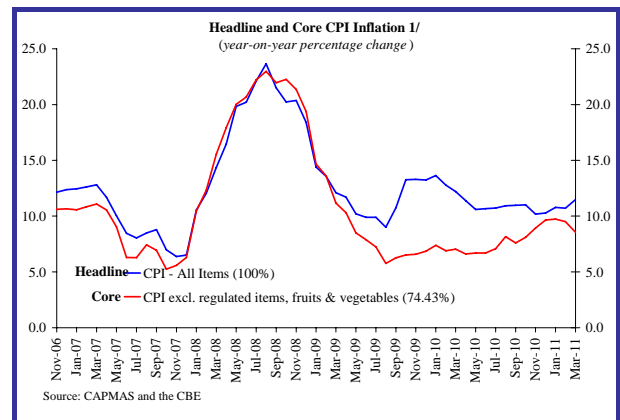
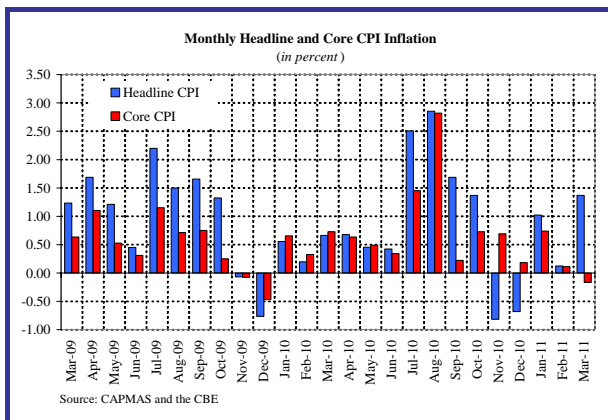


## Headline and Core Inflation – March 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on April 10, 2011, increased by 1.37 percent (m/m) in March following the 0.12 percent (m/m) increase in February. The annual rate inched up to 11.49 percent in March compared to 10.71 percent in the previous month. Almost all of the monthly increase came on the back of the significant increase in the prices of vegetables. While the prices of some other food items witnessed sporadic increases, namely rice, edible oils, fish and pulses, their impact was outweighed by the decline in the prices of red meat. In the meantime, core CPI computed by the Central Bank of Egypt declined by 0.17 percent (m/m) in March following an inch up of 0.11 percent (m/m) in the previous month. Meanwhile, retail prices and paid services remained broadly unchanged. The annual rate declined to 8.54 percent in March compared to 9.51 percent in February.<sup>1</sup>

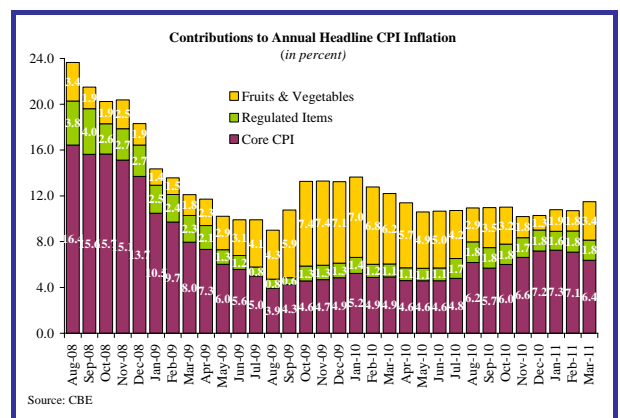
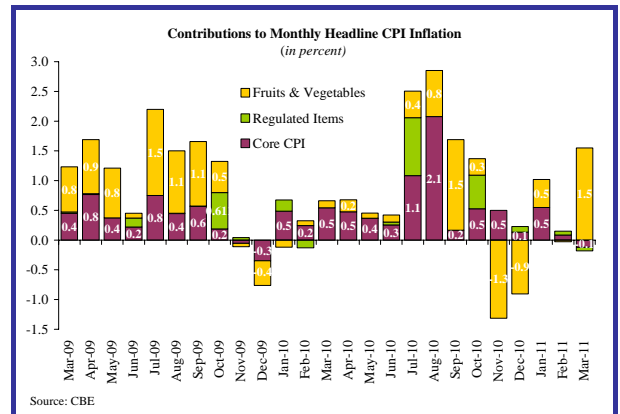


### 1. Headline CPI<sup>2</sup>

Headline CPI increased by 1.37 percent in March, which is higher than the average monthly pace of 1.15 recorded in 2010 H2, as well as the 0.12 percent (m/m) inch up recorded in February. The annual rate inched up to 11.49 percent in March compared to 10.71 percent in the previous month.

#### Key Highlights

- Prices of butane gas cylinders declined by 18.26 percent (m/m) in March to offset most of the 21.95 increase witnessed in the previous month following the disruption of transport networks and the resulting limited supply in the previous month. This decline contributed by a negative 0.07 percentage points to monthly headline inflation.
- The prices of vegetables registered a record high monthly increase of 26.86 percent in March, contributing by 1.48 percentage points to headline inflation. This increase was mainly driven by the prices of tomatoes, which more than doubled during March, accounting for 1.25 percentage points of monthly headline inflation.



In the meantime, prices of fruits inched up by 2.93 percent which is higher than the 1.31 percent increase witnessed in February and well above the 0.86 percent average monthly increase observed in 2010 H2. Given their impact on headline inflation, future changes in the prices of fruits and vegetables will continue to be closely monitored.

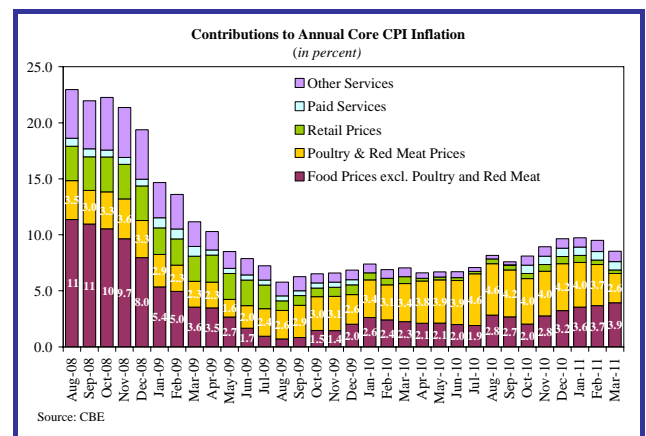
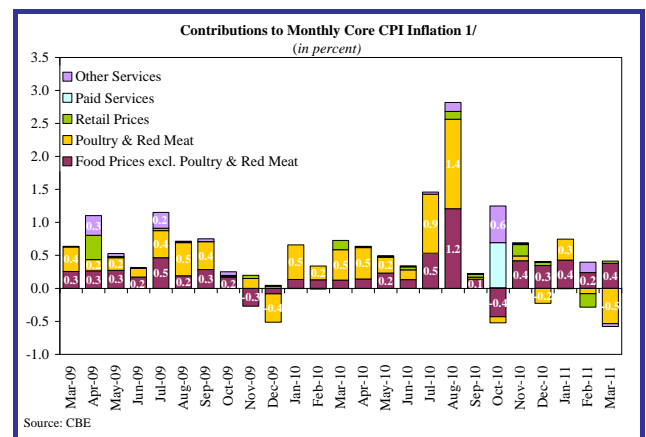
- Rice prices resumed its upward trend in March increasing by 6.77 percent (m/m), after remaining unchanged in February. This marks the fourth surge in rice prices since November 2010 to bring the cumulative increase to 28.59 percent despite the announced ban on rice exports through October 2011. This month's increase contributed by 0.13 percentage points to monthly headline inflation.
- After remaining unchanged for two consecutive months, prices of red meat declined by 5.15 percent (m/m) in March, contributing by a negative 0.39 percentage points to monthly headline inflation. It is worth mentioning that the CBE decided to extend the exemption of imports of red meat, poultry and sugar from the minimum cash cover requirement until December 2011.
- Prices of other food items, including fish, edible oils and fats along with pulses increased marginally in March, contributing by 0.15 percentage points to monthly headline inflation.
- Following the 0.55 percent increase witnessed during February, prices of other services declined slightly by 0.16 percent (m/m). This came on the back of lower prices of hotel accommodation and mobile phone services, which declined by 41.39 percent (m/m) and 5.19 percent (m/m), respectively. Retail prices, on the other hand, increased slightly by 0.19 percent (m/m) in March due to marginal increases in the prices gold.

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

Core CPI declined by 0.17 percent (m/m) in March following an inch up of 0.11 percent (m/m) in Feb-

ruary. This month's decline comes in contrast to the average monthly pace of 0.72 percent recorded in 2010 and through February 2011. The annual rate declined to 8.54 percent in March compared to 9.51 percent recorded in the previous month.

The monthly decline in March was mainly driven by the decline in the prices of red meat, which contributed by a negative 0.53 percentage points to the monthly core inflation, outweighing the increase in other food items mentioned above. The marginal increase in retail prices was more than offset by the decline in other services. In the meantime, paid services remained 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 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/	March 2010	March 2011	March 2011 to February 2011	March 2011 to March 2010
	(in percent)	(index)	(percentage change)		
(January 2010 = 100)					
<b>Headline - All items</b>	<b>100.00</b>	<b>100.86</b>	<b>112.45</b>	<b>1.37</b>	<b>11.49</b>
Food and beverages	39.92	102.23	123.18	3.35	20.49
Tobacco and related products	2.19	100.00	146.89	0.00	46.89
Clothing and footwear	5.41	100.00	100.08	0.00	0.08
Housing, water, electricity, gas and other fuels	18.37	99.30	99.48	-0.40	0.18
Furnishings, household equipment and routine maintenance of the dwelling	3.77	102.65	103.67	0.00	0.99
Medical care	6.33	100.00	101.77	0.47	1.77
Transportation	5.68	100.00	101.51	0.33	1.51
Communications	3.12	99.92	100.03	-2.71	0.11
Recreation and Culture	2.43	100.00	106.93	1.25	6.93
Education	4.63	100.00	124.31	0.00	24.31
Hotels, cafes and restaurants	4.43	100.00	112.37	-0.26	12.37
Miscellaneous goods and services	3.73	99.98	102.08	0.40	2.11
<b>Selective aggregates</b>					
Fruits & vegetables 3/	6.90	102.92	151.86	19.60	47.55
Regulated items	18.66	99.31	108.88	-0.32	9.63
Food excl. fruits & vegetables	31.08	102.22	118.07	-0.34	15.50
Retail items	14.48	100.67	102.25	0.19	1.57
Paid services	5.87	100.00	109.55	0.00	9.55
Other services	23.00	100.00	103.07	-0.16	3.07
Core CPI	74.43	101.06	109.68	-0.17	8.54

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits