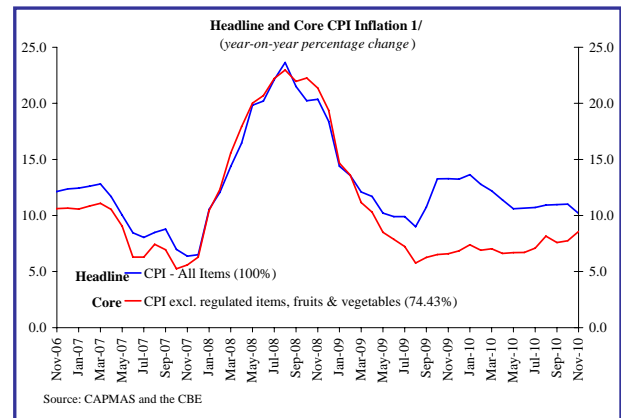
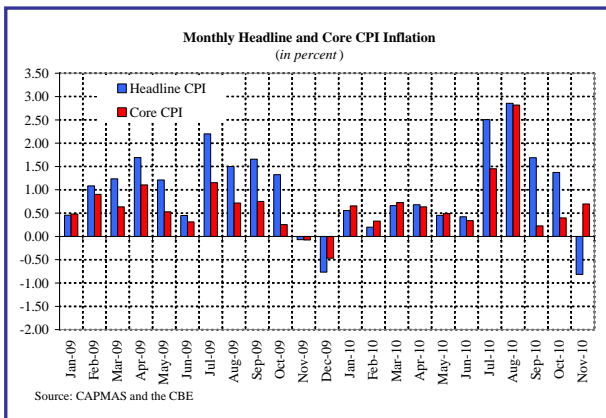


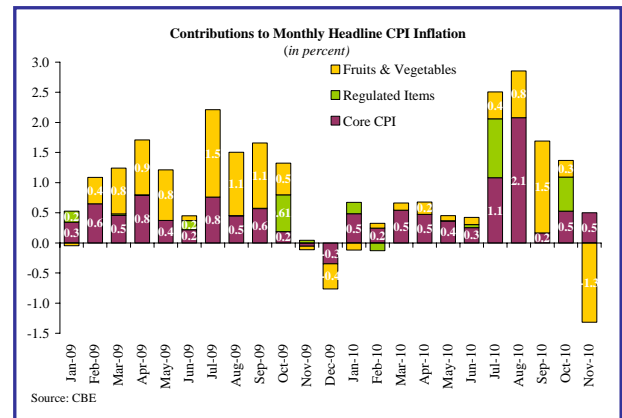
Headline and Core Inflation – November 2010

Headline CPI published by CAPMAS on December 9, 2010 declined by 0.82 percent (m/m) in November 2010 compared to the 1.37 percent increase in October. The annual rate decelerated to 10.19 percent in November from 11.02 percent (y/y) registered in October. The monthly decline was mainly driven by the sharp drop in the prices of vegetables, which more than offset the increase in the prices of other food items particularly rice, wheat flour, poultry, edible oils as well as sugar. In the meantime, core CPI computed by the Central Bank of Egypt increased by 0.69 percent (m/m) in November compared to 0.40 percent in October. This came on the back of the increase in the prices of the above mentioned food items. On the other hand, retail prices witnessed a seasonal increase, associated with Eid festivities, reflected in the inch up in the prices of clothing & footwear, while paid services remained broadly unchanged. The annual rate increased to 8.58 percent in November from 7.75 percent (y/y) in October.¹



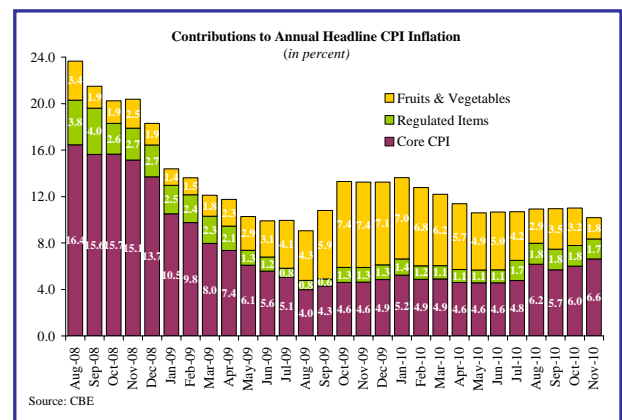
1. Headline CPI²

Headline CPI declined by 0.82 percent (m/m) in November following the 1.37 percent (m/m) increase in October, which marks the first monthly decline since December 2009. Nonetheless, the average monthly pace of 1.52 percent recorded in the second half of 2010 remains well above the 0.49 percent witnessed in the first half of the year. The annual headline rate decelerated to 10.19 percent in November compared to 11.02 percent registered in October.



Key Highlights

- The prices of vegetables recorded a negative monthly growth rate of 18.22 percent (m/m) in November, contributing by -1.34 percentage points to the monthly headline CPI inflation. The decline in vegetable prices was mainly driven by the significant drop in tomato prices, which fell by more than 40 percent in November. The prices of other vegetables also dropped.

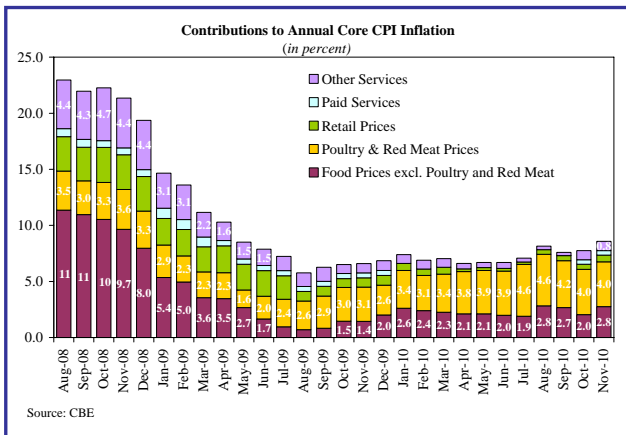
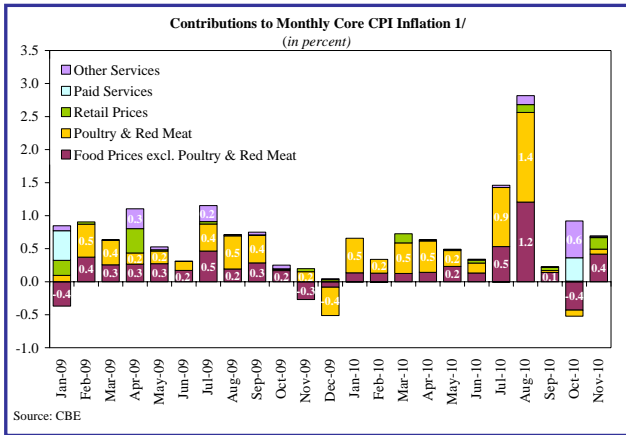


- In the meantime, prices of fruits increased by 1.06 percent, compared to an average monthly pace of 4.33 percent during 2009 and 0.67 percent since the beginning of the year and through October 2010. While the latest broad-based development in the prices of fruits and vegetables is favorable, future changes in their prices will continue to be closely monitored, given their impact on headline inflation.
- After declining by a cumulative 11.06 percent in the previous two months, the price of poultry inched up slightly by 1.30 percent in November. This brings the cumulative monthly increase to 28.01 percent since the beginning of 2010.
 - The prices of red meat remained unchanged in November, following sharp increases which led to a cumulative 31.64 percent increase since January 2010. The encouraging development in prices of poultry and red meat could be partly attributed to the Central Bank's decision to exempt imports of frozen meat and poultry from the minimum cash cover requirement for six months starting October 2010. In addition, government actions were taken to increase imports of meat ahead of Eid in order to alleviate domestic price pressures.
 - Rice prices increased by 6.03 percent in November despite the announced ban on rice exports through October 2011 which initially led to a cumulative decline of 7.45 in rice prices in the previous two months. This accompanied by the rise in the prices of wheat flour contributed by 0.14 percentage points to headline CPI inflation during November.
 - Sugar prices increased for the third consecutive month since September, bringing the cumulative increase to 12.30 percent. It is worth noting that international sugar prices have increased significantly during the second half of 2010, as sugar harvest in major exporting economies remain under supply pressures, particularly in Brazil, India, China and Russia due to adverse weather conditions.
 - Prices of oils and fats have increased by 1.96 percent in November, which is relatively higher than the average monthly pace of 0.76 percent witnessed during 2010 H1. While the prices of oils & fats contributed by just 0.06 percentage points to headline CPI inflation, the increase in international prices of edible oil since July 2010 could further pressure domestic prices in the coming months.
 - Retail prices witnessed a seasonal increase of 1 percent in November, associated with Eid festivities, which was reflected in the inch up in the prices of clothing & footwear and HH textiles to contribute by 0.13 percentage points to the monthly headline inflation.

2. Core Inflation²

Core CPI increased by 0.69 percent (m/m) in November compared to 0.40 (m/m) in October, which comes in contrast to the sharp acceleration of 2.82 percent (m/m) and 1.45 percent (m/m) registered in August and July, respectively. Nonetheless, this month's increase is higher than the average monthly pace of 0.53 percent recorded in 2010 H1. The annual rate increased to 8.58 percent in November from 7.75 percent in October.

The monthly increase in November was mainly driven by the rise in the prices of several food items particularly rice, sugar, edible oils & fats and poultry, which contributed by 0.49 percentage points to the monthly core inflation. In the meantime, retail prices increased by 1 percent during November, due to reasons discussed in the previous section, contributing by 0.18 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 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		