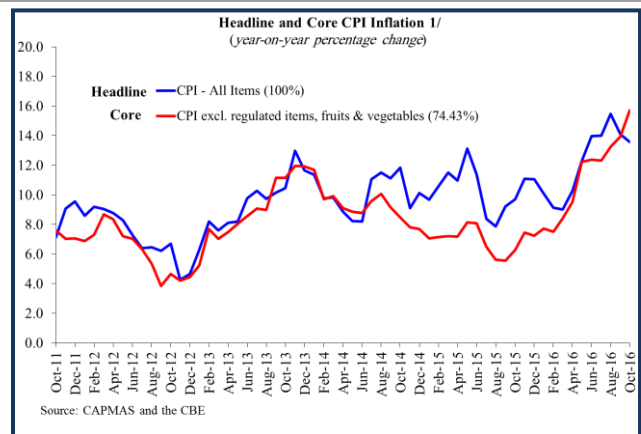
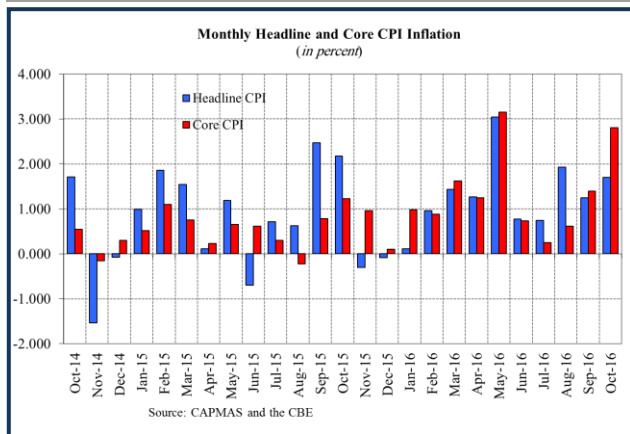


Headline and Core Inflation – October 2016

Headline CPI published by the Central Agency for Public Mobilization and Statistics on November 10, 2016 increased by 1.70 percent (m/m) in October 2016 compared to 1.25 percent (m/m) in September 2016. The annual rate declined to 13.56 percent in October from 14.09 percent in September as a result of a favorable base effect from the previous year. The monthly increase was mainly driven by higher prices of some food items, primarily red meat as well as oil and fats, in addition to supply shocks related to rice and sugar, which were partly offset by the decline of fresh fruits and vegetables. Furthermore prices of regulated items rose due to public lessons and government school fees. In the meantime, the increase in private lessons and school fees affected prices of paid and other services, respectively, while retail prices rose due to several items. Meanwhile, core CPI computed by the Central Bank of Egypt increased by 2.81 percent (m/m) in October 2016 compared to 1.39 percent (m/m) in September 2016. The annual rate increased to 15.72 percent in October from 13.93 percent in September.¹

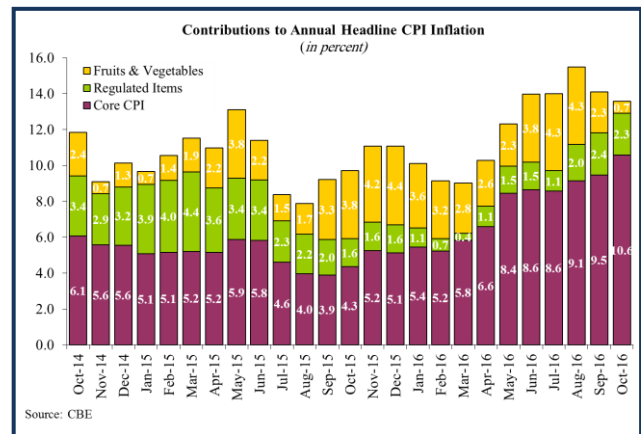
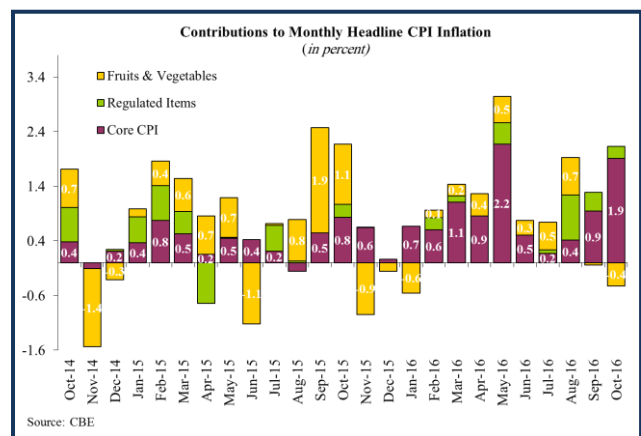


1. Headline CPI²

Headline CPI rose by 1.70 percent (m/m) in October 2016 compared to 1.25 percent (m/m) in September, which is above to the average monthly increase during the first nine months of 2016 that records 1.28 percent. The annual rate declined to 13.56 percent in October from 14.09 percent in September, on the back of a favorable base effect from the previous year.

Key Highlights

- Prices of regulated items increased by 1.21 percent (m/m), contributing by 0.22 percentage points to monthly headline inflation. This was attributed to the increase in public school tuition fees and prices of public lessons, which rose by 3.79 percent and 34.31 percent, respectively.
- The prices of fresh vegetables and fruits declined by 3.23 percent and 2.52 percent (m/m), respectively. Together they contributed by negative 0.43 percentage points to monthly headline inflation.
- The prices of red meat increased by 3.56 percent (m/m) to contribute by 0.27 percentage points to monthly headline inflation. In the meantime, prices of poultry registered its third decline over the last four month, dropping by 1.02 percent (m/m) to contribute by negative 0.05 percentage points to monthly headline inflation.



- The prices of rice rebounded by 6.12 percent (m/m) to contribute by 0.16 percentage point to monthly headline inflation, after declining over the last two months. This brings the cumulative monthly increase since the beginning of 2016 to 45.42 percent.
- The prices of sugar and confectionary increased for the fourth consecutive month, growing by 8.18 percent to contribute by 0.12 percentage point to monthly headline inflation, partly due to domestic supply shocks and the increase in international prices.
- The prices of oil and fats increased by 7.68 percent and 6.30 percent, respectively, which contributed jointly by 0.30 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.
- The prices of other food items including, bakery products, afrangi bread, wheat, wheat flour, maize, pasta, fish and sea food, processed meat, pulses and dried fruits picked up to contribute jointly by 0.31 percentage points to monthly headline inflation.
- The prices of retail items increased by 2.34 percent (m/m) to contribute by 0.26 percentage points to monthly headline inflation. The notable increases were witnessed in the prices of cars, motorcycle, spare parts, HH appliances, books, glassware, tableware, furniture and gold.
- The prices of other services increased by 0.69 percent (m/m) to contribute by 0.12 percentage points to monthly headline inflation, which was mainly driven by the increase in the prices of restaurant services as well as private school fees.
- The prices of paid services increased by 7.13 percent (m/m) to contribute by 0.41 percentage points to monthly headline inflation. This was mainly driven by the increase in the prices of private lessons.

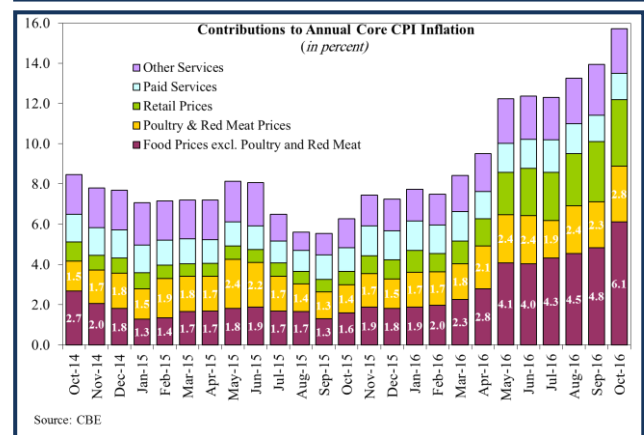
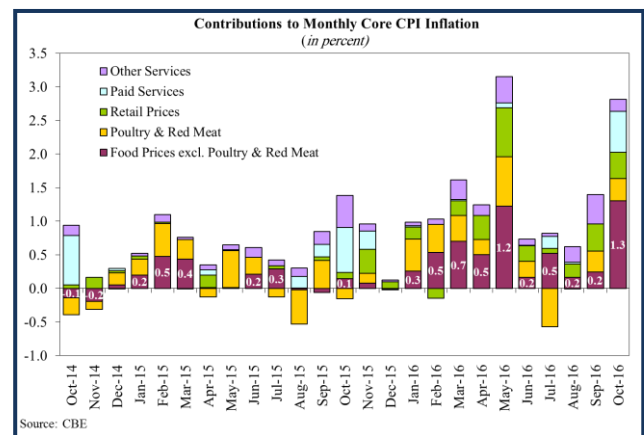
2. Core Inflation²

Core CPI computed by the Central Bank of Egypt increased by 2.81 percent (m/m) in October 2016 compared to 1.39 percent (m/m) in September, which is above the average monthly pace during the first nine months of 2016 that records 1.21 percent. The annual

rate increased to 15.72 percent in October from 13.93 percent in September.

The monthly dynamics were mainly driven by the developments in the prices of previously mentioned core food items, which contributed by 1.64 percentage points to monthly core inflation. This came in addition to the prices of retail items, paid services and other services that contributed by 0.39 , 0.61 and 0.18 percentage points, respectively.

In addition the favorable base effect in the annual headline inflation rate, it is worth mentioning that the relatively higher core inflation rate was due to the decline in prices of volatile food items that had a negative contribution to headline inflation which is not reflected in core inflation. This comes in addition to the relatively higher weights of the items that witnessed an increase in 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 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/	October 2015	October 2016	October 2016 to September 2016	October 2016 to October 2015
	(in percent)	(index)		(percentage change)	
		(January 2010 = 100)			
Headline - All items	100.00	172.39	195.78	1.70	13.56
Food and beverages	39.92	207.25	235.90	1.41	13.82
Tobacco and related products	2.19	316.60	370.82	0.00	17.13
Clothing and footwear	5.41	125.65	142.04	0.00	13.04
Housing, water, electricity, gas and other fuels	18.37	128.50	136.88	0.10	6.52
Furnishings, household equipment and routine maintenance of the dwelling	3.77	143.97	166.24	2.59	15.47
Medical care	6.33	136.64	172.67	0.11	26.37
Transportation	5.68	140.73	151.47	1.63	7.63
Communications	3.12	96.85	98.56	0.03	1.77
Recreation and Culture	2.43	179.31	207.53	1.35	15.74
Education	4.63	219.01	246.00	12.32	12.32
Hotels, cafes and restaurants	4.43	193.11	231.85	1.59	20.06
Miscellaneous goods and services	3.73	112.36	136.46	3.08	21.45
Selective aggregates					
Fruits & vegetables 3/	6.90	356.64	373.11	-3.10	4.62
Regulated items	18.66	170.51	192.06	1.21	12.64
Food excl. fruits & vegetables	31.08	180.55	213.68	3.32	18.35
Retail items	14.48	127.10	153.53	2.34	20.80
Paid services	5.87	178.06	203.86	7.13	14.49
Other services	23.00	134.67	145.90	0.69	8.34
Core CPI	74.43	155.78	180.26	2.81	15.72
1/ Source: CAPMAS and CBE calculations					
2/ Based on 2008/2009 Household Expenditure Survey					
3/ Excluding pulses, processed vegetables and dried fruits					