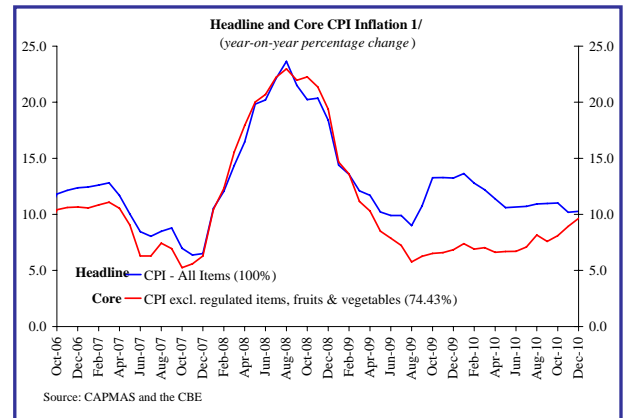
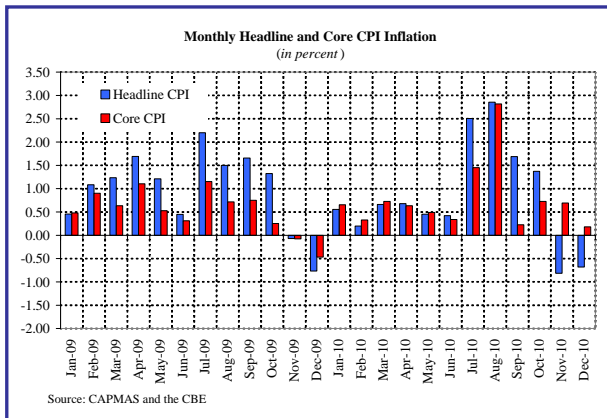


## Headline and Core Inflation – December 2010

Headline CPI published by CAPMAS on January 10, 2011 decelerated by 0.68 percent (m/m) in December following the 0.82 percent (m/m) decline in November. Despite the monthly decline, the annual rate remained broadly unchanged at 10.28 percent in December due to unfavorable base effects from last year. For the second consecutive month, the negative monthly inflation rate was mainly driven by the sharp drop in the prices of vegetables, which more than offset the increase in the prices of other food items particularly rice, red meat, sugar as well as fats and oils. In the meantime, core CPI computed by the Central Bank of Egypt inched up by 0.18 percent (m/m) in December compared to 0.69 percent in November. This came on the back of the increase in the prices of the above mentioned food items. Meanwhile, retail prices and paid services remained broadly unchanged. The annual rate increased to 9.65 percent in December from 8.93 percent registered in the previous month, largely led by unfavorable base effects from last year.<sup>1</sup>

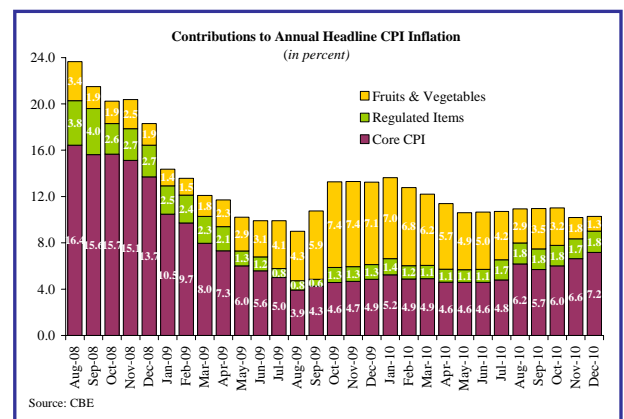
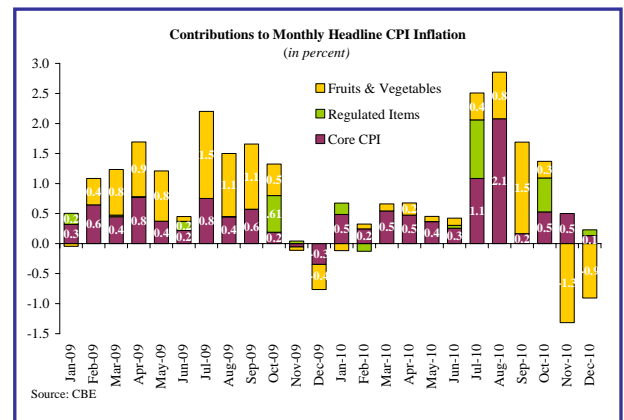


### 1. Headline CPI<sup>2</sup>

For the second consecutive month, headline CPI inflation recorded a negative monthly rate of 0.68 percent (m/m) in December following the 0.82 percent (m/m) decline in November. While the recent deceleration in monthly headline inflation comes in contrast to the average monthly pace of 2.1 percent witnessed between July and October 2010, it is in line with monthly developments during December of each year. Despite the monthly decline, the annual rate remained broadly unchanged at 10.28 percent in December due to unfavorable base effects from last year.

### Key Highlights

- Regulated prices rose by 0.51 percent (m/m) in December on the back of a 2.90 percent (m/m) increases in tobacco prices and a 6.95 percent (m/m) increase in the prices of butane gas cylinders. These increases contributed by 0.09 percentage points to the monthly headline inflation.
- The prices of vegetables continued to decline for the second consecutive month,



falling by 15.07 percent (m/m) in December compared to a deceleration of 18.22 percent (m/m) in November, contributing by -0.91 percentage points to the monthly headline CPI inflation. The decline in vegetable prices was mainly driven by the significant drop in tomato prices, which fell by 35.5 percent in December. The prices of other vegetables also dropped. In the meantime, prices of fruits increased by 0.27 percent, compared to an average monthly pace of 4.33 percent during 2009 and 0.71 percent since the beginning of the year and through November 2010. While the latest broad-based development in the prices of fruits and vegetables is favorable, future changes in their prices will continue to be closely monitored, given their impact on headline inflation.

- Poultry prices fell by 5.95 percent (m/m) in December, following a slight inch up in November of 1.30 percent (m/m) to mark the third monthly decline since September 2010. This brings the cumulative monthly increase to 22.06 percent since the beginning of the year. This, accompanied by an 8 percent (m/m) decline in the prices of eggs, contributed by -0.36 percentage points to monthly headline inflation.
- The prices of red meat continued to be largely contained, inching up by a tame 1.04 percent (m/m) in December after remaining unchanged in November. This comes in contrast to the sharp increases witnessed during most of 2010 which averaged around 3.16 percent (m/m) leading to a cumulative 31.64 percent increase between January and October 2010. The encouraging development in prices of poultry and red meat could be partly attributed to the Central Bank's decision to exempt imports of frozen meat and poultry from the minimum cash cover requirement for six months starting October 2010. In addition, government actions were taken to increase imports of meat in order to alleviate domestic price pressures.
- Rice prices accelerated by 7.45 percent (m/m) in December, following an increase of 6.03 percent in November, despite the

announced ban on rice exports through October 2011 which initially led to a cumulative decline of 7.45 percent in rice prices in September and October. This contributed by 0.14 percentage points to headline CPI inflation during December.

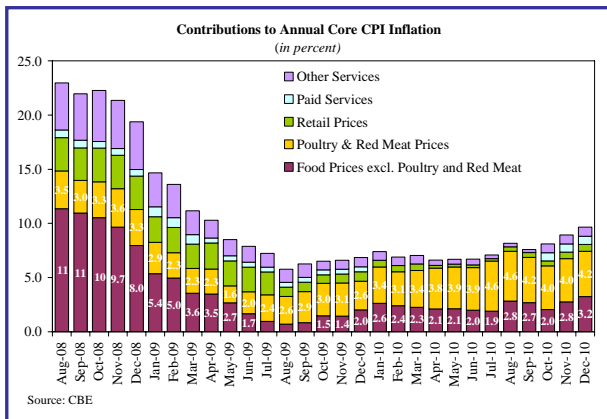
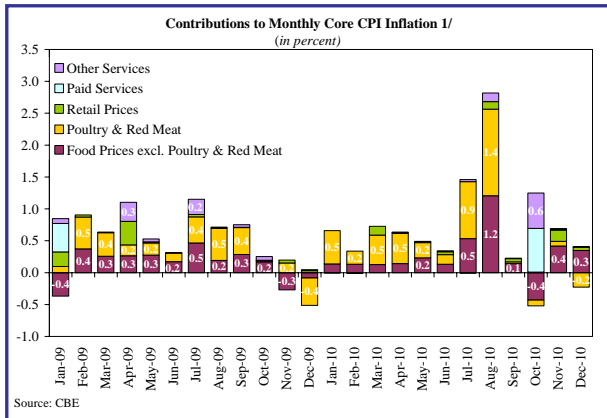
- Sugar prices increased for the fourth consecutive month since September, bringing the cumulative increase to 24.41 percent. This contributed by 0.08 percentage points to monthly headline inflation during December. It is worth noting that international sugar prices have increased significantly during the second half of 2010, as sugar harvest in major exporting economies remain under supply pressures, particularly in Brazil, India, China and Russia due to adverse weather conditions. It is worthy to mention that the Central Bank took a decision to exempt imports of sugar from the minimum cash cover requirement for six months starting December 2010.
- Prices of oils and fats have increased by 2.04 percent in December, which is relatively higher than the average monthly pace of 0.76 percent witnessed during 2010 H1. While the prices of oils & fats contributed by just 0.07 percentage points to headline CPI inflation, the increase in international prices of edible oil since July 2010 could further pressure domestic prices in the coming months.

## 2. Core Inflation<sup>2</sup>

Core CPI inched up by 0.18 percent (m/m) in December following an increase of 0.69 percent (m/m) in November. This month's increase is well below the average monthly pace of 0.83 percent recorded since the beginning of the year and through November 2010. Nonetheless, the annual rate increased to 9.65 percent in December from 8.93 percent in November, largely led by unfavorable base effects from last year.<sup>3</sup>

The monthly increase in December was mainly driven by the rise in the prices of several food items particularly rice, sugar, red meat and edible oils & fats, which contributed by 0.12 percentage points to the monthly core inflation. In the meantime, paid services remained broadly unchanged while the in-

crease in retail prices during December contributed by 0.05 percentage points to monthly core 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/ 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).

3/ The monthly core CPI inflation rate for October 2010 has been revised upwards from 0.40 percent to 0.73 percent, reflecting the higher weight of paid services in the core index following the release of the 9th series of the consumer price index in August 2010 that was not accounted for previously. This has consequently led to higher annual core inflation rates in October and November 2010, revised to 8.11 percent and 8.93 percent from 7.75 percent and 8.58 percent, respectively. These changes have been incorporated in the October and November 2010 Inflation Notes.

**Table 1.**  
Classification of All Items included in Core CPI

<b>Food</b>	<b>Retail</b>	<b>Paid Services</b>	<b>Other Services</b>
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/	December 2009	December 2010	December 2010 to November 2010	December 2010 to December 2009
	(in percent)	(index)	(index)	(percentage change)	(percentage change)
		(January 2010 = 100)			
<b>Headline - All items</b>	<b>100.00</b>	<b>99.45</b>	<b>109.67</b>	<b>-0.68</b>	<b>10.28</b>
Food and beverages	39.92	99.07	116.12	-1.91	17.21
Tobacco and related products	2.19	100.00	146.89	2.60	46.89
Clothing and footwear	5.41	100.00	103.14	0.01	3.14
Housing, water, electricity, gas and other fuels	18.37	98.98	99.47	0.17	0.49
Furnishings, household equipment and routine maintenance of the dwelling	3.77	100.00	103.65	0.50	3.65
Medical care	6.33	100.00	101.29	0.01	1.29
Transportation	5.68	100.00	101.17	0.13	1.17
Communications	3.12	100.00	99.87	0.00	-0.13
Recreation and Culture	2.43	100.00	105.66	0.01	5.66
Education	4.63	100.00	124.31	0.00	24.31
Hotels, cafes and restaurants	4.43	100.00	111.83	0.15	11.83
Miscellaneous goods and services	3.73	100.07	101.81	0.16	1.74
<b>Selective aggregates</b>					
Fruits & vegetables 3/	6.90	101.70	119.90	-10.79	17.90
Regulated items	18.66	99.00	108.83	0.51	9.92
Food excl. fruits & vegetables	31.08	98.44	116.11	0.27	17.95
Retail items	14.48	100.02	103.24	0.29	3.22
Paid services	5.87	100.00	109.55	0.01	9.55
Other services	23.00	100.00	102.68	0.03	2.68
Core CPI	74.43	99.35	108.93	0.18	9.65

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits