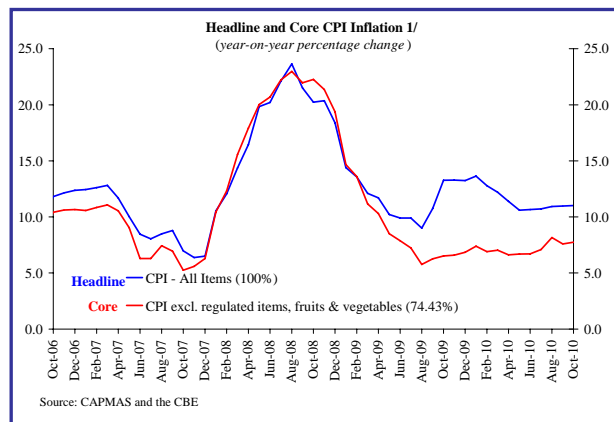
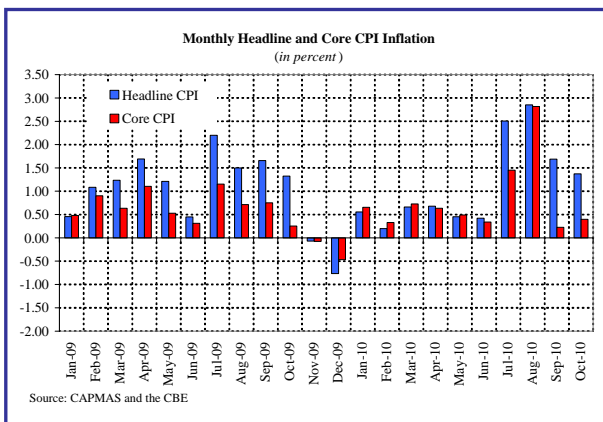


Headline and Core Inflation – October 2010

Headline CPI published by CAPMAS on November 10, 2010 increased by 1.37 percent (m/m) in October 2010 compared to 1.69 percent in September. The annual rate remained broadly unchanged at 11.02 percent supported by favorable base effects from last year. The monthly increase was mainly driven by the annual adjustment in school tuition that take place in October of every year as well as an increase in private tutoring fees in addition to a moderate acceleration in the prices of vegetables. For the second consecutive month, the prices of poultry and rice declined in October after witnessing sharp previous increases in light of supply shortages. In the meantime, core CPI computed by the Central Bank of Egypt inched up 0.40 percent (m/m) in October following an increase of 0.22 percent (m/m) in September. The slowdown in the monthly rate in October and September was mainly driven by the above mentioned decline in poultry and rice prices along with a significantly lower increase in the prices of red meat compared to previous months. Meanwhile, paid services increased for the first time since February 2009 while retail prices remained broadly unchanged. The annual rate increased from 7.59 percent in September to 7.75 percent in October.¹

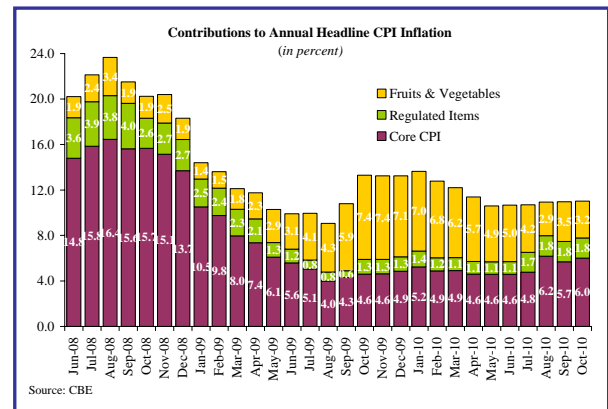
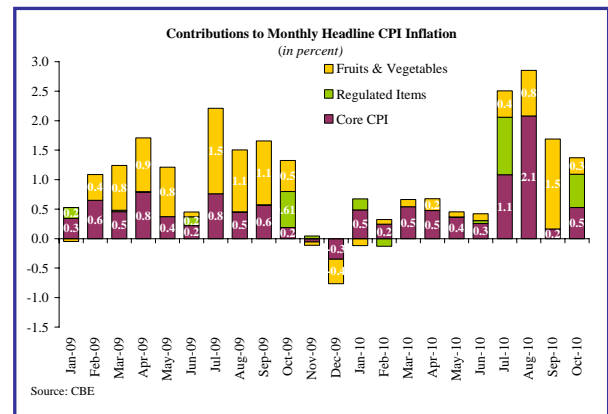


1. Headline CPI²

Headline CPI increased by 1.37 percent (m/m) in October following 1.69 percent (m/m) in September, which marks a slowdown in the monthly pace after the 2.85 percent and the 2.51 percent recorded in August and July, respectively. Nonetheless, the average monthly pace of 2.11 percent recorded in the second half of 2010 remains well above that witnessed during the first half of the year which amounted to 0.49 percent. The annual headline rate remained broadly unchanged, registering 11.02 percent in October compared to 10.97 percent in September.

Key Highlights

While the prices of fruits declined by 7.51 percent (m/m) in October, the prices of vegetables continued to increase albeit at a moderate pace of 6.69 percent compared to the record high of 24.34 percent (m/m) registered in September. The increase in the prices of vegetables contributed by



0.47 percentage points to the monthly headline inflation. Nonetheless, the bulk of this month's acceleration in vegetable prices was mainly driven by the prices of tomatoes which more than outweighed the broad-based decline in the prices of other vegetables, most notably green beans, potatoes and cucumbers. While the latest broad-based decline in the prices of fruits and vegetables, except for tomatoes, comes as a favorable development, future changes in their prices will continue to be closely monitored, given their impact on headline inflation.

- Regulated prices rose by 3.16 percent (m/m) in October on the back of a 23.52 percent (m/m) increase in government school tuition fees which take place in October with the start of the school year. This increase contributed by 0.47 percentage points to the monthly headline inflation.
- For the second consecutive month, the prices of poultry continued to decline, falling by 5.65 percent in October, after witnessing sharp accelerations in July and August 2010 in light of supply shortages. The decline in October and September is yet marginal compared to the cumulative monthly increase of 37.77 percent in poultry prices recorded between January and August 2010.
- While the prices of red meat continued to accelerate in October, rising by 2.38 percent (m/m) the pace was significantly slower than that witnessed in previous months. This has led the cumulative acceleration in prices of red meat to reach 31.64 percent since January 2010. It is worth mentioning that the increase in the price of red meat was more than outweighed by the decline in the prices of poultry which nullified its impact on monthly headline inflation in October.
- For the second consecutive month, the prices of rice continued to decline, falling by 3.08 percent in October, after witnessing sharp increases between May and August 2010. Despite the decline over the past two months, rice prices recorded a cumulative

increase of 28.71 percent since May. The announced ban on rice exports until October 2011 is expected to further alleviate price pressures over the coming months.

- Other food items witnessed mixed developments in October. While the prices of local butter, cheese, edible oils, sugar, pulses, and processed vegetables increased marginally, the prices of fish & seafood, eggs, wheat flour, imported butter decreased by varying degrees resulting in a net negative contribution of 0.24 percentage points to the monthly headline inflation.
- While retail prices remained broadly unchanged, paid services increased by 9.33 percent (m/m) in October which marks the first acceleration since February 2009. This month's increase was driven by a rise of 27.6 percent (m/m) in private tutoring fees and a 4.84 percent (m/m) increase in physicians' fees, collectively contributing by 0.50 percentage points to the monthly headline inflation.
- Price increases in other services contributed by 0.40 percentage points to the monthly headline inflation in October, driven by an increase of 10.92 percent in the expenditure on restaurants as well as moderate inch ups in the prices of Hajj and Omra trips and private school tuition fees.

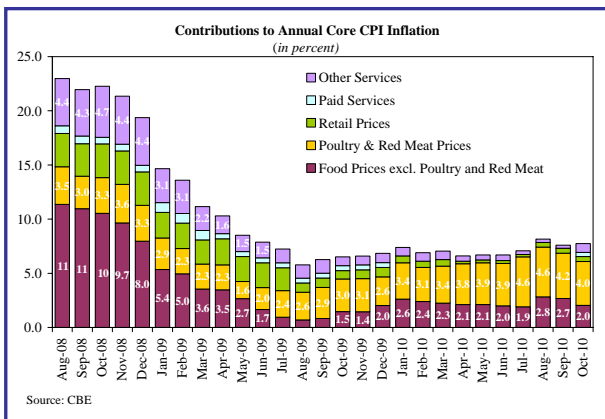
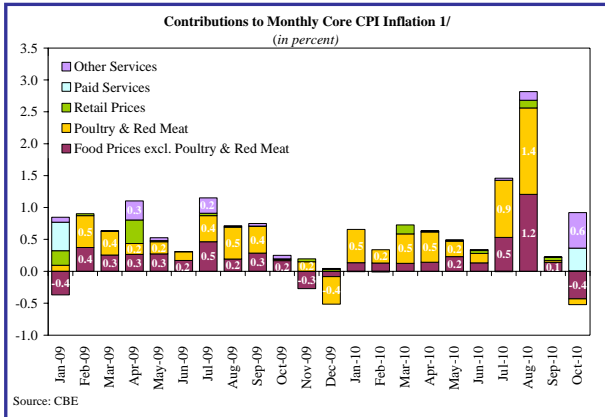
2. Core Inflation²

Core CPI inched up by 0.40 percent (m/m) in October following an increase of 0.22 percent (m/m) in September 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. This month's increase is well below the tame monthly pace of 0.53 percent recorded during 2010 H1. The annual rate increased from 7.59 percent in September to 7.75 percent in October.

The slowdown in the monthly rate in October and September was mainly driven by a decline in poultry and rice prices which were more than enough to outweigh the significantly lower increase in the prices of red meat compared to previous months. This coupled with the decline in other food items, as discussed in the previous section, contributed by a

negative 0.52 percentage points to the monthly core inflation.

Price changes in paid services and other services witnessed during October, as discussed in the previous section, have contributed by 0.36 percentage points and 0.56 percentage points, respectively 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		

Table 2.
Consumer Price Index and Major Components 1/

	Weight in basket 2/	October 2009	October 2010	October 2010 to September 2010	October 2010 to October 2009
	(in percent)	(index)	(index)	(percentage change)	
		(January 2010 = 100)			
Headline - All items	100.00	100.28	111.33	1.37	11.02
Food and beverages	39.92	101.45	121.07	-0.23	19.34
Tobacco and related products	2.19	100.00	143.16	0.00	43.16
Clothing and footwear	5.41	99.39	100.87	-1.14	1.49
Housing, water, electricity, gas and other fuels	18.37	98.75	99.30	0.00	0.56
Furnishings, household equipment and routine maintenance of the dwelling	3.77	99.55	102.86	0.11	3.32
Medical care	6.33	100.00	101.03	1.03	1.03
Transportation	5.68	100.00	101.04	0.14	1.04
Communications	3.12	100.00	99.87	0.00	-0.13
Recreation and Culture	2.43	100.46	105.66	2.92	5.17
Education	4.63	100.00	124.31	24.31	24.31
Hotels, cafes and restaurants	4.43	99.74	111.56	8.35	11.85
Miscellaneous goods and services	3.73	99.56	101.43	0.61	1.88
Selective aggregates					
Fruits & vegetables 3/	6.90	108.56	155.60	2.92	43.32
Regulated items	18.66	98.77	108.27	3.16	9.62
Food excl. fruits & vegetables	31.08	99.96	114.52	-1.16	14.57
Retail items	14.43	99.62	101.97	0.04	2.36
Paid services	5.87	100.00	109.41	9.33	9.41
Other services	23.06	99.95	102.58	1.91	2.63
Core CPI	74.43	99.89	107.64	0.40	7.75

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits