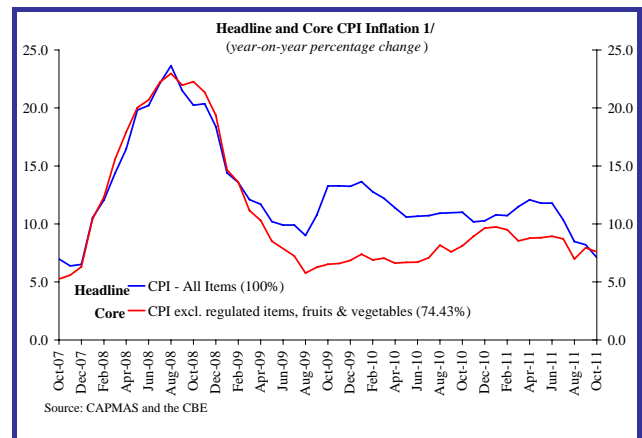
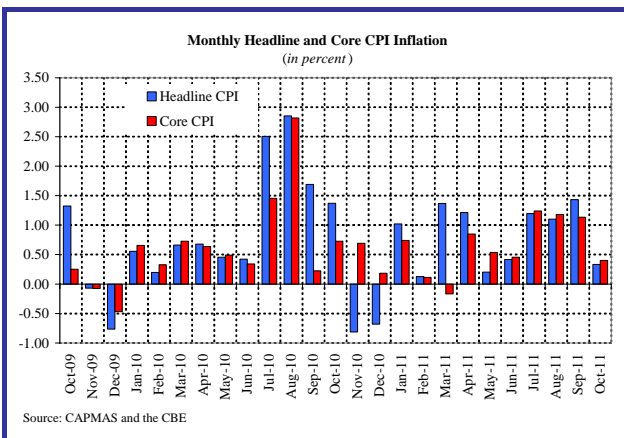


Headline and Core Inflation – October 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on November 10, 2011, inched up by 0.33 percent (m/m) in October compared to 1.43 percent (m/m) in September. The annual rate declined to 7.10 percent in October from 8.21 percent in the previous month, supported by favorable base effects from last year. The month-on-month development was mainly driven by the annual adjustment in school tuition that takes place in October of every year as well as an increase in tutoring fees. In addition, several food items, including red meat, poultry and eggs, witnessed moderate price increases that were largely offset by the decline in the prices of rice, fruits and vegetables. In the meantime, core CPI computed by the Central Bank of Egypt inched up by 0.40 percent (m/m) in October compared to 1.13 percent (m/m) in September. The annual rate declined to 7.60 percent in October compared to 7.95 percent recorded in September, supported by favorable base effects. While paid services witnessed a modest increase, retail prices remained broadly unchanged.¹

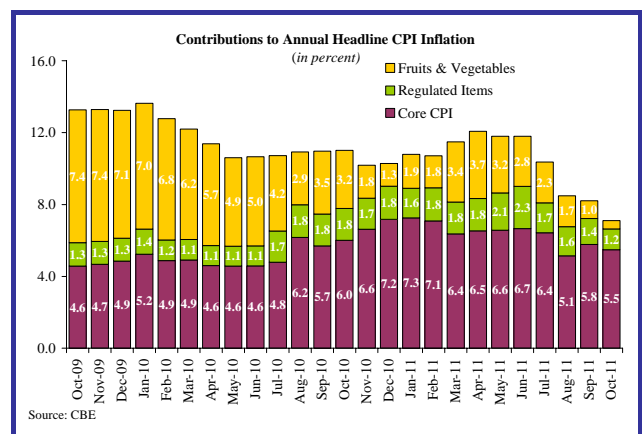
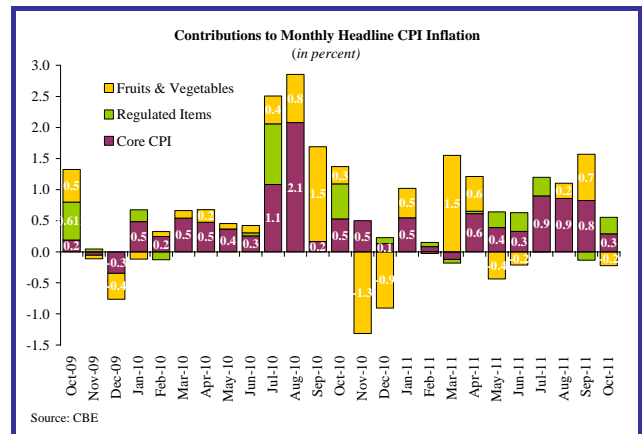


1. Headline CPI²

Headline CPI inched up by 0.33 percent (m/m) in October compared to 1.43 percent (m/m) in September, which is well below the average monthly pace of 0.90 percent recorded in the first nine months of 2011. Annual headline inflation declined further to 7.10 percent in October from 8.21 percent in September and 8.49 percent in August, supported by favorable base effects from last year.

Key Highlights

- Regulated prices increased by 1.48 percent (m/m) in October, mainly driven by an 8.69 percent (m/m) increase in public schools tuition fees as well as 20.34 percent (m/m) acceleration in public tutoring fees, which take place in October with the start of the school year. Together, tuition and tutoring fees contributed by 0.26 percentage points to monthly headline inflation.

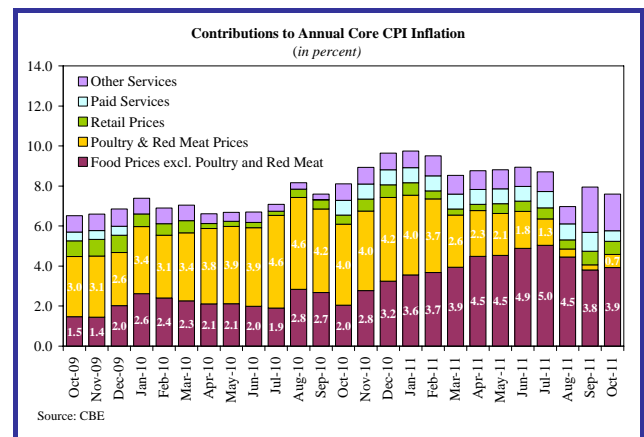
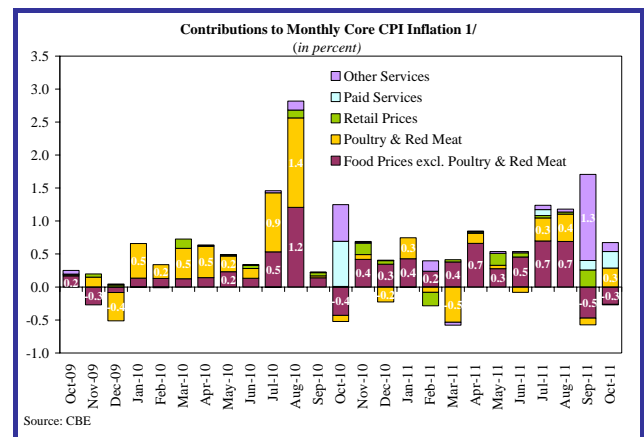


- Prices of fresh vegetables declined by 2.34 percent (m/m) in October, following a 20.41 percent cumulative increase in the previous three months. In the meantime, prices of fresh fruits continued to decline for the fifth consecutive month to register a cumulative decrease of 17.75 percent since June 2011. Together, prices of fruits and vegetables contributed by negative 0.22 percentage points to monthly headline inflation.
- Red meat prices continued to increase for the seventh consecutive month, rising by 1.84 percent (m/m) in October 2011, to record a cumulative increase of 9.33 percent since April 2011. In the meantime, poultry prices recorded a monthly increase of 1.99 percent (m/m) following a decline of 4.98 percent registered in the previous month. Prices of red meat and poultry contributed by 0.21 percentage points to monthly headline inflation.
- Rice prices declined for the second consecutive month, falling by 9.47 percent (m/m) in October, to contribute by negative 0.24 percentage points to monthly headline inflation. Despite the recent declines, rice prices witnessed a cumulative increase of 50.26 percent since November 2010. It is worth noting that the ban on rice exports has been extended into 2012 to ensure there is no shortage of supply.
- Prices of other food items witnessed mixed developments in October. While the prices of eggs, cheese, milk and butter, witnessed tame increases, the prices of fish & seafood and wheat flour decreased which offset the impact of price increases on monthly headline inflation.
- Paid services rose by 3.25 percent (m/m) in October to contribute by 0.18 percentage points to monthly headline inflation, driven by a 9.68 percent increase in private tutoring fees. This is the third monthly increase in paid services since the beginning of the year.
- Meanwhile, other services inched up by 0.46 percent (m/m) following the 4.67 percent (m/m) increase recorded in the previous month, backed up by the seasonal price increase in Hajj & Omra trips and private school tuition fees. On the other hand, retail prices remained broadly unchanged.

2. Core Inflation²

Core CPI inched up by 0.40 percent (m/m) in October compared to 1.13 percent (m/m) in September. This month's increase is below the average monthly pace of 0.68 percent (m/m) recorded in the first nine months of 2011. The annual rate declined to 7.60 percent in October compared to 7.95 percent in September, supported by favorable base effects.

The bulk of the monthly increase in October was largely driven by private tutoring fees and the above-mentioned food items. The impact of these increases on monthly core inflation was partially offset by declines in the prices of rice, fish and sea-food.



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 2010	October 2011	October 2011 to September 2011	October 2011 to October 2010
	(in percent)	(index)	(index)	(percentage change)	(percentage change)
(January 2010 = 100)					
Headline - All items	100.00	111.33	119.24	0.33	7.10
Food and beverages	39.92	121.07	131.58	-0.46	8.68
Tobacco and related products	2.19	143.16	185.53	0.00	29.59
Clothing and footwear	5.41	100.87	103.88	0.00	2.98
Housing, water, electricity, gas and other fuels	18.37	99.30	106.69	0.00	7.44
Furnishings, household equipment and routine maintenance of the dwelling	3.77	102.86	108.77	0.00	5.75
Medical care	6.33	101.03	102.04	0.00	1.00
Transportation	5.68	101.04	102.44	0.06	1.39
Communications	3.12	99.87	94.88	0.00	-5.00
Recreation and Culture	2.43	105.66	116.65	2.90	10.41
Education	4.63	124.31	136.59	9.88	9.88
Hotels, cafes and restaurants	4.43	111.56	114.05	0.03	2.23
Miscellaneous goods and services	3.73	101.43	104.32	-0.42	2.85
Selective aggregates					
Fruits & vegetables 3/	6.90	155.60	163.07	-2.30	4.80
Regulated items	18.66	108.27	115.16	1.48	6.36
Food excl. fruits & vegetables	31.08	114.52	126.36	0.06	10.34
Retail items	14.48	101.96	105.63	-0.05	3.59
Paid services	5.87	109.41	116.58	3.25	6.56
Other services	23.00	102.59	109.01	0.46	6.26
Core CPI	74.43	107.99	116.19	0.40	7.60

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits