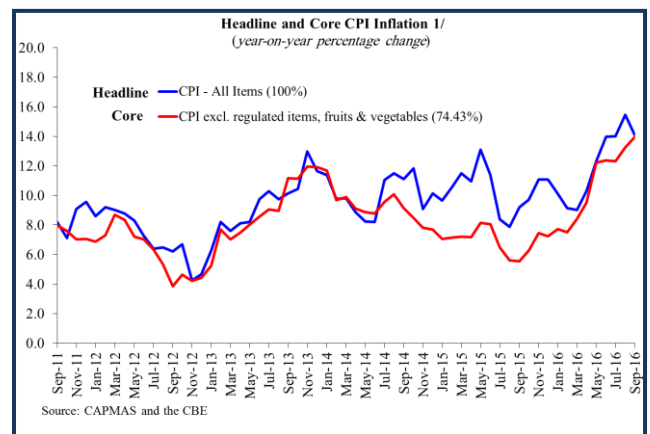
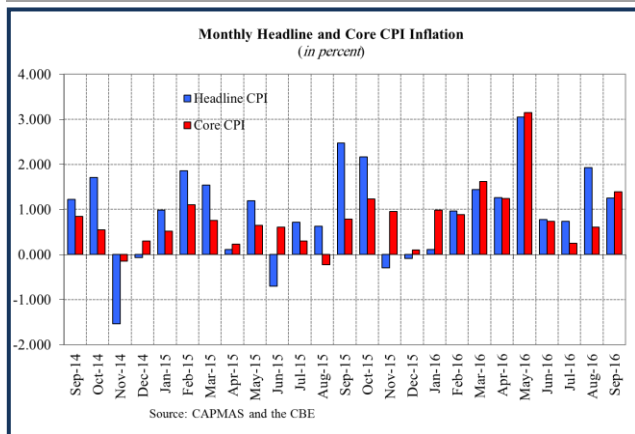


Headline and Core Inflation – September 2016

Headline CPI published by the Central Agency for Public Mobilization and Statistics on October 10, 2016 increased by 1.25 percent (m/m) in September 2016 compared to 1.93 percent (m/m) in August 2016. The annual rate declined to 14.09 percent in September from 15.47 percent in August as a result of a favorable base effect from the previous year. The monthly increase was driven by higher prices of regulated items due to tobacco, which was partly offset by the decline of butane cylinder prices. Furthermore, prices of several food items rose, primarily red meat, dairy products and eggs, while rice prices declined. This came in addition to increases in retail items and other services, namely clothing, footwear, restaurants and cafés, while prices of paid services remained unchanged. Meanwhile, core CPI computed by the Central Bank of Egypt increased by 1.39 percent (m/m) in September 2016 compared to 0.61 percent (m/m) in August 2016. The annual rate increased to 13.93 percent in September from 13.25 percent in August.¹

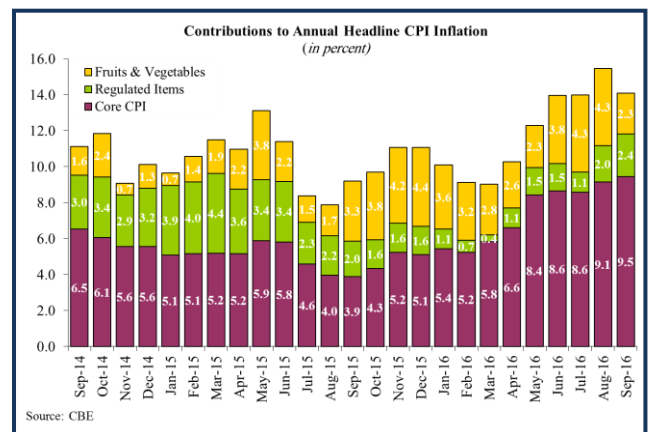
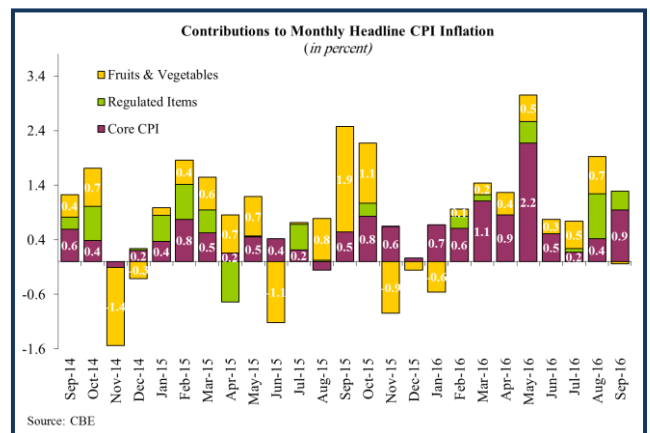


1. Headline CPI²

Headline CPI rose by 1.25 percent (m/m) in September 2016 compared to 1.93 percent (m/m) in August, which is close to the average monthly increase during the first eight months of 2016 that records 1.28 percent. The annual rate declined to 14.09 percent in September from 15.47 percent in August, on the back of a favorable base effect from the previous year.

Key Highlights

- Prices of regulated items increased by 1.91 percent (m/m) in September, contributing by 0.35 percentage points to monthly headline inflation. This was attributed to higher prices of tobacco by 14.5 percent related to the VAT, which contributed by 0.54 percentage points to monthly headline inflation. On the other hand prices of butane cylinders declined by 17.8 percent, offsetting the contribution of tobacco prices by 0.19 percentage points.
- The prices of fresh vegetables declined by 0.85 percent (m/m), while prices of fresh fruits increased by 2.26 percent (m/m). Together they contributed by negative 0.04 percentage points to monthly headline inflation.

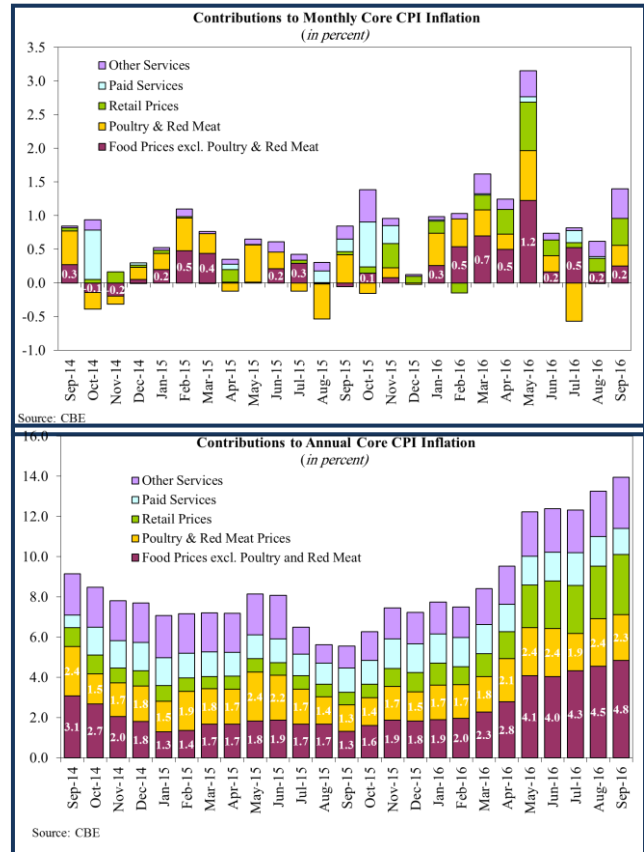


- The prices of red meat increased by 2.79 percent (m/m) to contribute by 0.21 percentage points to monthly headline inflation. In the meantime, prices of poultry remained unchanged.
- The prices of fish and sea food declined by 0.90 percent to contribute by negative 0.03 percentage point to monthly headline inflation.
- The prices of rice declined for the second consecutive month by 9.46 percent to contribute by negative 0.27 percentage point to monthly headline inflation. This narrows the cumulative monthly increase since the beginning of 2016 to 39.30 percent.
- The prices of milk, cheese and eggs increased by 4.0 percent, 2.94 percent and 2.17 percent, respectively, which contributed jointly by 0.18 percentage points to monthly headline inflation
- The prices of other food items including imported and domestic butter, sugar, margarine, other edible oils, tea, coffee and bakery products picked up to contribute jointly by 0.28 percentage points to monthly headline inflation.
- The prices of retail items increased by 2.43 percent (m/m) to contribute by 0.27 percentage points to monthly headline inflation. The notable increases were witnessed in the prices of clothing, footwear, cars, HH appliances and stationary and school supplies.
- The prices of other services increased by 1.72 percent (m/m) to contribute by 0.30 percentage points to monthly headline inflation, which was mainly driven by the increase in the prices of restaurant and café services as well as mobile phone services related to the VAT. Meanwhile, prices of paid services remained unchanged.

2. Core Inflation²

Core CPI computed by the Central Bank of Egypt increased by 1.39 percent (m/m) in September 2016 compared to an increase by 0.61 percent (m/m) in August, which is above the average monthly pace during the first eight months of 2016 that records 1.18 percent. The annual rate increased to 13.93 percent in September from 13.25 percent in August.

The monthly dynamics were mainly driven by the developments in the prices of previously mentioned core food items, which contribute by 0.56 percentage points to monthly core inflation. This came in addition to the increase in the prices of retail items and other services that contributed by 0.40 percentage points and 0.44 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/ | September 2015 | September 2016 | September 2016 to August 2016 | September 2016 to September 2015 |
|---|------------------------|----------------------|-------------------|----------------------------------|--|
| | (in percent) | (index) | | (percentage change) | |
| | | (January 2010 = 100) | | | |
| Headline - All items | 100.00 | 168.73 | 192.50 | 1.25 | 14.09 |
| Food and beverages | 39.92 | 202.62 | 232.62 | 0.69 | 14.80 |
| Tobacco and related products | 2.19 | 314.57 | 370.82 | 14.47 | 17.88 |
| Clothing and footwear | 5.41 | 124.46 | 142.04 | 4.12 | 14.13 |
| Housing, water, electricity, gas and other fuels | 18.37 | 128.50 | 136.75 | -1.43 | 6.42 |
| Furnishings, household equipment and routine maintenance of the dwelling | 3.77 | 142.45 | 162.05 | 0.10 | 13.76 |
| Medical care | 6.33 | 136.64 | 172.48 | 0.00 | 26.23 |
| Transportation | 5.68 | 139.65 | 149.05 | 0.59 | 6.73 |
| Communications | 3.12 | 96.85 | 98.54 | 1.67 | 1.74 |
| Recreation and Culture | 2.43 | 177.00 | 204.76 | 1.19 | 15.69 |
| Education | 4.63 | 196.93 | 219.01 | 0.00 | 11.21 |
| Hotels, cafes and restaurants | 4.43 | 181.92 | 228.23 | 5.36 | 25.45 |
| Miscellaneous goods and services | 3.73 | 112.03 | 132.38 | 2.02 | 18.17 |
| Selective aggregates | | | | | |
| Fruits & vegetables 3/ | 6.90 | 329.74 | 385.06 | -0.31 | 16.78 |
| Regulated items | 18.66 | 168.38 | 189.77 | 1.91 | 12.70 |
| Food excl. fruits & vegetables | 31.08 | 180.58 | 206.81 | 1.12 | 14.53 |
| Retail items | 14.48 | 126.37 | 150.02 | 2.43 | 18.72 |
| Paid services | 5.87 | 165.06 | 190.28 | 0.00 | 15.28 |
| Other services | 23.00 | 132.29 | 144.90 | 1.72 | 9.54 |
| Core CPI | 74.43 | 153.88 | 175.33 | 1.39 | 13.93 |

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits