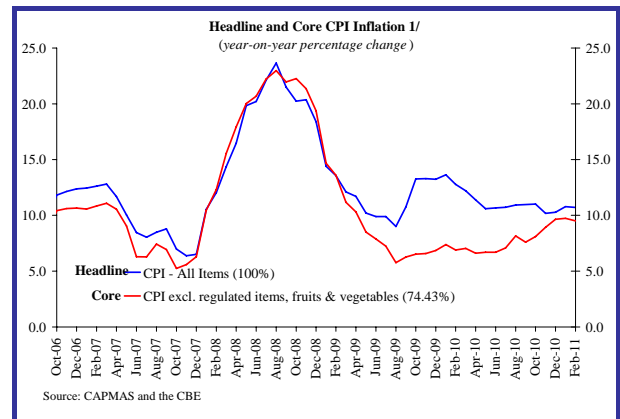
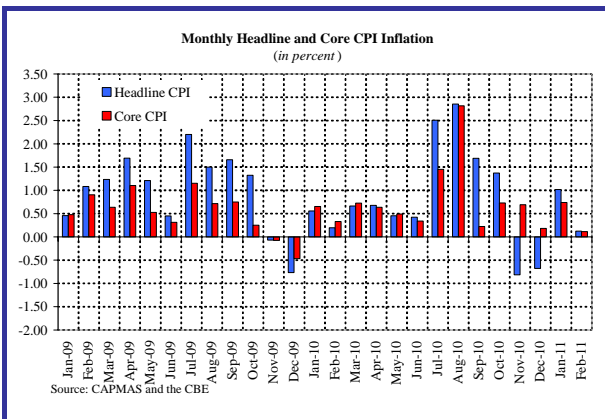


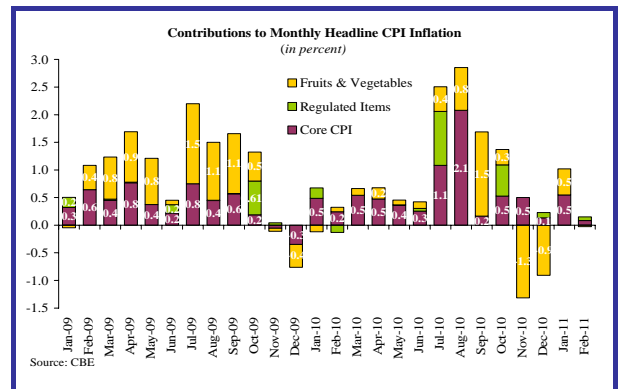
Headline and Core Inflation – February 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on March 10, 2011, inched up by 0.12 percent (m/m) in February compared to the 1.02 percent (m/m) increase in January. The annual rate declined slightly to 10.71 percent in February from 10.79 percent in the previous month on the back of a favorable base effect from last year. The month-on-month developments were highly mixed; as reflected in the price increases of several food items, namely fruits, eggs, edible fats & oils, fish & seafood which were largely offset by price declines in other food items, namely poultry, vegetables and milk. Moreover, while the price of butane cylinders as well as mobile phone services witnessed a marked increase in February on the back of disruption in transport networks and limited supply, the price of clothing recorded a decline. In the meantime, core CPI inflation computed by the Central Bank of Egypt inched up by 0.11 percent (m/m) in February compared to 0.74 percent (m/m) in January, reflecting the mixed price developments. While paid services remained unchanged, retail prices witnessed notable declines on the back of lower clothing prices. The annual rate declined to 9.51 percent in February compared to 9.74 percent in January.¹



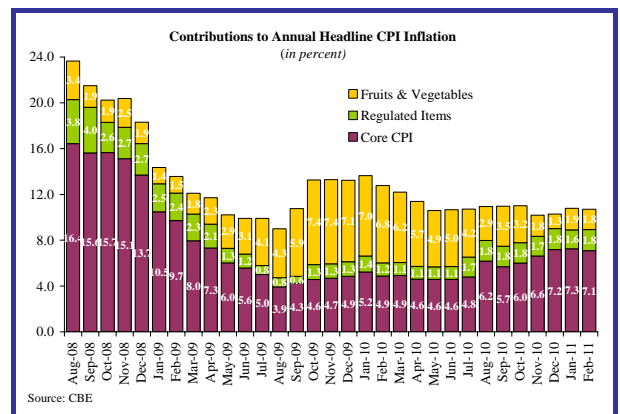
1. Headline CPI²

Headline CPI inflation inched up by 0.12 percent in February, which is significantly lower than the average monthly pace of 1.15 recorded in 2010 H2, as well as the 1.02 (m/m) increase recorded in the previous month. The annual rate remained broadly unchanged in February at 10.71 percent as compared to 10.79 percent recorded in January on the back of a favorable base effect from last year.



Key Highlights

- Disruption of transport networks and the resulting limited supply of butane gas cylinders have caused their prices to increase markedly by 21.95 percent (m/m) in February, to contribute by 0.07 percentage points to monthly headline inflation.



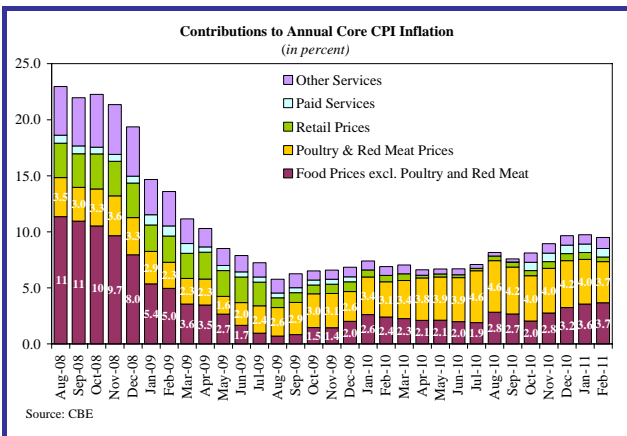
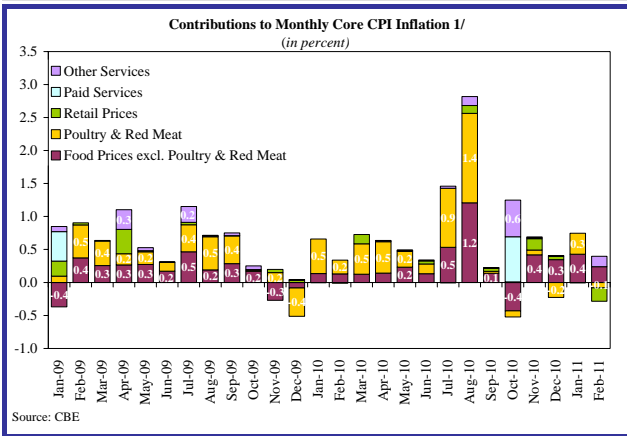
- Prices of vegetables declined by 1.03 percent after rising by 8.57 percent in January, contributing by negative 0.06 percentage points to headline inflation. This decline was sufficient enough to outweigh the 1.31 percent increase in prices of fruits, which was in line with the 1.20 percent increase witnessed in January though slightly higher than the 0.86 percent average monthly increase observed in 2010 H2. Together, fresh fruits and vegetables contributed by a negative 0.03 percentage points to headline inflation in February.
- Prices of eggs increased by 5.57 percent (m/m) in February, after rising by 4.25 percent (m/m) in the previous month, contributing by 0.08 percentage points to the rise in monthly headline inflation. The increases observed in 2011 thus far are higher than the average monthly pace of 3.25 percent (m/m) recorded in 2010 H1.
- Fish and seafood prices increased by 1.22 percent (m/m) which stands above the average monthly pace of 0.12 percent observed in 2010 H1.
- After rising by 3.15 percent (m/m) in January, prices of oils and fats increased by 1.28 percent (m/m) in February, which is in line with the average monthly pace of 1.00 percent recorded in 2010.
- Poultry prices declined by 1.46 percent (m/m), following the 6.02 percent (m/m) increase in January, to contribute by negative 0.06 percentage points to monthly headline inflation. It is worth mentioning that the CBE decided to extend the exemption of imports of poultry and other food items from the minimum cash cover requirement until December 2011.
- After remaining unchanged in January, prices of other services increased by 0.55 percent (m/m) and contributed by 0.12 percentage points to the rise in headline inflation. This can be attributed to higher prices of mobile and internet services and expenditures on cafes, which increased by 5.82 percent (m/m) and 3.79 percent (m/m) re-

spectively. Retail prices, on the other hand, declined by 1.11 percent (m/m) in February due to lower clothing prices, to contribute by negative 0.15 percentage points to monthly headline inflation.

2. Core Inflation²

Core CPI inched up by 0.11 percent (m/m) in February compared to 0.74 percent (m/m) in January. This month's increase stands well below the average monthly pace of 0.77 percent recorded in 2010. The annual rate declined to 9.51 percent in February from the 9.74 percent registered in January.

The monthly increase in February was mainly driven by the rise in the prices of several food items and other services discussed above, with each contributing by 0.16 percentage points to the monthly core inflation. This was partially offset by the decline in retail prices which contributed by negative 0.20 percentage points. In the meantime, paid services remained broadly unchanged.



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/	February 2010	February 2011	February 2011 to January 2011	February 2011 to February 2010
	(in percent)	(index)	(percentage change)		
(January 2010 = 100)					
Headline - All items	100.00	100.20	110.93	0.12	10.71
Food and beverages	39.92	100.84	119.19	0.21	18.20
Tobacco and related products	2.19	100.00	146.89	0.00	46.89
Clothing and footwear	5.41	100.00	100.08	-2.96	0.08
Housing, water, electricity, gas and other fuels	18.37	99.30	99.88	0.41	0.59
Furnishings, household equipment and routine maintenance of the dwelling	3.77	100.00	103.66	0.00	3.66
Medical care	6.33	100.00	101.29	0.00	1.29
Transportation	5.68	100.00	101.18	0.01	1.18
Communications	3.12	99.92	102.81	2.95	2.89
Recreation and Culture	2.43	100.00	105.61	0.00	5.61
Education	4.63	100.00	124.31	0.00	24.31
Hotels, cafes and restaurants	4.43	100.00	112.66	0.74	12.66
Miscellaneous goods and services	3.73	99.86	101.68	-0.03	1.82
Selective aggregates					
Fruits & vegetables 3/	6.90	101.18	126.98	-0.33	25.50
Regulated items	18.66	99.31	109.23	0.37	9.99
Food excl. fruits & vegetables	31.08	100.81	118.47	0.35	17.52
Retail items	14.48	99.95	102.06	-1.11	2.11
Paid services	5.87	100.00	109.55	0.00	9.55
Other services	23.00	100.00	103.24	0.55	3.24
Core CPI	74.43	100.33	109.87	0.11	9.51

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits