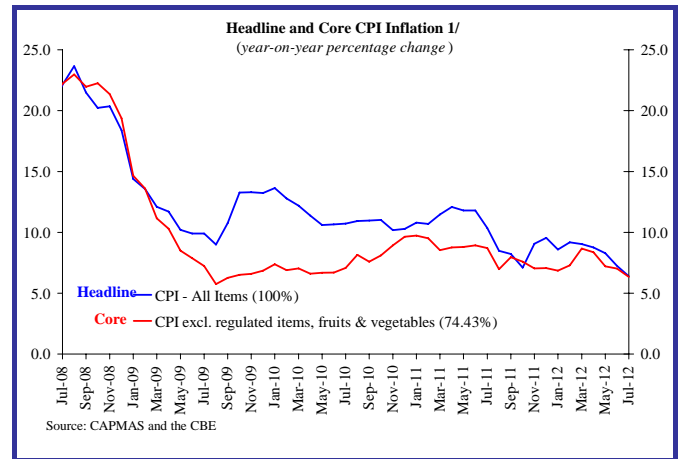
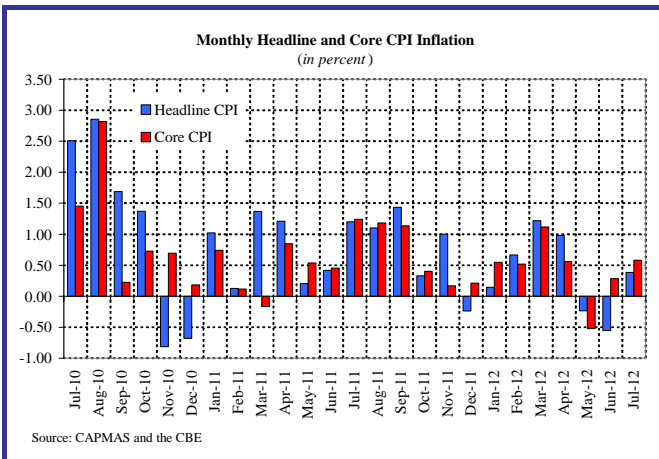


Headline and Core Inflation – July 2012

Headline CPI published by the Central Agency for Public Mobilization and Statistics on August 9, 2012, increased by 0.38 percent (m/m) in July after declining by 0.55 percent (m/m) in June. Meanwhile, the annual rate decelerated to 6.39 percent in July from 7.26 percent in the previous month, supported by favorable base effects from last year. The month-on-month developments were mainly driven by increases in the prices of some food items which coincided with the month of Ramadan. In the meantime, core CPI computed by the Central Bank of Egypt increased by 0.58 percent (m/m) compared to 0.28 percent (m/m) in June, while the annual rate decelerated to 6.34 percent in July from 7.04 percent in the previous month, supported by favorable base effects from last year. Meanwhile, the prices of paid services and other services witnessed marginal increases and retail items remained unchanged.¹

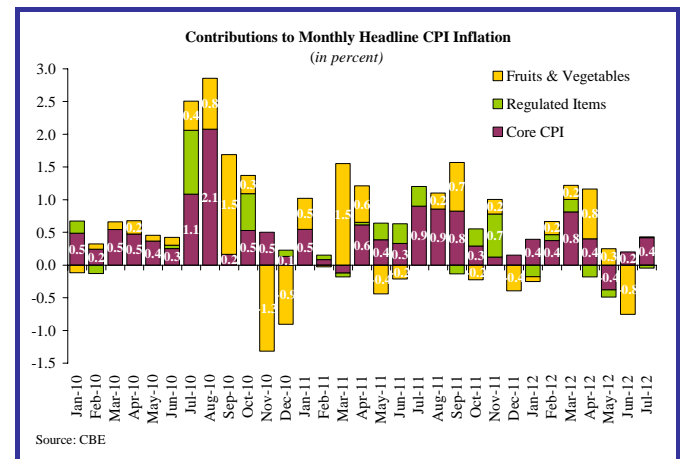
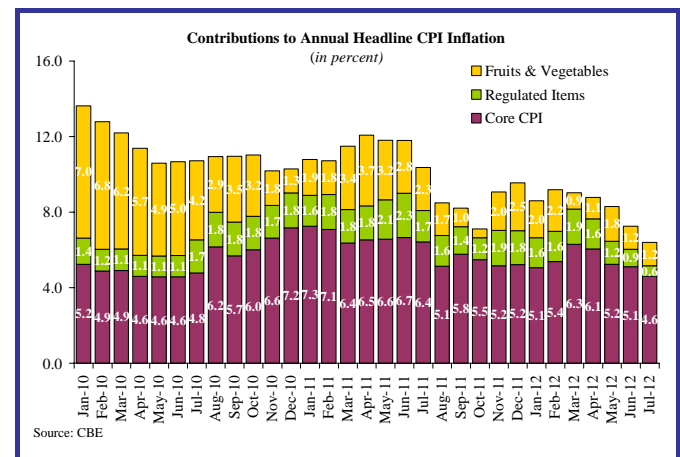


1. Headline CPI²

Headline CPI increased by 0.38 percent (m/m) in July after declining by 0.55 percent (m/m) in June, standing in line with the average monthly pace of 0.37 percent recorded during 2012 H1. The annual rate decelerated to 6.39 percent in July from 7.26 percent in the previous month, supported by favorable base effects from last year. This is the lowest rate since November 2007.

Key Highlights

- Regulated prices declined to contribute by negative 0.05 percentage points to monthly headline inflation. This monthly development came on the back of a 20.12 percent (m/m) decrease in the prices of butane gas cylinders, bringing down the cumulative monthly increase since January 2011 to 90.28 percent. Meanwhile there was 35.72 percent (m/m) acceleration in the prices of piped gas, which marks the first rise on record. Moreover, public hospital fees increased by 11.04 percent (m/m), the first time since July 2006. However, the decline in the prices of butane cylinders offset the increase in the prices of piped gas and public hospital fees.

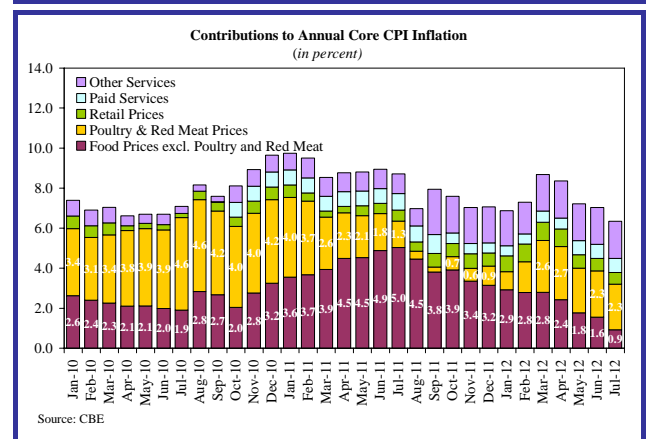
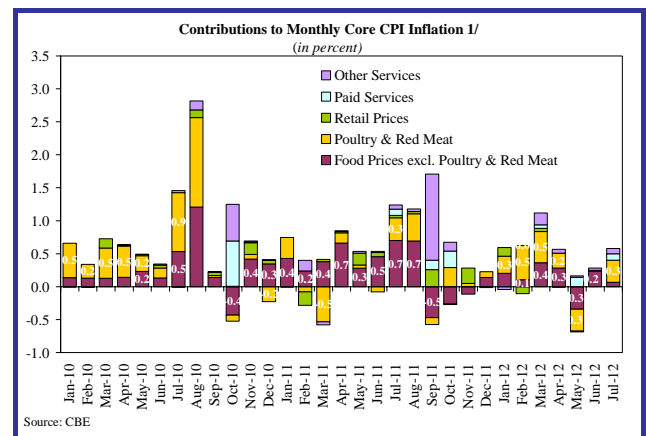


- Prices of fresh vegetable inched up in July to record an increase of 1.21 percent (m/m) following a 9.28 percent (m/m) decline in the previous month. In the meantime, prices of fresh fruits continued to decline for the second consecutive month to register a 3.34 percent (m/m) decrease following a 0.64 percent (m/m) decline in June. Together volatile food items contributed by a negligible 0.01 percentage points to monthly headline inflation.
- Many food items witnessed seasonal increases of varying magnitudes during the month of Ramadan, to contribute by 0.29 percentage points to monthly headline inflation.
 - Prices of red meat and poultry rose by 1.50 percent (m/m) and 2.96 percent (m/m) respectively. Together they contributed by 0.24 percentage points to monthly headline inflation.
 - Egg prices increased by 5.73 percent (m/m) in July, contributing by 0.09 percentage points to monthly headline inflation.
 - Among other items which together contributed by 0.08 percentage points to monthly headline inflation are fish & seafood, other fresh meat, dried fruits, and maize.
 - The increases were partially offset by declines in the prices of rice and herbs & spices which fell by 5.20 percent (m/m) and 1.55 percent (m/m) respectively. Together, they contributed by negative 0.12 percentage points to monthly headline inflation.
- Prices of paid services recorded an inch up of 1.19 percent (m/m) on the back of a 5.84 percent (m/m) increase in physician fees, contributing by 0.07 percentage points to monthly headline inflation.
- Prices of other services recorded a marginal increase on the back of higher prices of Haj and Omra trips, and restaurant meals which registered 4.37 percent (m/m) and 4.24 percent (m/m) respectively, coinciding with Ramadan. Together, prices of other services contributed by 0.06 percentage points to monthly headline inflation. In the meantime, prices of retail items remained unchanged.

2. Core Inflation²

Core CPI increased by 0.58 percent (m/m) in July compared to 0.28 percent (m/m) in the previous month. The monthly pace observed in July stands slightly above the average monthly pace of 0.42 percent (m/m) recorded during 2012 H1. Annual core inflation decelerated to 6.34 percent (m/m) in the previous month on the back of favorable base effects.

The bulk of the monthly increase in July was driven by the higher food prices mentioned above which accounted for 0.40 percentage points of the monthly increase in core inflation. The remaining portion is accounted for by tame increases in paid 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 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/	July 2011	July 2012	July 2012 to June 2012	July 2012 to July 2011
	(in percent)	(index)		(percentage change)	
(January 2010 = 100)					
Headline - All items	100.00	115.89	123.29	0.38	6.39
Food and beverages	39.92	128.18	138.51	0.68	8.06
Tobacco and related products	2.19	185.53	201.78	0.00	8.76
Clothing and footwear	5.41	102.32	106.84	0.00	4.42
Housing, water, electricity, gas and other fuels	18.37	100.49	107.24	-0.42	6.71
Furnishings, household equipment and routine maintenance of the dwelling	3.77	106.60	114.51	0.07	7.42
Medical care	6.33	102.04	103.77	1.69	1.70
Transportation	5.68	102.06	104.50	0.00	2.39
Communications	3.12	99.97	95.53	0.00	-4.43
Recreation and Culture	2.43	109.31	119.59	1.55	9.41
Education	4.63	124.31	136.59	0.00	9.88
Hotels, cafes and restaurants	4.43	113.12	117.10	0.55	3.52
Miscellaneous goods and services	3.73	103.26	104.40	-0.07	1.11
Selective aggregates					
Fruits & vegetables 3/	6.90	150.17	170.77	0.11	13.72
Regulated items	18.66	114.33	117.82	-0.26	3.05
Food excl. fruits & vegetables	31.08	124.87	133.56	0.87	6.96
Retail items	14.48	103.97	107.33	0.00	3.23
Paid services	5.87	110.83	120.93	1.19	9.11
Other services	23.00	103.52	110.28	0.29	6.53
Core CPI	74.43	113.10	120.26	0.58	6.34

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits