




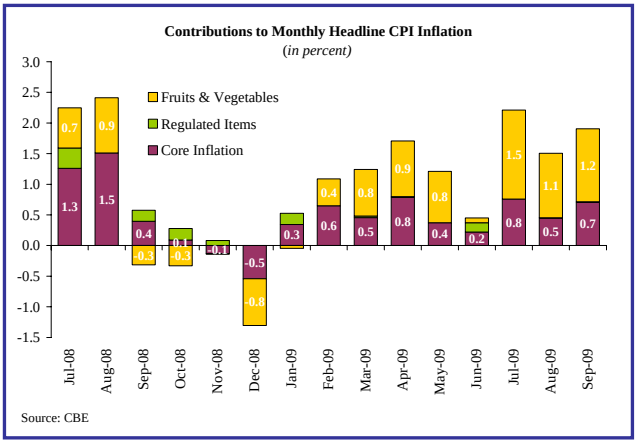
In sharp contrast to the recent developments in the headline, annual core inflation dropped by 7.2 percentage points over the past eight months, starting February 2009, compared to 2.8 percentage points drop in the headline. This mainly reflected the tame pace of increase in core prices compared to the sharp pace of increase in the prices of volatile food items, namely fruits & vegetables, that magnified the headline inflation rate between February and September 2009. Consequently, annual core inflation currently stands below the headline by more than four percentage points for the first time since the beginning of the core series in January 2005.

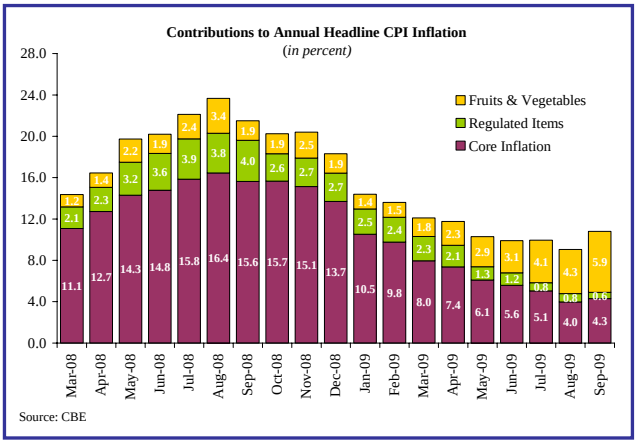
1. Headline CPI

Annual headline inflation reached 10.8 percent in September 2009, after falling to a 20-month low of 9 percent in August down from 23.6 percent recorded in August 2008. In the meantime, the monthly rate inched up by a strong pace of 1.9 percent in September up from 1.5 percent recorded in the previous month and from an average of 1 percent in 2009 H1.



The pick-up in monthly headline inflation in 2009 Q3, while high, is not alarming as 68 percent of the increase was accounted for by 30.9 percent (m/m) acceleration in the prices of fruits and vegetables. In fact, headline inflation excluding fruits and vegetables accumulated in the first nine months of 2009 reached 4.9 percent compared to the 15.6 percent accumulated during the same period in 2008, reflecting the evident change in the inflation dynamics since September 2008.





The recent inch up in monthly headline inflation, namely between January and September 2009, has been mainly linked to transient supply shocks, which do not constitute underlying inflationary pressures.

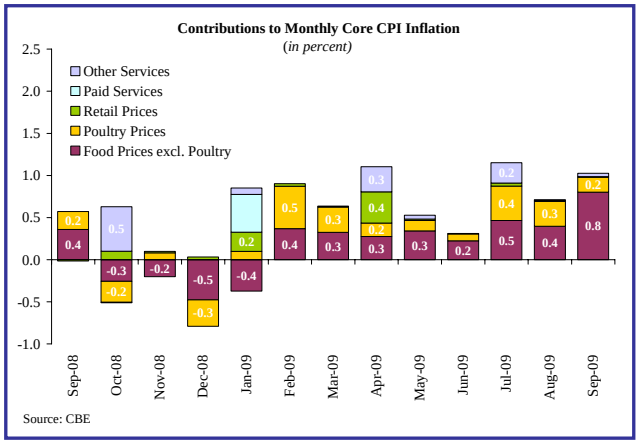
- While volatile food items increased monthly in the first three quarters of 2009 by a cumulative 61.1 percent, core prices have inched up by only 4.8 percent.

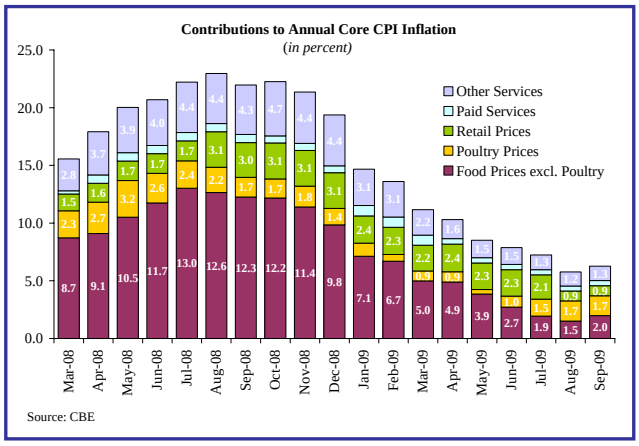
- In fact, the monthly contributions show that almost 57 percent of the monthly increases in the headline between January and September 2009 accounted for a sharp acceleration in volatile food items, namely fruits & vegetables, while another 12.8 percent accounted for a rebound in the prices of poultry driven by the re-surfacing of the avian flu shock in early 2009.

- Out of the remaining 30 percent: (i) *3.3 percent* accounted for a pick up in fish and seafood prices, (ii) *13.2 percent* accounted for sporadic tame inch ups in some food items that had previously declined in December and January, (iii) *4.6 percent* were due to 1.15 percent and 1.67 percent increases in retail prices in January and April, respectively, and (iv) *2.7 percent* were the result of 7.4 percent inch up in paid services also witnessed in January.

2. Core Inflation

Annual core inflation reached 6.3 percent in September 2009, after reaching a 20-month low of 5.8 percent in August down from 23 percent recorded in August 2008.





Core inflation inched up by an average monthly pace of 0.76 percent between January and September 2009, mainly driven by food prices. It is worth noting, however, that 32 percent of the acceleration in core prices over the past eight months, starting February 2009, accounted for poultry prices alone. Meanwhile, retail prices and paid services remained broadly unchanged since April and February 2009, respectively.

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/	September 2008	September 2009	September 2009 to August 2009	September 2009 to September 2008
	(in percent)	(index)		(percentage change)	
		(January 2007 = 100)			
Headline - All items	**100.00**	**127.6**	**141.3**	**1.9**	**10.8**
Food and non-alcoholic beverages	43.88	138.8	163.0	3.7	17.4
Tobacco and related products	2.57	121.0	121.0	0.0	0.0
Clothing and footwear	7.90	114.4	118.3	0.0	3.4
Housing, water, electricity, gas and other fuels	13.46	109.4	112.1	0.0	2.5
Furnishings, household equipment and routine maintenance of the dwelling	4.17	119.6	125.3	0.0	4.8
Medical care	3.61	112.1	117.6	0.0	4.8
Transportation	5.22	122.1	125.5	0.0	2.8
Communications	3.64	109.5	109.4	0.0	-0.1
Recreation and Culture	3.39	132.3	140.9	0.7	6.6
Education	4.38	137.7	144.1	0.0	4.6
Hotels, cafes and restaurants	3.55	146.5	170.5	0.0	16.4
Miscellaneous goods and services	4.23	110.7	122.0	0.2	10.2
Selective aggregates					
Fruits & vegetables 3/	8.80	145.9	232.9	8.8	59.6
Regulated items	19.42	121.8	126.2	0.0	3.6
Food excl. fruits & vegetables	33.27	139.3	149.4	1.9	7.3
Retail items	17.34	115.3	120.1	0.0	4.2
Paid services	4.96	110.5	118.6	0.0	7.3
Other services	16.21	119.3	126.1	0.2	5.7
Core CPI	71.78	127.0	134.9	1.0	6.3

1/ Source: CAPMAS and CBE calculations
2/ Based on the 2004/2005 Household Expenditure Survey
3/ Excluding pulses