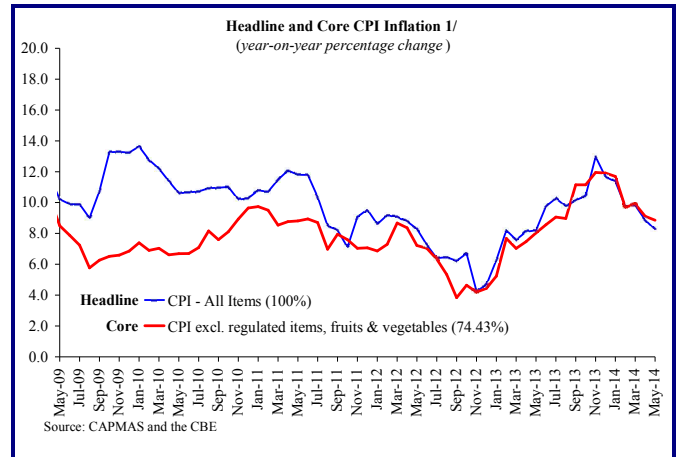
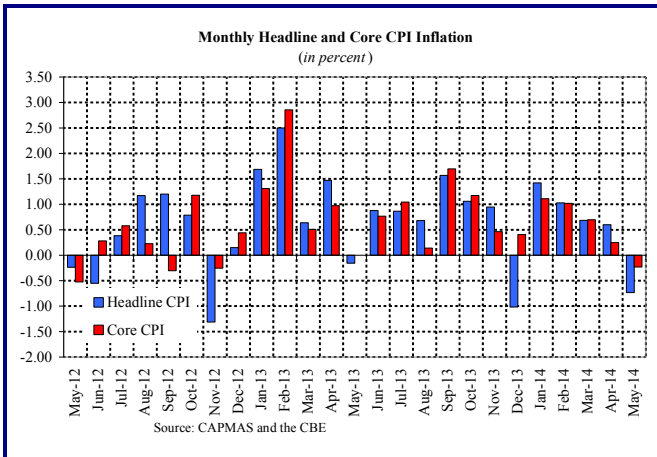


Headline and Core Inflation – May 2014

Headline CPI published by the Central Agency for Public Mobilization and Statistics on June 10, 2014, decreased by 0.73 percent (m/m) in May compared to an increase of 0.60 percent (m/m) in April. The annual rate decreased to 8.24 percent in May from 8.87 percent in April. The bulk of the monthly decrease was explained by the decline in the prices of fresh vegetables in addition to the deceleration in the prices of other food items. However, this was partially offset by the increase in the prices of natural gas. In the meantime, core CPI computed by the Central Bank of Egypt, declined by 0.23 percent (m/m) in May compared to an increase of 0.25 percent (m/m) in April. The annual rate declined to 8.86 percent in May compared to 9.11 percent in April. Meanwhile, the prices of retail items and other services increased slightly, whereas the prices of paid services remained unchanged.¹

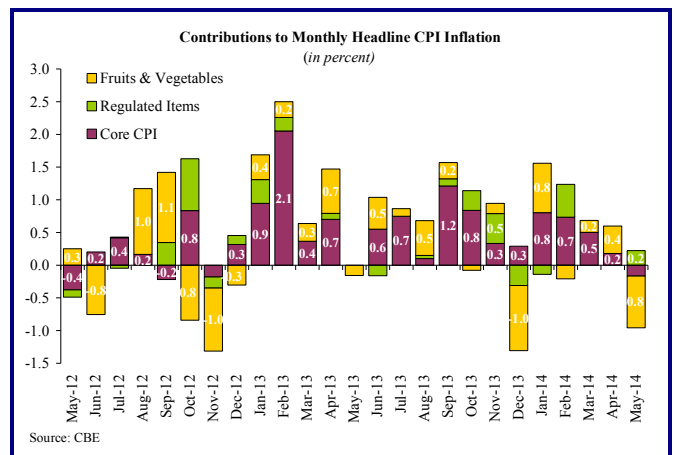


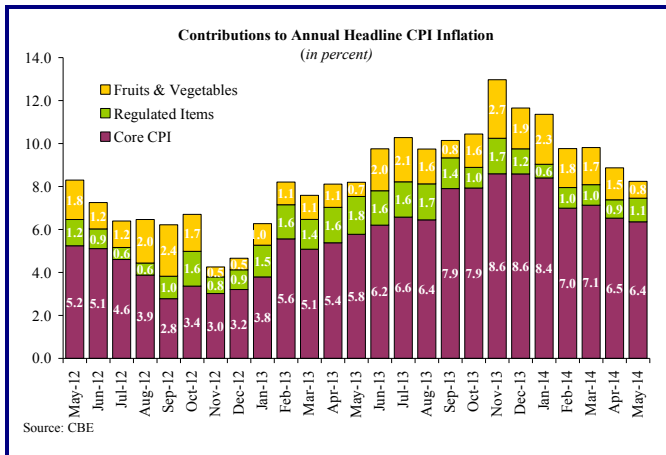
1. Headline CPI²

Headline CPI decreased by 0.73 percent (m/m) in May compared to an increase of 0.60 percent (m/m) in April, which lies below the average monthly pace of 0.93 percent recorded during the last four months. Meanwhile, the annual rate decreased to 8.24 percent in May from 8.87 percent in April.

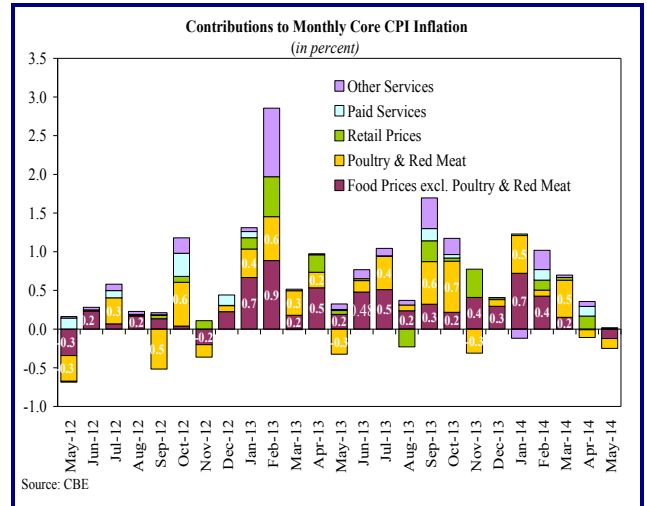
Key Highlights

- The prices of fresh vegetables decreased by 9.52 percent (m/m) in May, which contributed by negative 0.81 percentage points to monthly headline inflation. Meanwhile, the prices of fresh fruits increased marginally by 1.0 percent in May. Together, the prices of fruits and vegetables contributed by negative 0.79 percentage points to monthly headline inflation.
- Poultry prices declined by 1.78 percent in May, to contribute negatively by 0.09 percentage points to monthly headline inflation. While prices of red meat remain unchanged.

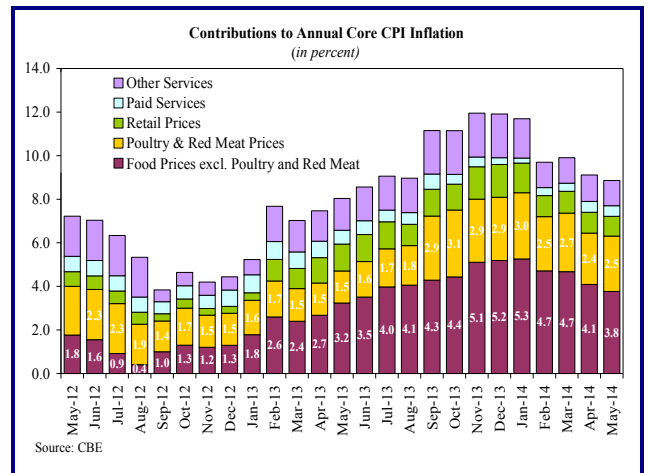




The monthly dynamics in May was basically driven by the developments in the prices of the previously mentioned food items, which contributed by negative 0.25 percentage points to monthly core inflation.



- Prices of fish and seafood declined by 2.06 percent (m/m) in May, contributing by negative 0.07 percentage points to monthly headline inflation.
- Moreover, prices of eggs declined by 1.92 percent (m/m) in May, contributing by negative 0.04 percentage points to monthly headline inflation.
- In addition, the prices of number of other food items including ghee (local and imported), increased slightly to contribute by 0.02 percentage points to monthly headline inflation.
- Prices of regulated items witnessed an increase of 1.29 percent (m/m) in May, to contribute by 0.22 percentage points to monthly headline inflation, which came on the back of higher prices of natural gas by 188.4 percent (m/m) in May.
- Moreover, prices of retail items increased marginally by 0.02 percent (m/m) in May, which was driven primarily by higher prices of air-conditioners and gold.
- Prices of other services increased slightly by 0.05 percent (m/m) in May, contributing by 0.01 percentage points to headline inflation. This came on the back of the inch up in the prices of Haj and omra trips. Meanwhile, prices of 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 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).

2. Core Inflation²

Core CPI computed by the Central Bank of Egypt, declined by 0.23 percent (m/m) in May compared to an inch up of 0.25 percent (m/m) in April, which is well below the average monthly pace of 0.77 percent recorded since the beginning of the year. The annual rate declined to 8.86 percent in May, from 9.11 percent in April.

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/ | May 2013 | May 2014 | May 2014 to April 2014 | May 2014 to May 2013 |
|---|------------------------|---------------|---------------|---------------------------|-------------------------|
| | (in percent) | (index) | | (percentage change) | |
| (January 2010 = 100) | | | | | |
| Headline - All items | 100.00 | 133.63 | 144.64 | -0.73 | 8.24 |
| Food and beverages | 39.92 | 151.91 | 169.69 | -2.04 | 11.71 |
| Tobacco and related products | 2.19 | 217.38 | 235.20 | 0.00 | 8.20 |
| Clothing and footwear | 5.41 | 113.03 | 113.86 | 0.00 | 0.74 |
| Housing, water, electricity, gas and other fuels | 18.37 | 114.25 | 117.09 | 1.54 | 2.48 |
| Furnishings, household equipment and routine maintenance of the dwelling | 3.77 | 121.34 | 134.47 | 0.03 | 10.82 |
| Medical care | 6.33 | 114.83 | 128.59 | 0.00 | 11.99 |
| Transportation | 5.68 | 106.97 | 114.25 | 0.00 | 6.81 |
| Communications | 3.12 | 95.47 | 97.02 | 0.00 | 1.62 |
| Recreation and Culture | 2.43 | 125.75 | 144.45 | 0.39 | 14.87 |
| Education | 4.63 | 152.18 | 157.94 | 0.00 | 3.78 |
| Hotels, cafes and restaurants | 4.43 | 139.72 | 148.54 | 0.00 | 6.31 |
| Miscellaneous goods and services | 3.73 | 105.88 | 106.36 | 0.07 | 0.45 |
| Selective aggregates | | | | | |
| Fruits & vegetables 3/ | 6.90 | 195.90 | 211.13 | -7.33 | 7.78 |
| Regulated items | 18.66 | 129.78 | 137.65 | 1.29 | 6.06 |
| Food excl. fruits & vegetables | 31.08 | 145.18 | 164.63 | -0.51 | 13.40 |
| Retail items | 14.48 | 114.80 | 120.82 | 0.02 | 5.25 |
| Paid services | 5.87 | 129.10 | 137.03 | 0.00 | 6.15 |
| Other services | 23.00 | 115.47 | 120.29 | 0.05 | 4.18 |
| Core CPI | 74.43 | 128.82 | 140.23 | -0.23 | 8.86 |

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits