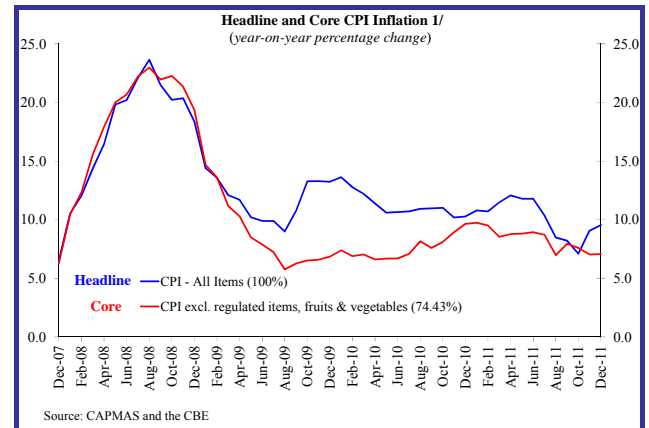
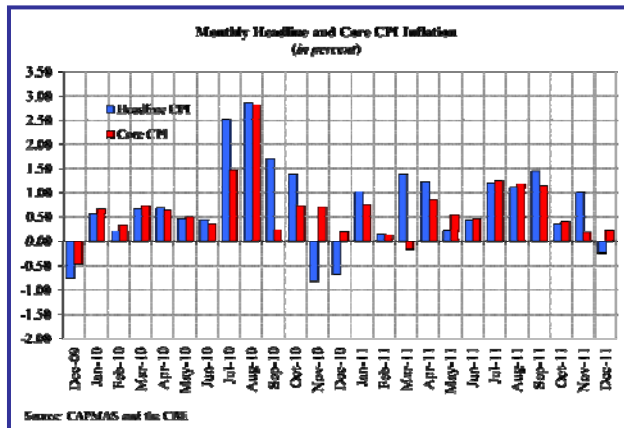


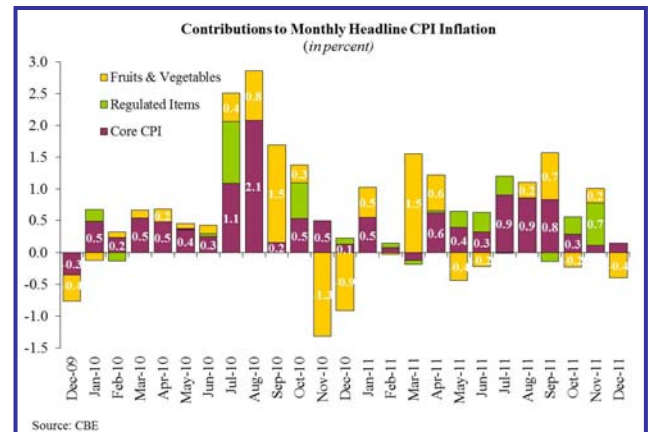
Headline and Core Inflation – December 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on January 10, 2012, declined by 0.24 percent (m/m) in December compared to a 1.0 percent (m/m) increase in November. Despite the monthly decline, the annual rate increased to 9.55 percent in December from 9.07 percent in the previous month due to unfavorable base effects. The negative monthly inflation rate was driven by the decline in the prices of fruits and vegetables, which more than offset the increase in the prices of rice and poultry. In the meantime, core CPI computed by the Central Bank of Egypt inched up by 0.21 percent (m/m) in December following an increase of 0.17 percent (m/m) in November. The annual rate remained broadly unchanged at 7.07 percent in December. Meanwhile, retail prices and paid services remained largely unchanged.¹



1. Headline CPI²

Headline CPI declined by 0.24 percent (m/m) in December following the 1.0 percent (m/m) increase observed in November, which is in sharp contrast to the average monthly increase of 0.86 percent recorded between January and November 2011. Despite the monthly decline, the annual rate rose to 9.55 percent in December from 9.07 percent in November, after falling to a 4-year low of 7.10 percent in October. This development came on the back of unfavorable base effects from the previous year.

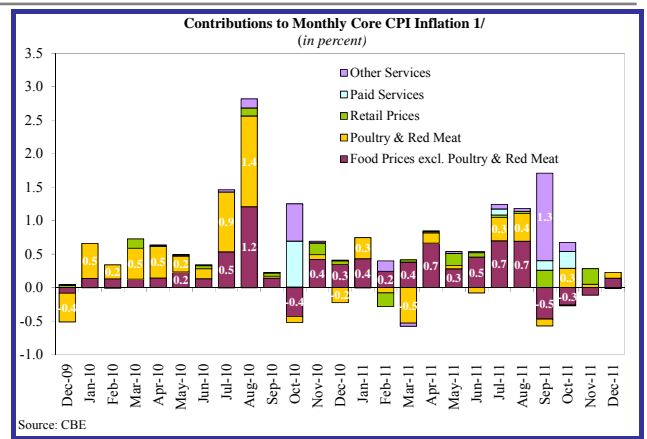
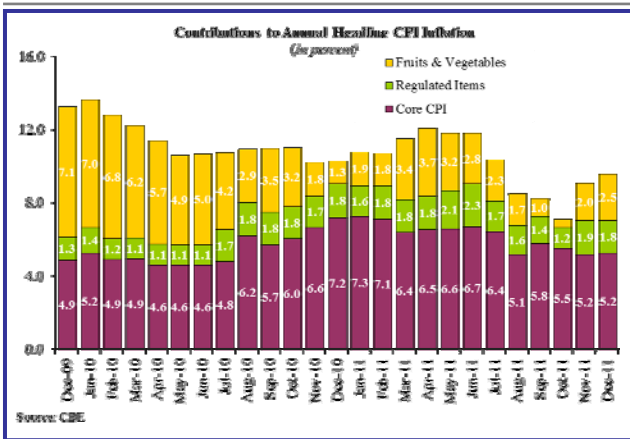


Key Highlights

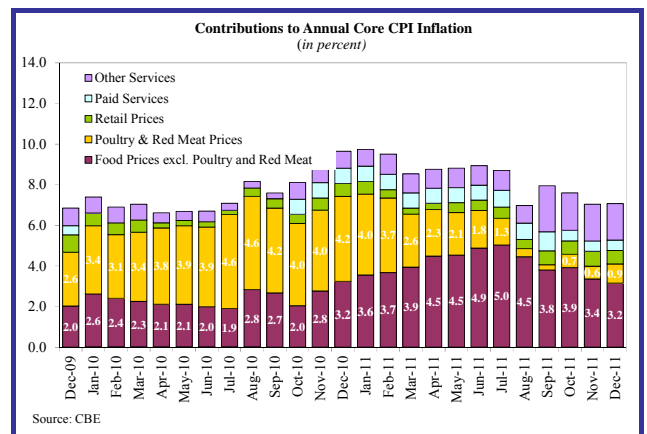
- Prices of fresh vegetables declined by 5.03 percent (m/m) in December after increasing by 3.43 percent (m/m) in November, contributing by negative 0.38 percentage points to monthly headline inflation. In the meantime, prices of fruits registered a marginal decline of 0.71 percent (m/m) for the seventh consecutive month to record a cumulative decrease of 19.71 percent since June 2011. Together, volatile food items contributed by negative 0.39 percentage points to monthly headline 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).



- Egg prices recorded a monthly decline of 4.50 percent (m/m) in December, which is in line with the decline of 4.30 percent (m/m) witnessed in the previous month. This brings the cumulative monthly increase to 9.85 percent in 2011.
- Rice prices increased by 5.59 percent (m/m) in December to record a cumulative monthly increase of 40.18 percent in 2011.
- Poultry prices inched up by 1.69 percent (m/m) in December after declining by 1.73 percent (m/m) in the previous month, bringing the cumulative monthly increase in 2011 to 7.45 percent.
- Prices of fish and seafood rose by 1.41 percent (m/m) in December after recording a cumulative decline of 3.76 percent in the previous two months. This stands above the average pace of 0.86 percent recorded between January and November 2011.



2. Core Inflation²

Core CPI inched up by 0.21 percent (m/m) in December compared with 0.17 percent (m/m) in November. This month's increase lies below the average monthly pace of 0.60 percent (m/m) recorded between January and November 2011. In the meantime, the annual rate remained largely unchanged at 7.07 percent in December from 7.04 percent in November.

The monthly developments came on the back of higher food prices mentioned above. Meanwhile, prices of retail items, paid services, and other services remained largely unchanged.

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/	December 2010	December 2011	December 2011 to November 2011	December 2011 to December 2010
	(in percent)	(index) (January 2010 = 100)		(percentage change)	
Headline - All items	100.00	109.67	120.15	-0.24	9.55
Food and beverages	39.92	116.12	131.41	-0.52	13.17
Tobacco and related products	2.19	146.89	201.78	0.00	37.37
Clothing and footwear	5.41	103.14	106.82	0.00	3.57
Housing, water, electricity, gas and other fuels	18.37	99.47	109.02	0.00	9.60
Furnishings, household equipment and routine maintenance of the dwelling	3.77	103.65	109.59	0.00	5.73
Medical care	6.33	101.29	102.04	0.00	0.74
Transportation	5.68	101.17	102.44	0.00	1.26
Communications	3.12	99.87	94.88	0.00	-5.00
Recreation and Culture	2.43	105.66	116.65	0.00	10.40
Education	4.63	124.31	136.59	0.00	9.88
Hotels, cafes and restaurants	4.43	111.83	114.05	0.00	1.98
Miscellaneous goods and services	3.73	101.81	104.32	-0.32	2.46
Selective aggregates					
Fruits & vegetables 3/	6.90	119.90	160.12	-4.09	33.54
Regulated items	18.66	108.83	119.36	0.00	9.68
Food excl. fruits & vegetables	31.08	116.11	126.81	0.50	9.22
Retail items	14.48	103.24	106.93	-0.08	3.58
Paid services	5.87	109.55	116.58	0.00	6.42
Other services	23.00	102.68	109.01	0.00	6.17
Core CPI	74.43	108.93	116.63	0.21	7.07

1/ Source: CAPMAS and CBE calculations
 2/ Based on 2008/2009 Household Expenditure Survey
 3/ Excluding pulses, processed vegetables and dried fruits