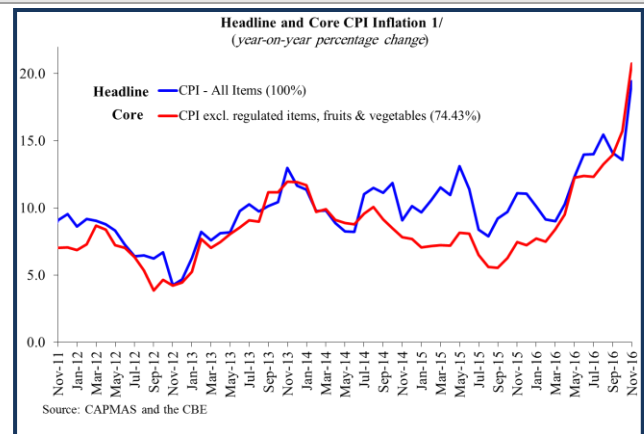
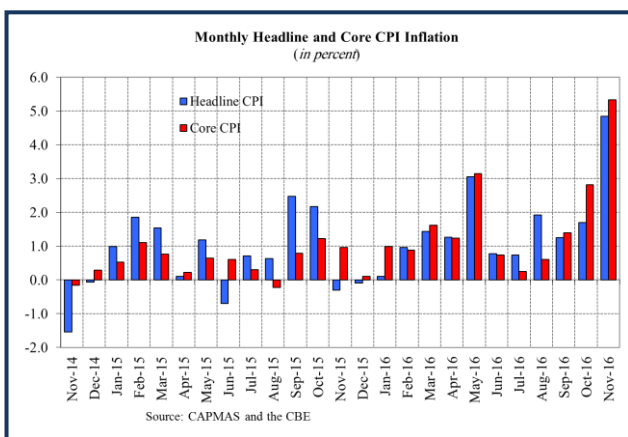


Headline and Core Inflation – November 2016

Headline CPI published by the Central Agency for Public Mobilization and Statistics on December 8, 2016 increased by 4.85 percent (m/m) in November 2016 compared to 1.70 percent (m/m) in October 2016. The annual rate increased to 19.43 percent in November from 13.56 percent in October. On the 3rd of November, the Central Bank of Egypt moved to a liberalized exchange rate regime, and the government reform program regained momentum resulting in upward adjustment of several regulated prices. In addition to the direct effect of cutting subsidies on petroleum products, the increase in the prices of inland transportation and several core food items reflected indirect effects as well as cost-push effects from the exchange rate depreciation. Core food inflation was primarily due to increases in red meat, poultry, milk, cheese, as well as oil and fat prices. Continued supply shocks related to rice and sugar, as well as increases in the prices of fresh vegetables have further contributed to food inflation. The main contribution to non-food inflation came from higher retail prices, particularly clothing and footwear, medical products and HH cleaning products. This was followed by the contribution of other services, mainly cafés and restaurants, while the contribution of paid services was weak. Given the increase in core items, core CPI computed by the Central Bank of Egypt accelerated by 5.33 percent (m/m) in November 2016 compared to 2.81 percent (m/m) in October 2016 and the annual rate increased to 20.73 percent in November from 15.72 percent in October.¹

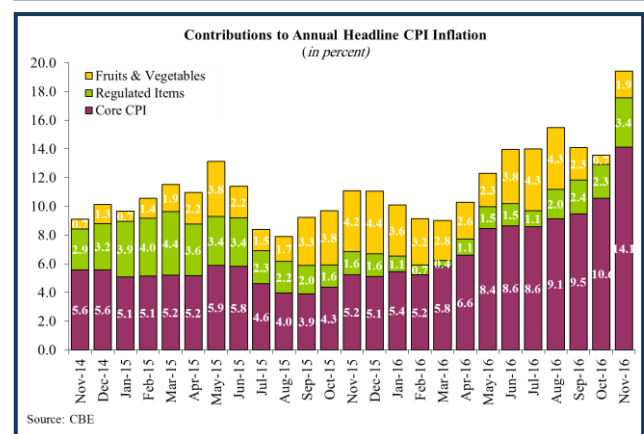
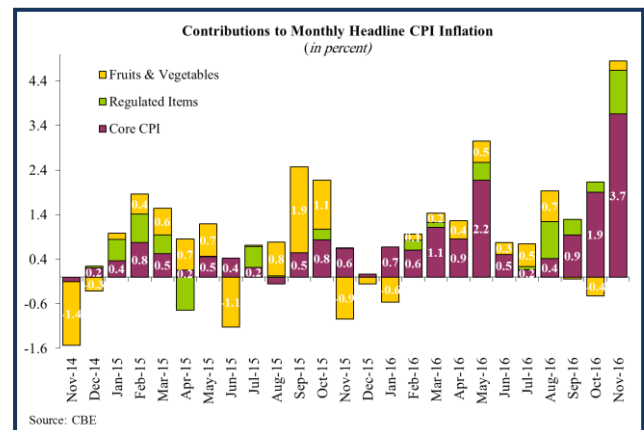


1. Headline CPI²

Headline CPI rose by 4.85 percent (m/m) in November 2016 compared to 1.70 percent (m/m) in October, which is significantly above the average monthly increase during the first ten months of 2016 that records 1.32 percent. The annual rate increased to 19.43 percent in November from 13.56 percent in October.

Key Highlights

- As part of the government reform program, prices of diesel, gasoline, butane cylinder, fuel oil, and inland transportation were adjusted upward. The price increases registered 30.4, 25.5, 12.4, 20.7 and 11.5 percent, respectively. This came in addition to the increase in the prices of tobacco and medical products by 8.1 and 9.5 percent, respectively. The weighted price increase of these items registered 5.34 percent (m/m), contributing by 0.98 percentage points to monthly headline inflation.



- The prices of fresh vegetables increased by 2.09 percent (m/m), while price of fresh fruits declined by 0.35 percent (m/m). Together they contributed by 0.22 percentage points to monthly headline inflation.
- The prices of red meat and poultry increased by 5.07 and 3.04 percent (m/m), respectively, contributing jointly by 0.53 percentage points to monthly headline inflation.
- The prices of milk, cheese and eggs increased by 6.46 percent, which contributed by 0.39 percentage points to monthly headline inflation. This was mainly due to the increase in the prices of milk by 8.0 percent, cheese by 8.9 percent and eggs by 2.2 percent.
- The prices of oil and fats increased by 9.30 percent, which contributed by 0.29 percentage points to monthly headline inflation. This was mainly due to the increase in the prices olive oil, other edible oil, imported and domestic butter and ghee, as well as margarine.
- Rice prices continued to increase, registering 5.71 percent (m/m) and contributing by 0.15 percentage points to monthly headline inflation. This brings the cumulative monthly increase since the beginning of 2016 to 51.13 percent.
- The prices of sugar and confectionary increased for the fifth consecutive month, growing by 14.60 percent to contribute by 0.22 percentage point to monthly headline inflation, partly due to domestic supply shocks and the increase in international prices. This brings the cumulative monthly increase since the beginning of 2016 to 40.58 percent.
- The prices of other food items including, bakery products, bread, wheat, wheat flour, maize, pasta, fish and sea food, processed meat, pulses, dried fruits, processed vegetables, soft drinks and tea picked up to contribute jointly by 0.53 percentage points to monthly headline inflation.
- The prices of retail items increased by 8.43 percent (m/m) to contribute by 0.96 percentage points to monthly headline inflation. Increases were witnessed in several items, such as clothing, footwear, medical products, cars, motorcycle, spare parts, motor oils, HH appliances, HH textile, HH cleaning products, glassware, tableware, fur-

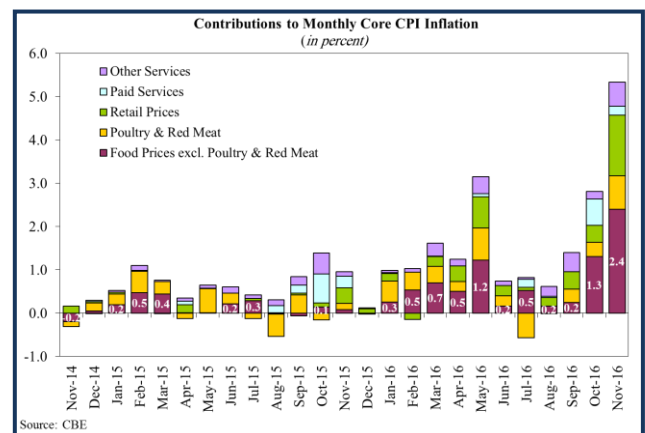
niture, floor covering, personal care products, products relating to dwelling repairs and gold.

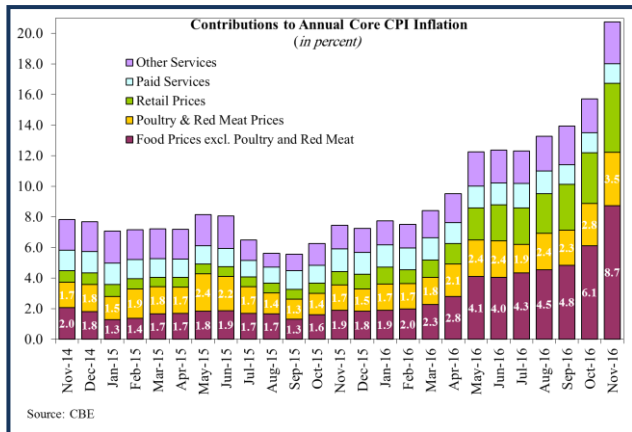
- The prices of other services increased by 2.21 percent (m/m) to contribute by 0.38 percentage points to monthly headline inflation, which was mainly driven by the increase in the prices of cafés and restaurants as well as inland transportation.
- The prices of paid services increased by 2.37 percent (m/m) to contribute by 0.14 percentage points to monthly headline inflation. This was mainly driven by the increase in the prices of maintenance services, vehicle services, HH operation and domestic services as well as HH appliances maintenance.

2. Core Inflation²

Core CPI computed by the Central Bank of Egypt increased by 5.33 percent (m/m) in November 2016 compared to 2.81 percent (m/m) in October, which is significantly above the average monthly pace during the first ten months of 2016 that records 1.37 percent. The annual rate increased to 20.73 percent in November from 15.72 percent in October.

The monthly dynamics were mainly driven by the developments in the prices of previously mentioned core food items, which contributed by 3.17 percentage points to monthly core inflation. This came in addition to the increase in the prices of retail items, other services and paid services that contributed by 1.40, 0.55 and 0.21 percentage points, respectively.





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/	November 2015	November 2016	November 2016 to October 2016	November 2016 to November 2015
	(in percent)	(index)		(percentage change)	
		(January 2010 = 100)			
Headline - All items	100.00	171.88	205.27	4.85	19.43
Food and beverages	39.92	203.81	247.63	4.97	21.50
Tobacco and related products	2.19	316.60	400.66	8.05	26.55
Clothing and footwear	5.41	130.94	156.93	10.48	19.85
Housing, water, electricity, gas and other fuels	18.37	128.62	139.11	1.63	8.15
Furnishings, household equipment and routine maintenance of the dwelling	3.77	145.02	177.75	6.92	22.57
Medical care	6.33	143.32	182.63	5.77	27.43
Transportation	5.68	140.79	171.70	13.35	21.96
Communications	3.12	96.85	98.59	0.03	1.80
Recreation and Culture	2.43	179.37	209.28	0.84	16.67
Education	4.63	219.01	246.00	0.00	12.32
Hotels, cafes and restaurants	4.43	193.64	243.03	4.82	25.51
Miscellaneous goods and services	3.73	113.97	141.70	3.84	24.33
Selective aggregates					
Fruits & vegetables 3/	6.90	332.99	379.26	1.65	13.90
Regulated items	18.66	170.56	202.32	5.34	18.62
Food excl. fruits & vegetables	31.08	181.38	227.37	6.41	25.35
Retail items	14.48	129.96	166.48	8.43	28.10
Paid services	5.87	183.44	208.69	2.37	13.77
Other services	23.00	135.20	149.12	2.21	10.30
Core CPI	74.43	157.27	189.87	5.33	20.73
1/ Source: CAPMAS and CBE calculations					
2/ Based on 2008/2009 Household Expenditure Survey					
3/ Excluding pulses, processed vegetables and dried fruits					