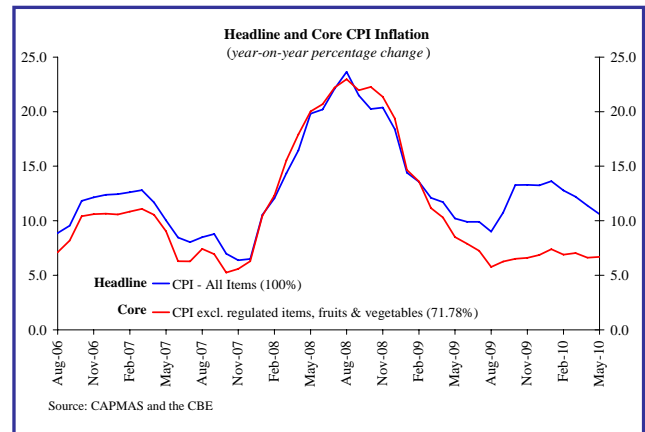
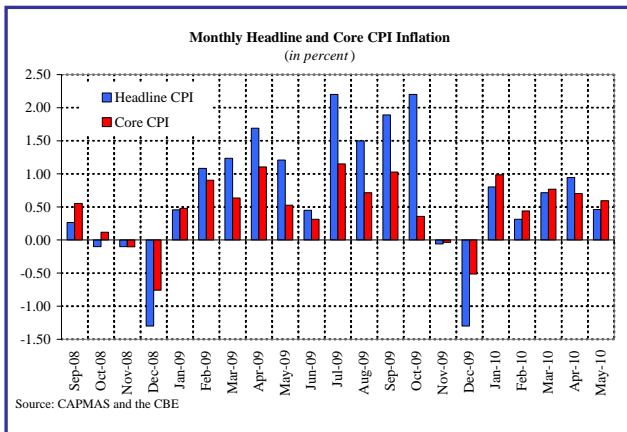


Headline and Core Inflation – May 2010

Headline CPI published by the Central Agency for Public Mobilization and Statistics on June 10, 2010, increased by 0.46 percent (m/m) in May 2010 compared to the 0.95 percent in April 2010. The annual rate declined to 10.59 percent from 11.38 percent in April, given the tame pace of monthly inflation and favorable base effects. The monthly increase in May was mainly driven by higher prices of poultry as well as sporadic inch ups in the prices of other food items. In the meantime, core CPI computed by the Central Bank of Egypt inched up by 0.59 percent (m/m) in May compared to 0.70 percent (m/m) in April, reflecting increases in food prices while retail prices and paid services have remained broadly unchanged. The annual rate increased slightly from 6.62 percent in April to 6.69 percent in May.¹

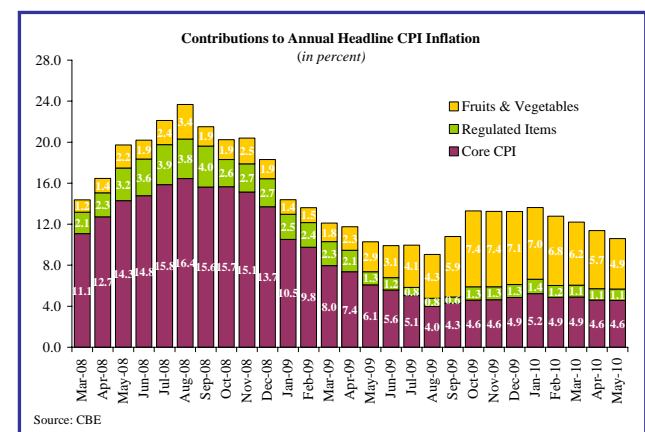
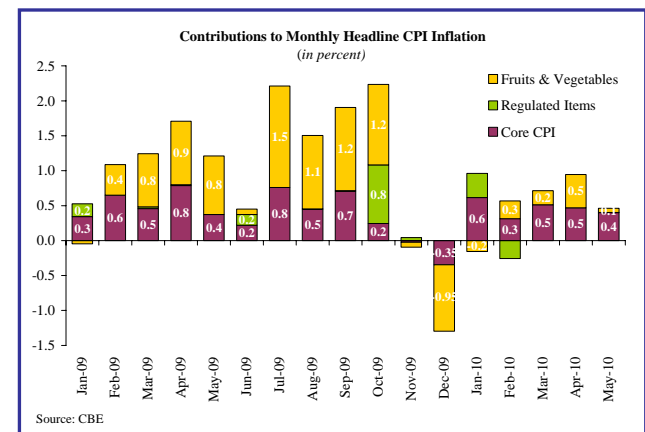


1. Headline CPI

After accelerating monthly by 0.95 percent in April, headline CPI increased by 0.46 percent (m/m) in May 2010. The recent monthly increase is well below the average pace of 1.1 percent (m/m) recorded during 2009. Despite the monthly increase, favorable base effects led the annual rate to decline to 10.59 percent from 11.38 percent registered in the previous month.

Key Highlights

- The prices of fruits and vegetables have increased modestly by 0.39 percent (m/m) in May, to contribute by only 0.06 percentage points to the monthly headline inflation. This month's increase is significantly below the average pace of increases of 6.9 percent witnessed between January and October 2009. Future changes in the prices of fruits and vegetables will continue to be closely monitored, given their impact on headline inflation.



- After remaining unchanged in April, poultry prices increased by 3.04 percent (m/m) in May, which is above the average monthly increase of 2.73 percent recorded during 2010. Poultry prices accounted for 36.88 percent of the monthly headline inflation in May. It is worth mentioning that the cumulative monthly increase in poultry prices reached almost 14 percent since January 2010.
- In the meantime, after accelerating significantly by 5.01 percent (m/m) in April, prices of red meat inched up by only 0.33 percent in May. Nonetheless, the cumulative monthly increase in prices of red meat since the beginning of the year reached 13.14 percent. The softer increase in prices of red meat witnessed in May can be partly explained by the government's increased imports aimed at alleviating price pressures caused by shortages in domestic supply.
- Prices of imported butter accelerated by 9.54 percent (m/m) in May, bringing the cumulative monthly increase to 19.75 percent since the beginning of the year. Moreover, ghee prices increased by 3.38 percent (m/m), bringing the cumulative monthly increase to 27.79 percent since the beginning of the year. These recent price increases largely reflect international price developments.
- Rice prices accelerated by 9.46 percent (m/m), which is the first monthly increase since July 2009.

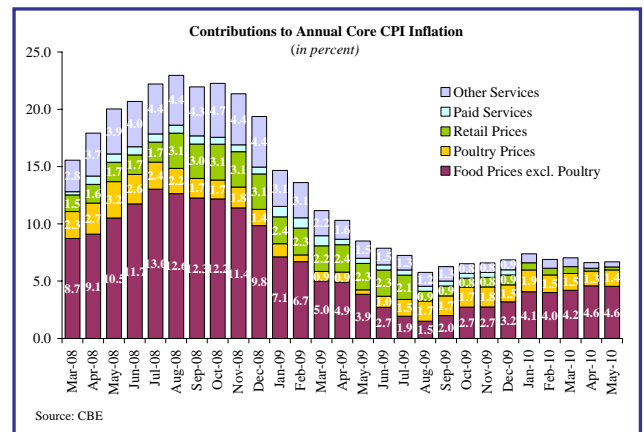
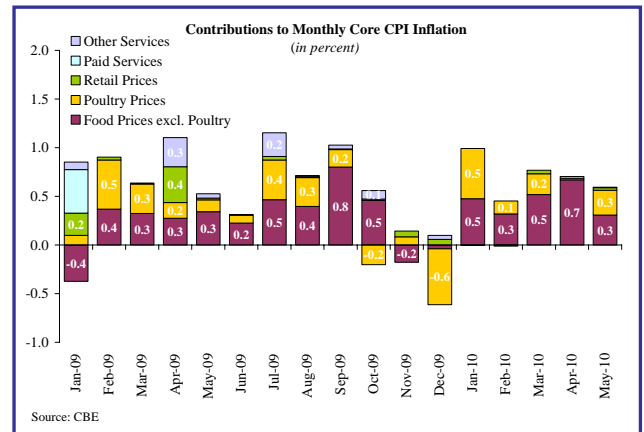
2. Core Inflation

Core CPI increased by 0.59 percent (m/m) in May, bringing the annual rate up to 6.69 percent from the 6.62 percent recorded in the previous month. The recent monthly rate is below the 0.70 percent (m/m) increase recorded in April and is in line with the average monthly pace of 0.56 percent witnessed during 2009.

The monthly increase in May was mainly driven by the higher prices of poultry, which accounted for 0.25 percentage points of the 0.59 percent month-on-month increase. Higher rice prices contributed over 20 percent to the rise in core inflation, with the

remaining portion explained by an increase in the prices of eggs, fats, and red meat.

Meanwhile, retail prices and paid services were broadly unchanged in May, in continuation of their subdued dynamics since early 2009. Hence, inflationary pressures are assessed to have remained weak through May 2010, despite sporadic price increases in a number of food items.



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.

Table 1.
Classification of All Items included in Core CPI

Food	Retail	Paid Services	Other Services
Bread and cereals	Clothing	Tailors & laundry	Rentals (new law)
Meat	Fabrics	Portman & gardener's services	Rental value of owner occupied housing
Fish and other seafood	Footwear	Cook & maid's services	Hospital services
Eggs & Dairy products	Maintenance and repair of the dwelling	Technicians to HH appliances	Public transportation
Oils and fats	Furniture	Physicians	Mobile services
Pulses	Carpets and other floor covering	Mechanics	Recreational & sporting services
Sugar and confectionery	Household (HH) textiles	Teachers	Cultural services
Other food products	HH appliances	Hairdressers	Hajj & Omra trips
Non alcoholic beverages	Glassware, tableware and HH utensils		Restaurants and Cafes
	HH small tools & supplies		Accommodation services
	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/	May 2009	May 2010	May 2010 to April 2010	May 2010 to May 2009
	(in percent)	(index)	(percentage change)		
(January 2007 = 100)					
Headline - All items	100.00	133.02	147.12	0.46	10.59
Food and non-alcoholic beverages	43.88	145.34	172.39	0.85	18.61
Tobacco and related products	2.57	120.97	120.97	0.00	0.00
Clothing and footwear	7.90	118.31	118.99	0.00	0.58
Housing, water, electricity, gas and other fuels	13.46	112.05	113.46	0.00	1.26
Furnishings, household equipment and routine maintenance of the dwelling	4.17	125.22	126.70	0.00	1.19
Medical care	3.61	117.24	117.56	0.00	0.27
Transportation	5.22	125.02	125.70	0.16	0.54
Communications	3.64	109.36	109.29	-0.02	-0.07
Recreation and Culture	3.39	133.68	140.66	0.00	5.22
Education	4.38	144.07	157.59	0.00	9.38
Hotels, cafes and restaurants	3.55	164.60	172.13	0.00	4.58
Miscellaneous goods and services	4.23	120.62	140.47	0.44	16.45
Selective aggregates					
Fruits & vegetables 3/	8.80	172.45	248.35	0.39	44.01
Regulated items	19.42	125.04	133.28	0.02	6.59
Food excl. fruits & vegetables	33.27	141.27	158.14	1.08	11.94
Retail items	17.34	119.65	121.21	0.13	1.30
Paid services	4.96	118.56	118.56	0.00	0.00
Other services	16.21	124.56	126.98	0.02	1.95
Core CPI	71.78	130.70	139.44	0.59	6.69

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses