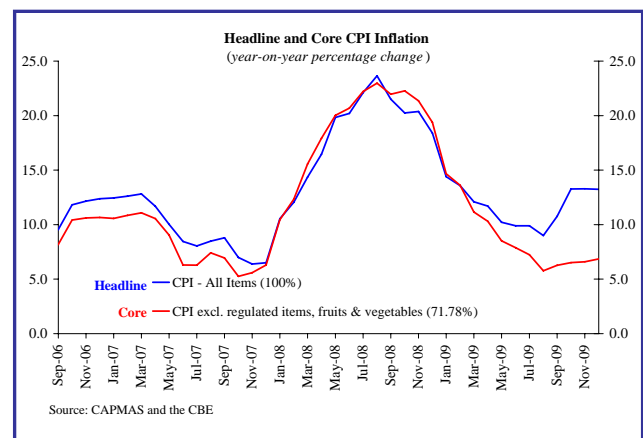
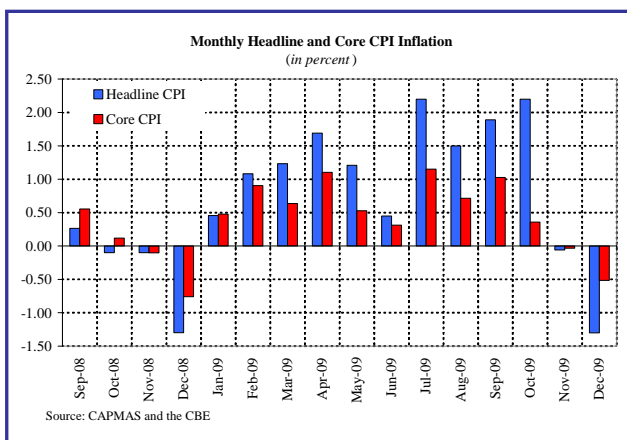


Headline and Core Inflation – December 2009

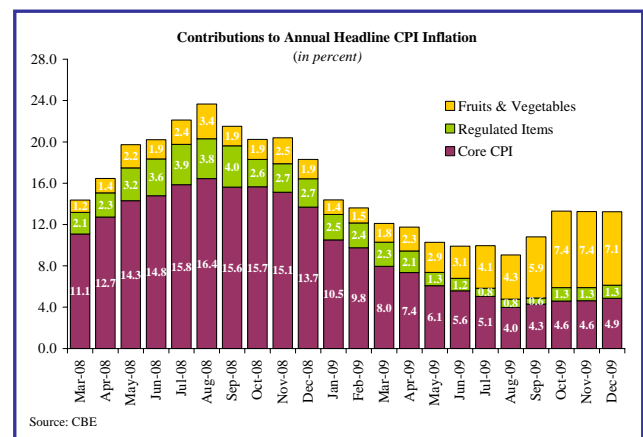
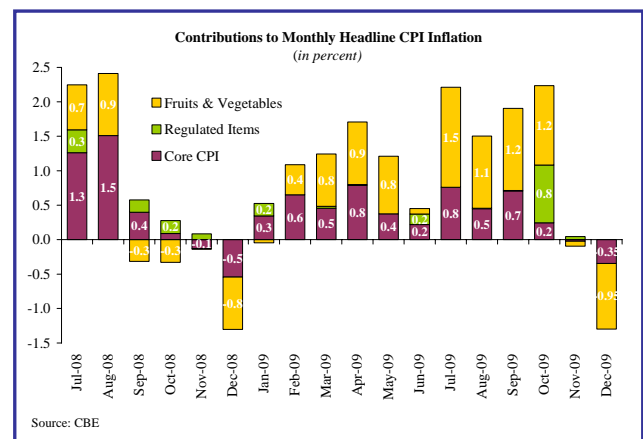
Headline CPI published by the Central Agency for Public Mobilization and Statistics (CAPMAS) on January 10, 2010, declined by 1.3 percent (m/m) in December 2009, to maintain the annual inflation rate broadly unchanged at 13.24 percent compared to 13.29 percent in November 2009. For the second consecutive month, the negative monthly inflation rate was largely due to lower prices of fruits and vegetables which have been the key drivers of headline inflation since February 2009. While this development is encouraging, future changes in the prices of fruits and vegetables will continue to be closely monitored, given their impact on headline inflation. Similarly, core CPI computed by the CBE decelerated by 0.52 percent (m/m) driven by lower food prices, particularly those of poultry, fish and eggs. Nonetheless, annual core inflation inched up to 6.85 percent in December compared to 6.59 percent in November on the back of the unfavorable base effects from last year. Meanwhile, retail prices inched up by 0.27 percent (m/m) while paid services have remained unchanged since February 2009.¹



1. Headline CPI

For the second consecutive month, headline CPI inflation recorded a negative monthly rate amounting to -1.3 percent in December 2009 following the -0.1 percent decline in the previous month. This month's negative inflation reading neutralized the unfavorable base effects that were expected to peak in December 2009, maintaining the annual rate almost unchanged at 13.24 percent compared to 13.29 percent in November 2009. The recent deceleration in monthly headline inflation comes in contrast to the average pace of 1.4 percent (m/m) witnessed since the beginning of the year and through October 2009.

This month witnessed a stronger decline in the prices of fruits and vegetables, falling by 6.25 percent (m/m) compared to a deceleration of 0.5 percent (m/m) in November, to account for 0.95 percentage points out of the 1.3 percent monthly decline in headline inflation in December. Moreover, the slight deceleration in core prices contributed favorably to this month's outturn.



It is worth mentioning that despite the recent decline in the prices of fruits and vegetables, the cumulative monthly increases during 2009 amounted to 62.3 percent. In the meantime, core prices within the headline have inched up by only 4.7 percent.

Monthly Contributions to Headline Inflation between January and December, 2009:

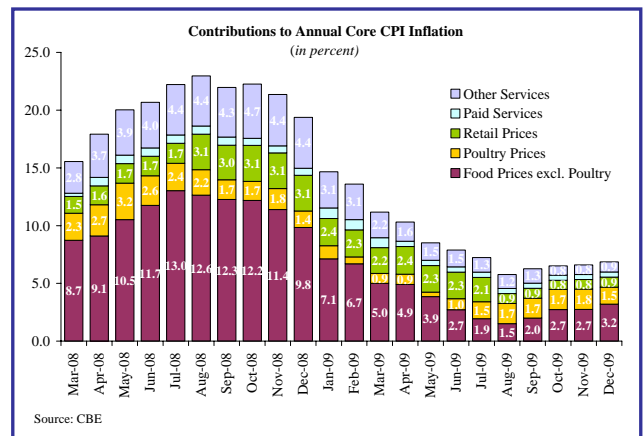
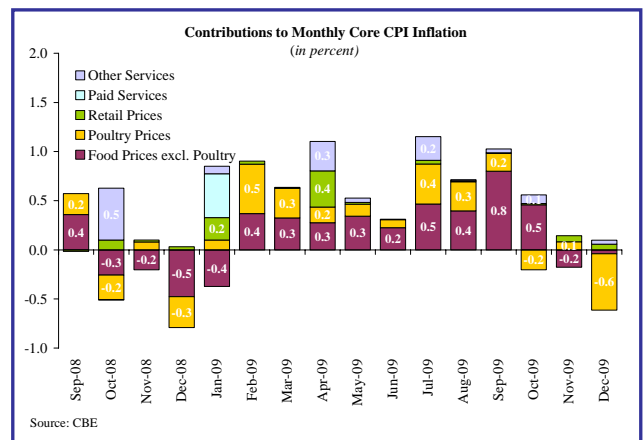
- Monthly contributions show that the sharp acceleration in the prices of fruits and vegetables, accounted for 55 percent of the monthly increases in the headline between January and December 2009.
- Another 8.4 percent were accounted for by the rise in poultry prices driven by the re-surfacing of the avian flu shock in early 2009 and possible upward pressures emanating from higher prices of animal feed in Q3. It is worth mentioning, however, that December witnessed a marked drop of 6.9 percent (m/m) in poultry prices.
- Sugar prices, which had gained momentum between July and October 2009, increasing by a cumulative 38.5 percent, accounted for 2.7 percent of the monthly increases in the headline between January and December 2009. It is worth mentioning, however, that this upward trend did not persist as sugar prices fell by 2.5 percent (m/m) in November and remained unchanged in December.
- While the contribution of regulated price adjustments to monthly headline inflation was almost negligible between January and September 2009, the inch up in health insurance and school tuition in October 2009, and water supply in November 2009, pushed it up to account for 10.1 percent of the monthly increases in the headline during 2009.
- Out of the remaining 23.8 percent: (i) 6.1 percent accounted for a pick up in red meat prices between August and November ahead of the Holy month of Ramadan and into the Eid celebrations, (ii) 8.3 percent accounted for sporadic tame inch ups in different food items during 2009 (iii) 5.0 percent were due tame increases in the prices of some retail items, most of which took

place in the first half of 2009, and (iv) 2.5 percent were the result of 7.4 percent inch up in paid services witnessed in January.

2. Core Inflation

For the second consecutive month, core CPI inflation recorded a negative monthly rate amounting to -0.52 percent in December 2009 following the -0.03 percent in the previous month. This month's negative inflation reading was not enough to fully offset the unfavorable base effects from last year which led the annual core inflation rate to inch up to 6.85 percent in December from 6.59 percent recorded in November 2009. The recent deceleration in monthly core inflation comes in contrast to the average pace of 0.72 percent (m/m) witnessed since the beginning of the year and through October 2009.

The marked decline in monthly core inflation in December 2009 was mainly due to lower food prices especially those of poultry, fish and eggs which were more than enough to outweigh the increase in the prices of tea and imported butter.



Meanwhile, retail prices inched up by 0.27 percent (m/m) during December due to a 5.71 percent (m/m) increase in the prices of household textiles that was partly outweighed by a 3.71 percent (m/m) decline in the prices of TV and video sets. Nonetheless, the contribution of retail items to core inflation remained marginal. On the other hand, paid services remained broadly unchanged since February 2009. Hence, inflationary pressures remained subdued through December 2009.

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/	December 2008	December 2009	December 2009 to November 2009	December 2009 to December 2008
	(in percent)	(index)	(percentage change)		
(January 2007 = 100)					
Headline - All items	100.00	125.80	142.45	-1.30	13.24
Food and non-alcoholic beverages	43.88	132.60	162.21	-2.73	22.33
Tobacco and related products	2.57	121.00	121.00	0.00	0.00
Clothing and footwear	7.90	114.70	118.99	0.00	3.74
Housing, water, electricity, gas and other fuels	13.46	110.70	112.53	0.00	1.65
Furnishings, household equipment and routine maintenance of the dwelling	4.17	120.80	126.08	0.59	4.37
Medical care	3.61	112.10	117.56	0.00	4.87
Transportation	5.22	123.20	125.50	0.00	1.86
Communications	3.64	109.50	109.33	0.00	-0.15
Recreation and Culture	3.39	133.30	140.66	-0.22	5.52
Education	4.38	144.10	157.59	0.00	9.36
Hotels, cafes and restaurants	3.55	154.40	171.64	0.64	11.17
Miscellaneous goods and services	4.23	111.90	139.65	0.61	24.80
Selective aggregates					
Fruits & vegetables 3/	8.80	129.90	234.63	-6.25	80.63
Regulated items	19.42	123.61	132.61	0.00	7.28
Food excl. fruits & vegetables	33.27	135.39	148.10	-1.19	9.39
Retail items	17.34	116.08	120.86	0.27	4.12
Paid services	4.96	110.40	118.56	0.00	7.38
Other services	16.21	122.29	126.84	0.19	3.72
Core CPI	71.78	126.04	134.68	-0.52	6.85

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses