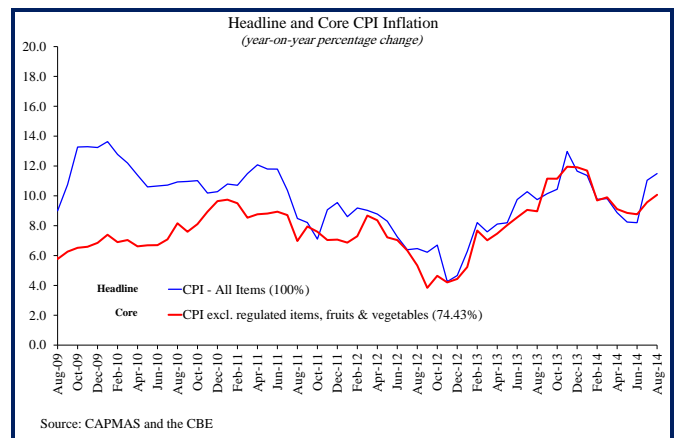
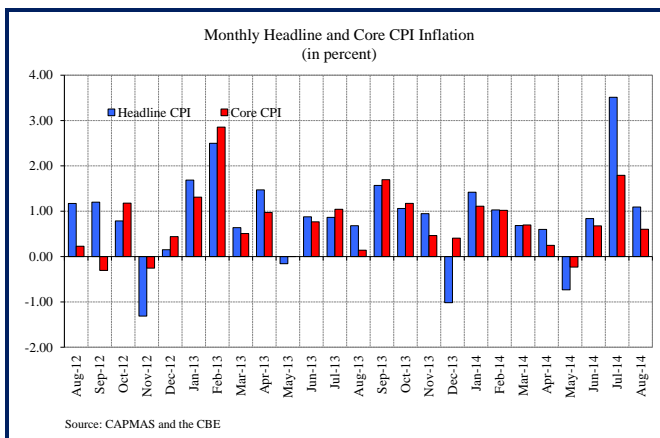


Headline and Core Inflation – August 2014

Headline CPI published by the Central Agency for Public Mobilization and Statistics on September 10, 2014, increased by 1.09 percent (m/m) in August compared to 3.51 percent (m/m) in July, while the annual rate increased to register 11.49 percent in August from 11.04 percent in July, which was partially limited by a favorable base effect from the previous year. The bulk of the monthly developments can be partly attributed to the indirect effect of the recent fiscal consolidation measures, which were reflected in higher prices of fresh vegetables along with higher prices of restaurants services. This was coupled with the inch up in the prices of paid services which can be explained by the emergence of the second round effect of the above-mentioned measures. Nonetheless, the monthly pace was partially offset by the decline in the prices of other food items. Meanwhile, core CPI computed by the Central Bank of Egypt, increased by 0.60 percent (m/m) in August compared to 1.79 percent (m/m) in July. The annual rate increased to 10.07 percent in August compared to 9.57 percent in July¹.

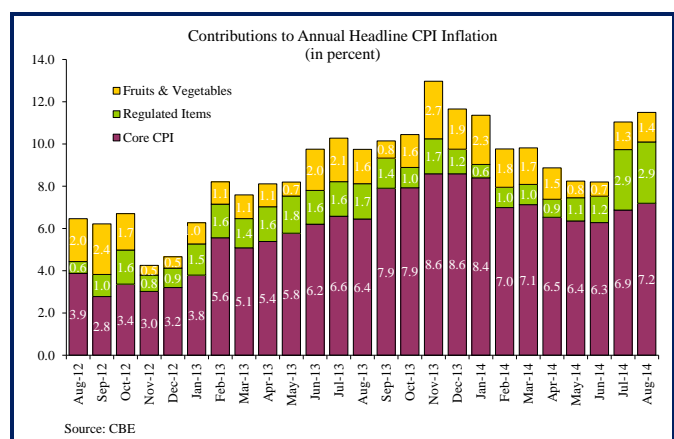
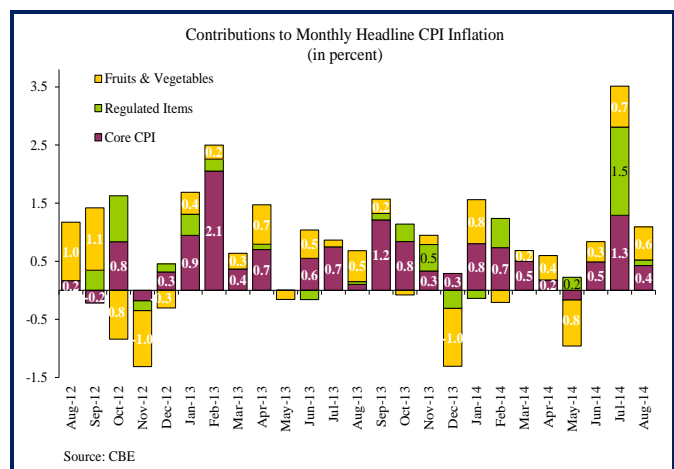


1. Headline CPI²

Headline CPI increased by 1.09 percent (m/m) in August compared to 3.51 percent (m/m) in July, which came in line with the monthly average of 1.05 percent recorded during the first seven months of 2014. Meanwhile, the annual rate accelerated to record 11.49 percent in August, compared to 11.04 percent in July, which was partially limited by a favorable base effect from the previous year.

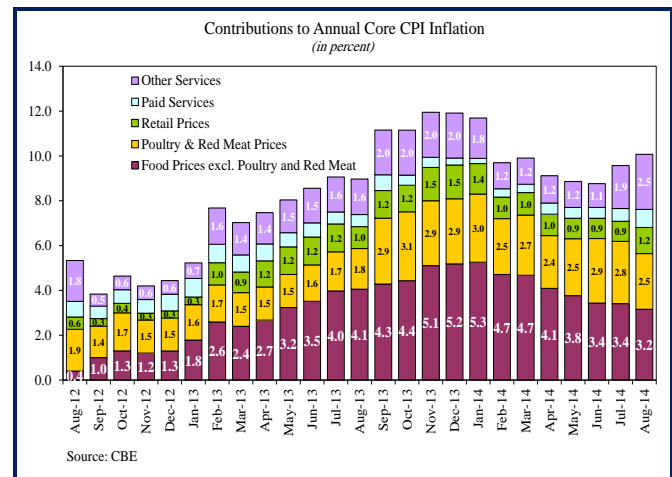
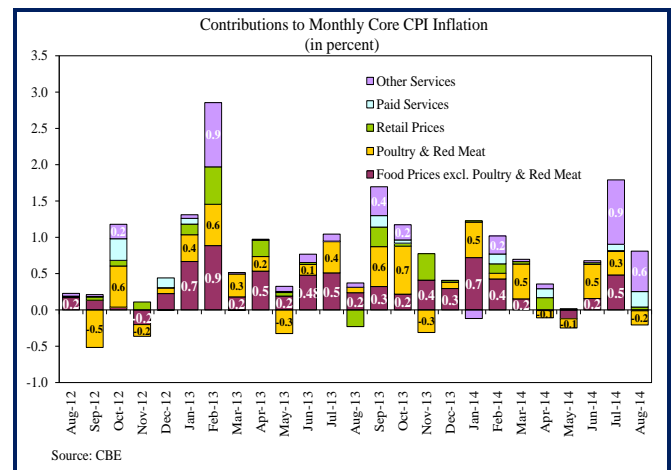
Key Highlights

- The prices of fresh vegetables increased by 7.06 percent (m/m) in August, which contributed by 0.59 percentage points to monthly headline inflation. Meanwhile, the prices of fresh fruits declined by 0.97 percent in August. Together, the prices of fruits and vegetables contributed by 0.57 percentage points to monthly headline inflation.
- Prices of red meat inched up by 3.07 percent in August, contributing by 0.22 percentage points to monthly headline inflation, whereas poultry prices declined by 6.62 percent in August, to contribute by negative 0.36 percentage points to monthly headline inflation.



- Prices of fish and seafood decreased by 2.61 percent (m/m) in August, contributing by negative 0.09 percentage points to monthly headline inflation.
- Moreover, prices of eggs marginally increased by 1.64 percent (m/m) in August, to contribute by 0.03 percentage points to monthly headline inflation.
- While the prices of a number of other food items increased, primarily market bread and other fresh meat; the prices of other food products decreased, mainly imported butter and pulses, to collectively contribute by 0.05 percentage points to monthly headline inflation.
- Prices of regulated items increased marginally by 0.52 percent (m/m) in August, to contribute by 0.10 percentage points to monthly headline inflation. This came on the back of the inch up in the prices of both summer vacations and public hospitals by 33.37 and 2.77 percent (m/m), respectively in August.
- Prices of other services increased by 2.08 percent (m/m) in August, contributing by 0.39 percentage points to headline inflation. This came on the back of the inch up in the prices of cafes and restaurant services, as well as the private hospital services. This can be partially attributed to the indirect effect of the recent energy price adjustments.
- Meanwhile, the prices of paid services increased by 2.80 percent (m/m) in August, contributing by 0.15 percentage points to headline inflation. This came on the back of the higher prices of haircuts, out-patient services and maintenance services, which signals the emergence of second round effect.
- Moreover, prices of retail items increased marginally by 0.24 percent (m/m) in August, which was driven primarily by households durable goods, furniture and spare parts.

measures that were mirrored on the previously mentioned items of other services group, to contribute by 0.56 percentage points to monthly core inflation. Moreover, the materialization of the second round effect has pushed the prices of paid services upwards to contribute by 0.21 percentage points to monthly core inflation. Meanwhile, the prices of retail items contributed marginally by 0.04 percentage points to monthly core inflation. Nevertheless, the monthly pace was partially offset by the decline in the prices of other food items to contribute by negative 0.21 percentage points to monthly core inflation.



2. Core Inflation²

Core CPI computed by the Central Bank of Egypt, increased by 0.60 percent (m/m) in August compared to 1.79 percent (m/m) in July, which is slightly below the average monthly pace of 0.76 percent recorded during the first seven months of 2014. The annual rate increased to 10.07 percent in August, from 9.57 percent in July.

It is worth to mention that the bulk of the monthly dynamics in August was basically driven by the indirect effects of the recent fiscal consolidation

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/	August 2013	August 2014	August 2014 to July 2014	August 2014 to August 2013
	(in percent)	(index)		(percentage change)	
		(January 2010 = 100)			
Headline - All items	100.00	136.89	152.63	1.09	11.49
Food and beverages	39.92	160.29	178.90	0.90	11.61
Tobacco and related products	2.19	218.43	268.32	0.00	22.84
Clothing and footwear	5.41	108.79	114.35	0.00	5.10
Housing, water, electricity, gas and other fuels	18.37	113.08	120.65	0.05	6.69
Furnishings, household equipment and routine maintenance of the dwelling	3.77	122.75	135.95	0.92	10.76
Medical care	6.33	114.83	131.17	1.81	14.23
Transportation	5.68	107.26	137.38	0.00	28.08
Communications	3.12	95.47	96.91	-0.11	1.51
Recreation and Culture	2.43	134.63	160.99	3.59	19.58
Education	4.63	152.18	157.94	0.00	3.78
Hotels, cafes and restaurants	4.43	141.68	166.38	7.14	17.43
Miscellaneous goods and services	3.73	104.99	111.24	4.59	5.95
Selective aggregates					
Fruits & vegetables 3/	6.90	218.09	245.81	5.34	12.71
Regulated items	18.66	128.98	150.28	0.52	16.51
Food excl. fruits & vegetables	31.08	151.01	168.76	-0.42	11.75
Retail items	14.48	113.46	121.34	0.24	6.95
Paid services	5.87	129.10	142.49	2.80	10.37
Other services	23.00	116.60	127.06	2.08	8.97
Core CPI	74.43	131.35	144.58	0.60	10.07
1/ Source: CAPMAS and CBE calculations					
2/ Based on 2008/2009 Household Expenditure Survey					
3/ Excluding pulses, processed vegetables and dried fruits					