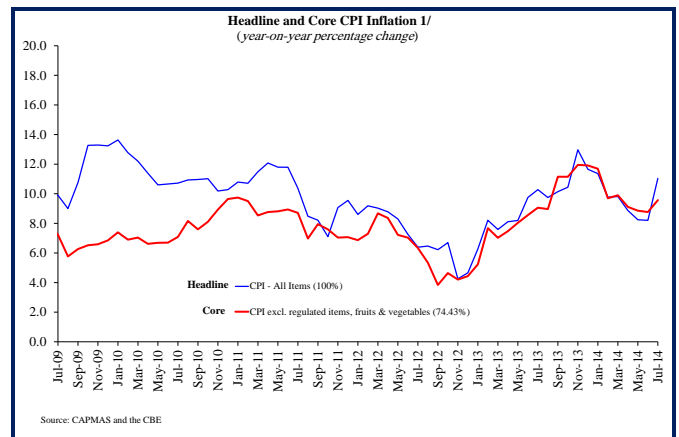
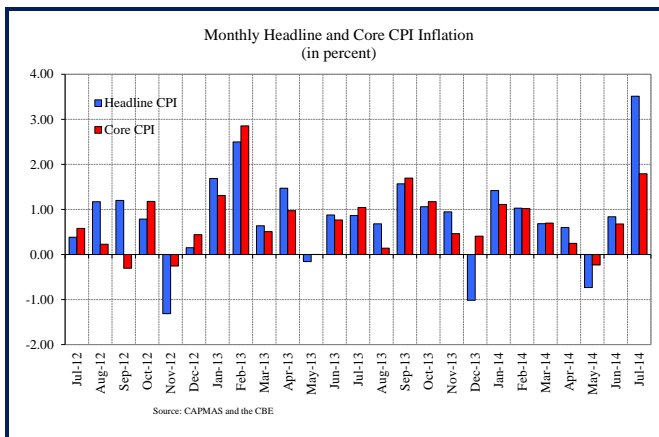


Headline and Core Inflation – July 2014

Headline CPI published by the Central Agency for Public Mobilization and Statistics on August 31, 2014, accelerated by 3.51 percent (m/m) in July compared to 0.84 percent (m/m) in June, while the annual rate jumped to register 11.04 percent in July from 8.20 percent in June. In early July, the government launched its fiscal consolidation program, a adjusting upwards the prices of several regulated items. Consequently, the direct effect of these price adjustments explained the bulk of the monthly price developments. Moreover, the month witnessed an increase in the prices of inland transportation, fresh vegetables & fruits and other food items, which can partly be attributed to the indirect effects of the regulated price adjustments as well as the seasonal effect of Ramadan. In the meantime, core CPI computed by the Central Bank of Egypt, increased by 1.79 percent (m/m) in July compared to 0.68 percent (m/m) in June. The annual rate increased to 9.57 percent in July compared to 8.76 percent in June and was partially limited by a favorable base effect from the previous year. Meanwhile, the prices of other services, paid services and retail items increased by varying degrees.¹

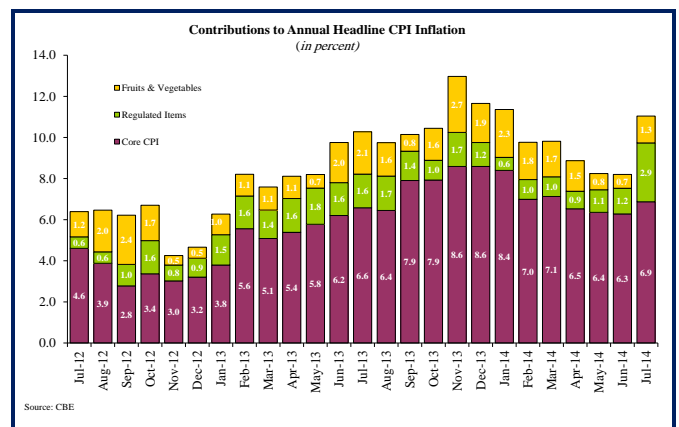
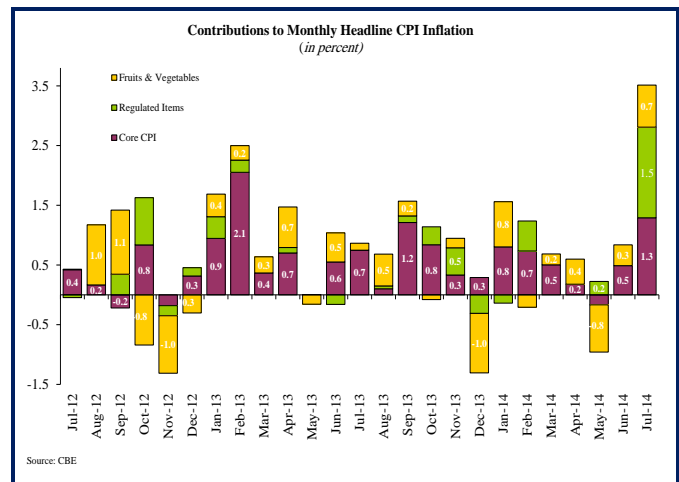


1. Headline CPI²

Headline CPI increased by 3.51 percent (m/m) in July compared to 0.84 percent (m/m) in June, which lies above the monthly average of 0.64 percent recorded during 2014H1. The direct effect of the fiscal consolidation plan explained 1.52 percentage points of the monthly headline inflation. Meanwhile, the annual rate accelerated to record 11.04 percent in July, compared to 8.20 percent in June.

Key Highlights

- The government's fiscal consolidation program, launched in early July, included price adjustments for diesel, benzene, electricity, tobacco, fuel oil, and inland transportation. The price increases were 63.1, 52.8, 27.9, 14.1, 26.2 and 24.4 percent, respectively. The weighted price increase of these items registered 8.62 percent (m/m) in July, contributing by 1.52 percentage points to monthly headline inflation.
- The prices of fresh vegetables increased by 7.66 percent (m/m) in July, which contributed by 0.62 percentage points to monthly headline inflation. Meanwhile, the prices of fresh fruits inched up by 3.84 percent in July. Together, the prices of fruits and vegetables contributed by 0.71 percentage points to monthly headline inflation.



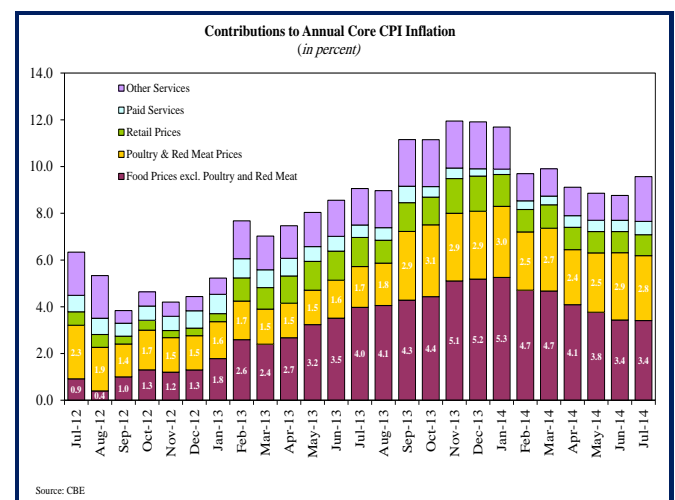
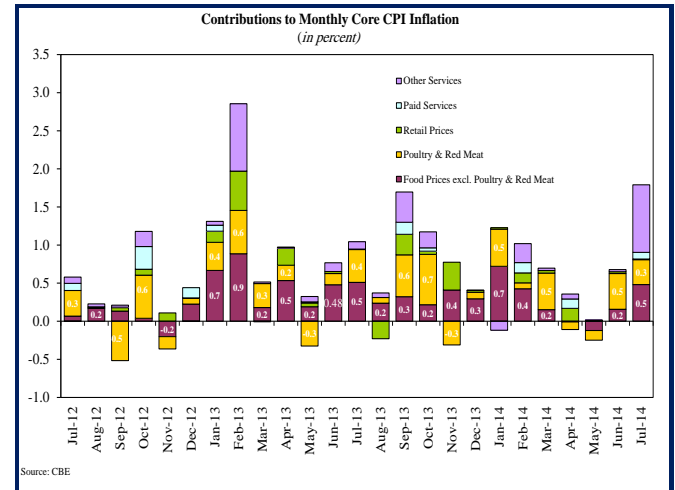
- Poultry prices increased by 4.37 percent in July, to contribute by 0.24 percentage points to monthly headline inflation. The cumulative monthly increase reached 14.65 percent since January 2014, While prices of red meat remained unchanged.
- Prices of fish and seafood increased by 3.25 percent (m/m) in July, contributing by 0.11 percentage points to monthly headline inflation.
- Moreover, prices of eggs increased by 6.37 percent (m/m) in July, contributing by 0.13 percentage points to monthly headline inflation.
- While the prices of a number of other food items increased, namely milk, bakery products; the prices of other food products decreased, primarily margarine, soft drinks and other edible oils, to collectively contribute by 0.10 percentage points to monthly headline inflation.
- Prices of other services increased by 3.37 percent (m/m) in July, contributing by 0.64 percentage points to headline inflation. This came on the back of the inch up in the prices of Haj and omra trips and restaurant services, as well as the increase in the prices of the private inland transportation.
- Meanwhile, the prices of paid services increased slightly by 1.15 percent (m/m) in July, contributing by 0.06 percentage points to headline inflation. This came on the back of the inch up in the prices of maintenance services, vehicle services and household appliances maintenance.
- Moreover, prices of retail items increased marginally by 0.05 percent (m/m) in July, which was driven primarily by higher medical products.

2. Core Inflation²

Core CPI computed by the Central Bank of Egypt, increased by 1.79 percent (m/m) in July compared to 0.68 percent (m/m) in June, which is well above the average monthly pace of 0.59 percent recorded during 2014 H1. The annual rate increased to 9.57 percent in July, from 8.76 percent in June and was partially limited by a favorable base effect from previous year.

It is worth to mention that 45 percent of the monthly dynamics in July was basically driven by the developments in the prices of the previously mentioned food items, which contributed by 0.81 percentage points to monthly core inflation. Moreover, the bulk of the remaining monthly developments in core inflation was explained by higher prices of oth-

er services, which contributed by 0.89 percentage points to monthly core inflation. Meanwhile, the prices of paid services and retail items contributed marginally by 0.10 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).

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 2013	June 2014	July 2014	July 2014 to June 2014	July 2014 to July 2013
	(in percent)	(index)		(percentage change)		
		(January 2010 = 100)				
Headline - All items	100.00	135.97	145.86	150.98	3.51	11.04
Food and beverages	39.92	157.71	172.60	177.30	2.73	12.42
Tobacco and related products	2.19	217.38	235.20	268.32	14.08	23.43
Clothing and footwear	5.41	113.03	114.32	114.35	0.02	1.16
Housing, water, electricity, gas and other fuels	18.37	113.08	117.09	120.59	3.00	6.64
Furnishings, household equipment and routine maintenance of the dwelling	3.77	122.75	134.51	134.72	0.16	9.75
Medical care	6.33	114.83	128.59	128.84	0.19	12.20
Transportation	5.68	107.26	114.25	137.37	20.24	28.08
Communications	3.12	95.47	97.02	97.02	0.00	1.62
Recreation and Culture	2.43	130.50	145.28	155.41	6.98	19.09
Education	4.63	152.18	157.94	157.94	0.00	3.78
Hotels, cafes and restaurants	4.43	141.68	148.73	155.29	4.41	9.61
Miscellaneous goods and services	3.73	104.86	106.33	106.35	0.02	1.42
Selective aggregates						
Fruits & vegetables 3/	6.90	207.60	218.45	233.34	6.82	12.40
Regulated items	18.66	128.64	137.65	149.51	8.62	16.22
Food excl. fruits & vegetables	31.08	150.03	166.74	169.47	1.64	12.95
Retail items	14.48	115.01	120.99	121.05	0.05	5.25
Paid services	5.87	129.10	137.03	138.60	1.15	7.37
Other services	23.00	116.35	120.42	124.47	3.37	6.98
Core CPI	74.43	131.16	141.18	143.71	1.79	9.57

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits