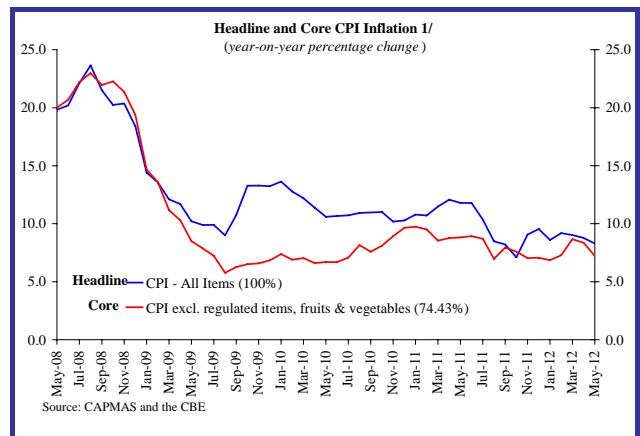
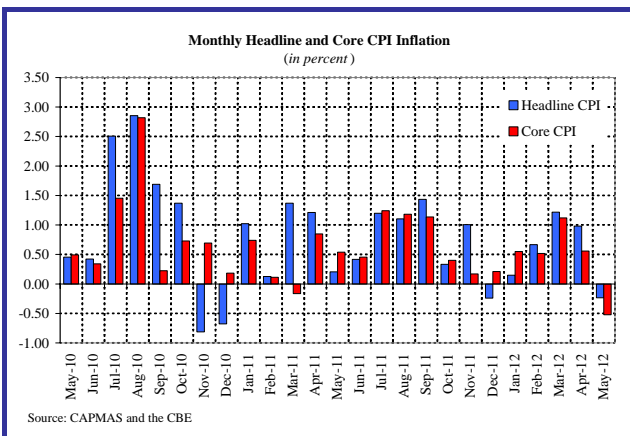


## Headline and Core Inflation – May 2012

Headline CPI published by the Central Agency for Public Mobilization and Statistics on June 10, 2012, declined by 0.24 percent (m/m) in May compared to a 0.98 percent (m/m) increase in April. Meanwhile, the annual rate slowed down to 8.30 percent in May from 8.78 percent in the previous month. The month-on-month developments were mainly driven by declines in the prices of select food items, namely poultry, rice, and fish and seafood as well as a decline in butane gas cylinder prices, which were partially offset by an increase in the prices of fruits and vegetables. In the meantime, core CPI computed by the Central Bank of Egypt declined by 0.52 percent (m/m) in May compared to a 0.56 percent increase (m/m) in April. While the annual rate decelerated to 7.22 percent in May from 8.36 percent in the previous month. Meanwhile, the prices of paid services inched up while other services and retail items remained broadly unchanged.<sup>1</sup>

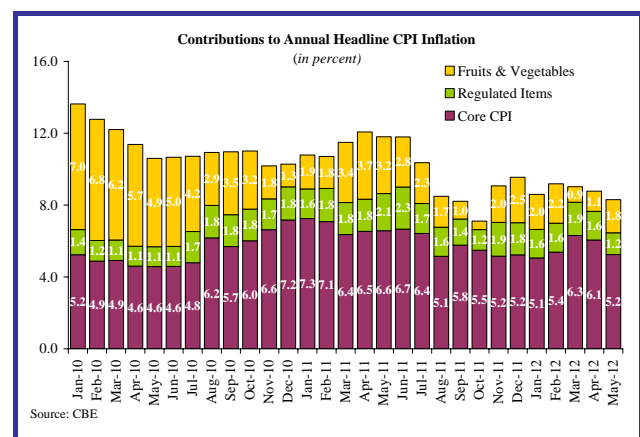
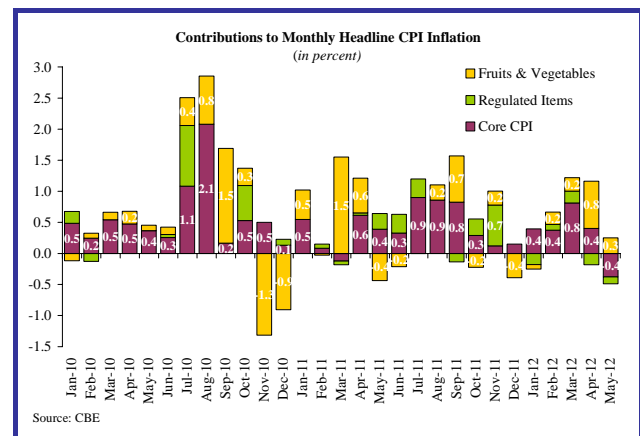


### 1. Headline CPI<sup>2</sup>

Headline CPI declined by 0.24 percent (m/m) in May compared to a 0.98 percent (m/m) increase in April, which is significantly below the average monthly pace of 0.76 recorded during 2011. The annual rate slowed down to 8.30 percent in May from 8.78 percent in the previous month.

#### Key Highlights

- Regulated prices declined to contribute by negative 0.11 percentage points to monthly headline inflation. This monthly development came on the back of a 17.62 percent (m/m) decrease in the prices of butane gas cylinders, bringing down the cumulative monthly increase since January 2011 to 110.41 percent.
- Prices of both fresh vegetables and fresh fruits increased for the fourth consecutive month by 1.70 percent (m/m) and 5.39 percent (m/m) respectively. The rise in prices of fresh fruits was primarily driven by higher prices of citrus fruits, which accelerated by 32.30 percent in May. Together, the increase in the prices of volatile food items contributed by 0.25 percentage poi-



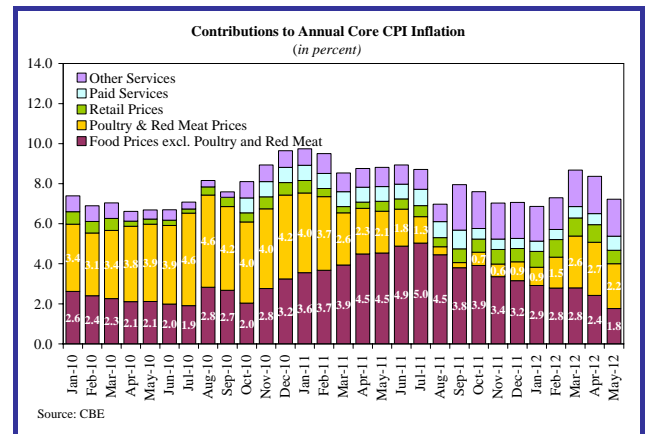
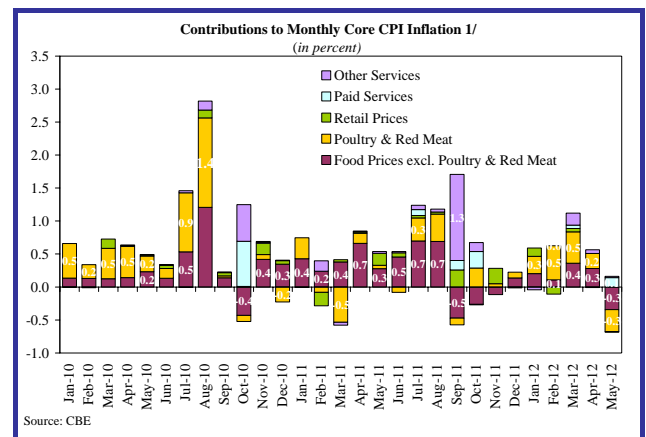
nts to monthly headline inflation.

- Poultry prices declined by 5.06 percent (m/m) in May after increasing by 3.56 percent (m/m) in April. This brought the cumulative monthly increase in poultry prices over the last six months down to 22.53 percent. This month's decline comes in sharp contrast to the average monthly pace of 6.47 percent recorded in the first four months of 2012. Lower poultry prices contributed by negative 0.24 percentage points to monthly headline inflation.
- After remaining unchanged in the previous month, rice prices declined by 4.94 percent (m/m) in May. This comes in contrast to the average monthly pace of 3.35 percent (m/m) witnessed in 2011. The fall in rice prices contributed by negative 0.11 percentage points to monthly headline inflation.
- Prices of fish and seafood declined by 3.61 percent (m/m) in May, following an 8.10 percent (m/m) acceleration in the previous month, contributing by negative 0.11 percentage points to monthly headline inflation. The decline follows five consecutive monthly increases and stands in sharp contrast to the average monthly pace of 0.91 percent (m/m) recorded during 2011.
- Egg prices declined by 2.79 percent (m/m) in May, which is in line with the 2.71 percent (m/m) decline witnessed in the previous month.
- Prices of other food items, namely pulses and other fresh meat, decreased marginally in May.
- Prices of paid services recorded an inch up of 1.85 percent (m/m) on the back of an acceleration in the wages of domestic services. This marks the fifth monthly increase in paid services since January 2011. In the meantime, prices of retail items experienced a negligible decline, while other services recorded a minor increase.

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

Core CPI declined by 0.52 percent (m/m) in May compared to a 0.56 percent (m/m) increase in April. This month's decline comes in sharp contrast with the average monthly pace of 0.57 percent (m/m) recorded during 2011. Annual core inflation decelerated to 7.22 percent (m/m) from 8.36 percent (m/m) in the previous month.

The bulk of the monthly decrease in May was driven by the lower food prices mentioned above which contributed by negative 0.67 percentage points to monthly core inflation. The increase in paid services partially offset this decline, contributing by 0.14 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 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/	May 2011	May 2012	May 2012 to April 2012	May 2012 to May 2011
	(in percent)	(index)		(percentage change)	
(January 2010 = 100)					
<b>Headline - All items</b>	<b>100.00</b>	<b>114.04</b>	<b>123.51</b>	<b>-0.24</b>	<b>8.30</b>
Food and beverages	39.92	125.85	139.39	-0.52	10.76
Tobacco and related products	2.19	154.20	201.78	0.00	30.86
Clothing and footwear	5.41	101.80	106.84	0.00	4.95
Housing, water, electricity, gas and other fuels	18.37	100.42	107.69	-0.68	7.24
Furnishings, household equipment and routine maintenance of the dwelling	3.77	104.90	114.07	3.05	8.75
Medical care	6.33	101.93	102.05	0.00	0.11
Transportation	5.68	101.66	104.50	0.00	2.79
Communications	3.12	100.03	95.53	0.00	-4.50
Recreation and Culture	2.43	107.82	116.59	0.39	8.13
Education	4.63	124.31	136.59	0.00	9.88
Hotels, cafes and restaurants	4.43	112.37	116.46	0.11	3.64
Miscellaneous goods and services	3.73	102.59	104.50	-0.25	1.86
<b>Selective aggregates</b>					
Fruits & vegetables 3/	6.90	153.74	184.07	2.51	19.73
Regulated items	18.66	110.65	118.12	-0.61	6.75
Food excl. fruits & vegetables	31.08	121.08	131.73	-1.45	8.80
Retail items	14.48	103.39	107.24	-0.06	3.73
Paid services	5.87	109.55	119.51	1.85	9.10
Other services	23.00	103.21	109.83	0.07	6.41
Core CPI	74.43	111.21	119.24	-0.52	7.22

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits