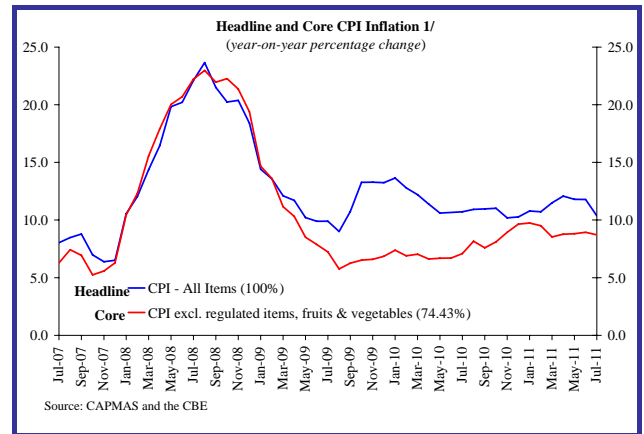
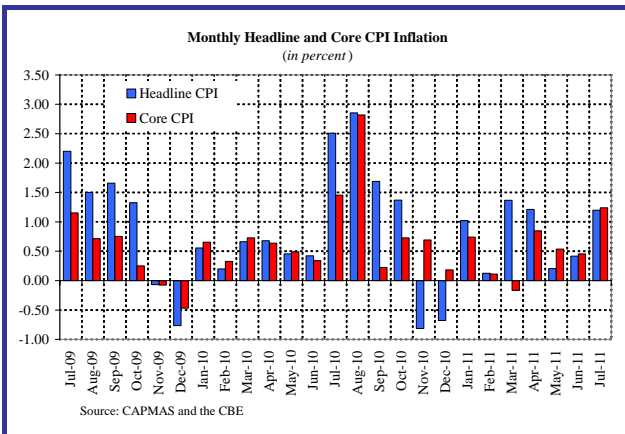


## Headline and Core Inflation – July 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on August 10, 2011, increased by 1.20 percent (m/m) in July following 0.42 percent (m/m) in June. The annual rate declined to 10.36 percent in July from 11.79 percent in the previous month, supported by favorable base effects from last year. While more than half of the monthly development came on the back of a broad based increase in food prices ahead of the month of Ramadan, the remaining portion was largely explained by a regulated price adjustment of tobacco and related products. In the meantime, core CPI computed by the Central Bank of Egypt increased by 1.24 percent (m/m) in July following 0.45 percent (m/m) in June. Despite the monthly increase, the annual rate declined to 8.71 percent in July from 8.94 percent in June, supported by favorable base effects. Meanwhile, retail prices and paid services witnessed marginal increases.<sup>1</sup>

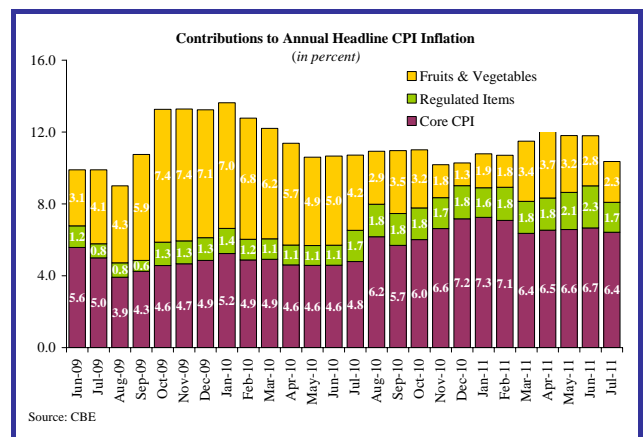
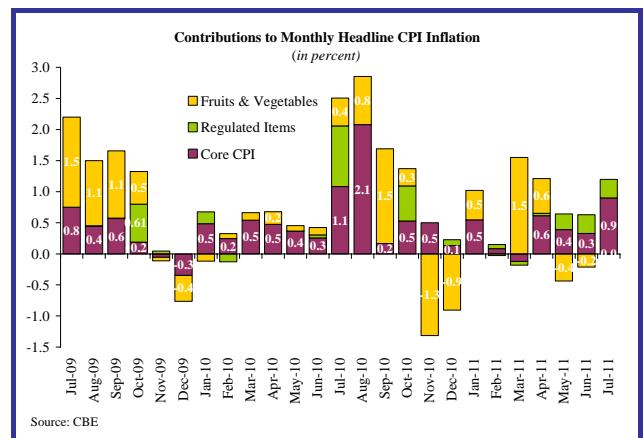


### 1. Headline CPI<sup>2</sup>

Headline CPI increased by 1.20 percent (m/m) in July following the 0.42 percent (m/m) increase in June which is well above the average monthly pace of 0.72 recorded in 2011 H1. The annual rate declined to 10.36 percent from 11.79 percent in June, supported by favorable base effects from last year.

#### Key Highlights

- On the back of a 9.23 percent (m/m) adjustment in tobacco prices, regulated prices rose by 1.63 percent (m/m) in July, contributing by 0.30 percentage points to monthly headline inflation. This represents the third consecutive monthly increase following a government decision to increase sales tax on tobacco and related products and brings the cumulative increase from May to July up to 24.38 percent.
- The prices of fresh vegetables rebounded in July to record an increase of 3.47 percent (m/m), contributing by 0.22 percentage points to monthly headline inflation. However, this increase was completely offset by an 8.49 percent



(m/m) decline in the prices of fresh fruits.

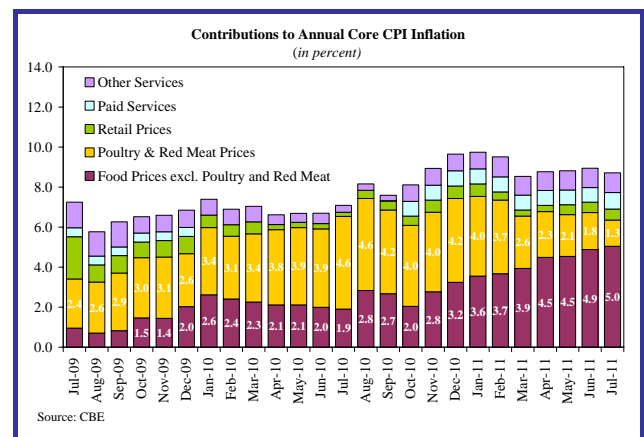
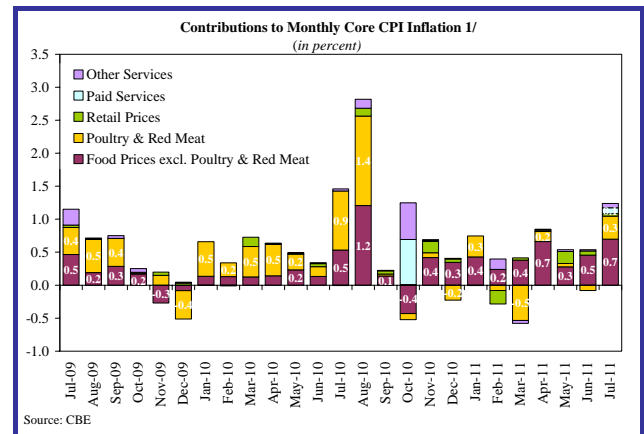
- Many food items witnessed seasonal increases of varying magnitudes ahead of the holy month of Ramadan. Together these increases contributed by 0.76 percentage points to monthly headline inflation in July.
- Rice prices continued to rise for the fifth consecutive month, registering an increase of 10.23 percent (m/m) in July, which contributed by 0.26 percentage points to monthly headline inflation. This brings the cumulative increase since November 2010 to 64.65 percent, despite the announced ban on rice exports through October 2011.
- Prices of red meat and poultry rose by 1.98 percent (m/m) and 2.99 percent (m/m) respectively. Together they contributed by 0.25 percentage points to monthly headline inflation.
- Among the other food items which experienced sporadic price increases are eggs, sugar, fish & seafood, butter, pulses, and dried fruits, which together contributed by 0.25 percentage points to headline inflation.
- The monthly increase of 1.17 percent (m/m) in paid services marks the first price change since December 2010. This coincides with the start of the fiscal year and is mainly driven by increases in the prices of domestic services, mechanic fees, and physician fees.
- Retail prices recorded a modest inch up, mainly driven by higher prices of motor oil, household textiles, and household appliances. In the meantime, tame price increases in Haj and Omra trips, restaurants, cafes, and air and sea transportation were behind the negligible increase in prices of other services.

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

Core CPI increased by 1.24 percent (m/m) in July, following a 0.45 percent (m/m) increase in June. This month's increase is well above the average monthly pace of 0.42 percent (m/m) recorded in 2011 H1. Despite the monthly increase, the annual rate decline to 8.71 percent in July compared to

8.94 percent in June, supported by favorable base effects.

The bulk of the monthly increase in July was driven by the higher food prices mentioned above which accounted for 1.1 percentage points of the monthly increase in core inflation. The remaining minute portion is accounted for by tame increases in retail prices, paid services and other services.



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 8<sup>th</sup> CPI series by the 9<sup>th</sup> 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

<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/	July 2010	July 2011	July 2011 to June 2011	July 2011 to July 2010
	(in percent)	(index)	(percentage change)		
(January 2010 = 100)					
<b>Headline - All items</b>	<b>100.00</b>	<b>105.00</b>	<b>115.89</b>	<b>1.20</b>	<b>10.36</b>
Food and beverages	39.92	109.87	128.18	1.73	16.66
Tobacco and related products	2.19	143.16	185.53	9.22	29.59
Clothing and footwear	5.41	100.00	102.32	0.09	2.32
Housing, water, electricity, gas and other fuels	18.37	99.30	100.49	0.08	1.20
Furnishings, household equipment and routine maintenance of the dwelling	3.77	102.60	106.60	1.37	3.90
Medical care	6.33	100.00	102.04	0.11	2.04
Transportation	5.68	100.67	102.06	0.39	1.38
Communications	3.12	99.87	99.97	-0.02	0.10
Recreation and Culture	2.43	102.69	109.31	0.82	6.44
Education	4.63	100.00	124.31	0.00	24.31
Hotels, cafes and restaurants	4.43	100.62	113.12	0.67	12.43
Miscellaneous goods and services	3.73	100.57	103.26	0.10	2.67
<b>Selective aggregates</b>					
Fruits & vegetables 3/	6.90	115.55	150.17	-0.02	29.96
Regulated items	18.66	104.95	114.33	1.63	8.93
Food excl. fruits & vegetables	31.08	109.05	124.87	2.29	14.51
Retail items	14.48	101.02	103.97	0.20	2.92
Paid services	5.87	100.00	110.83	1.17	10.83
Other services	23.00	100.20	103.52	0.23	3.31
Core CPI	74.43	104.04	113.10	1.24	8.71