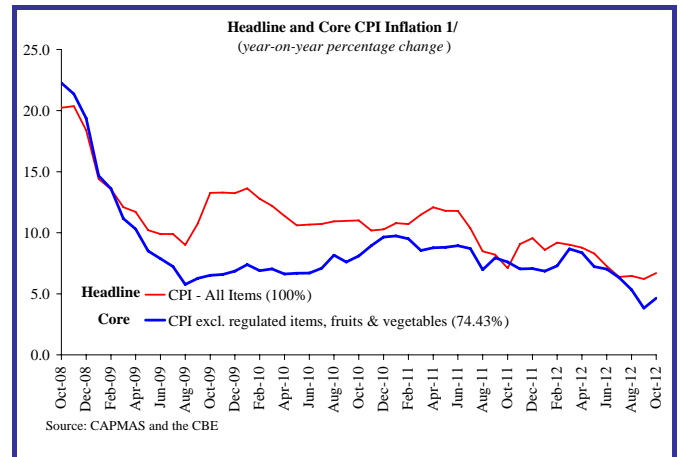
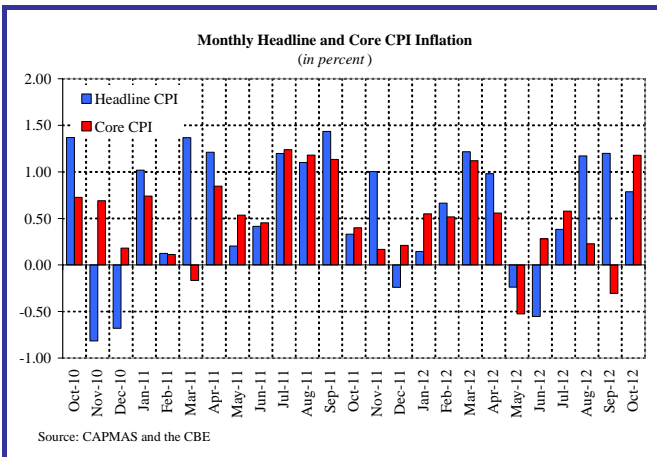


Headline and Core Inflation – October 2012

Headline CPI published by the Central Agency for Public Mobilization and Statistics on November 10, 2012, increased by 0.79 percent (m/m) in October compared to 1.20 percent (m/m) in September. The annual rate inched up to 6.70 percent in October compared to 6.22 percent in September. The bulk of the monthly increase was driven by the sharp rise in the prices of butane gas cylinders while the remaining portion was largely explained by the annual adjustment in school tuition that takes place in October of every year as well as an increase in private tutoring fees. In addition, several food items, including red meat, poultry and rice witnessed moderate price increases that were more than offset by the decline in the prices of fresh vegetables. In the meantime, core CPI increased by 1.18 percent (m/m) in October compared to a decline of 0.31 percent (m/m) in September. The annual rate increased to 4.64 percent in October from 3.84 percent in September. Meanwhile, paid services increased modestly while retail prices experienced a marginal inch up.¹



1. Headline CPI²

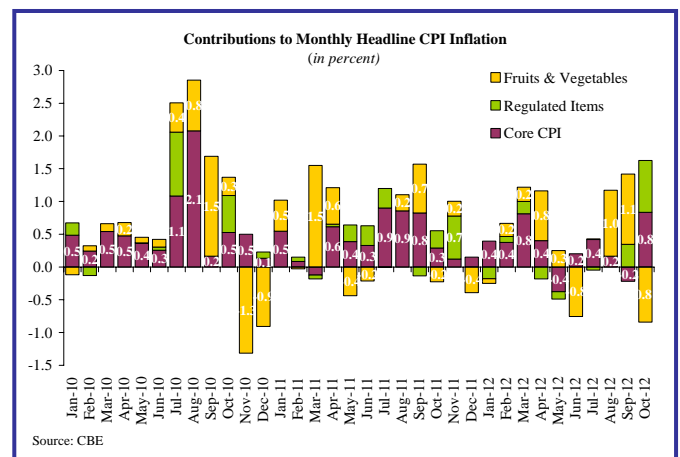
Headline CPI increased by 0.79 percent (m/m) in October compared to 1.20 percent (m/m) in September, standing above the average monthly pace of 0.55 percent recorded between January and September 2012. The annual rate inched up to 6.70 percent in October compared to 6.22 percent in September.

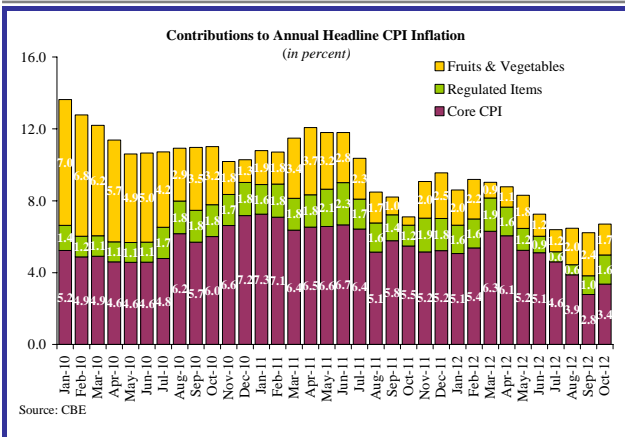
Key Highlights

- Regulated prices increased by 4.46 percent (m/m) in October to contribute by 0.79 percentage points to monthly headline inflation. This monthly development was driven by a sharp rise of 61.61 percent (m/m) in the prices of butane gas cylinders on the back of supply shortages. The remaining portion was largely explained by the annual adjustment in school tuition by 12.65 percent that takes place in October of every year. It is worth noting that the prices of butane gas cylinders witnessed erratic movements since early 2012 driven by bottlenecks in the distribution channels, increasing

four times this year by a cumulative 182.86 percent while declining four times by a cumulative 83.15 percent.

- Prices of fresh vegetables declined by 9.18 percent in October, following a 27.75 percent cumulative increase in the previous three months. In the meantime, prices of fresh fruits remained broadly unchanged. Together, the prices of fruits and vegetables contributed by negative 0.84 percentage points to monthly headline inflation.





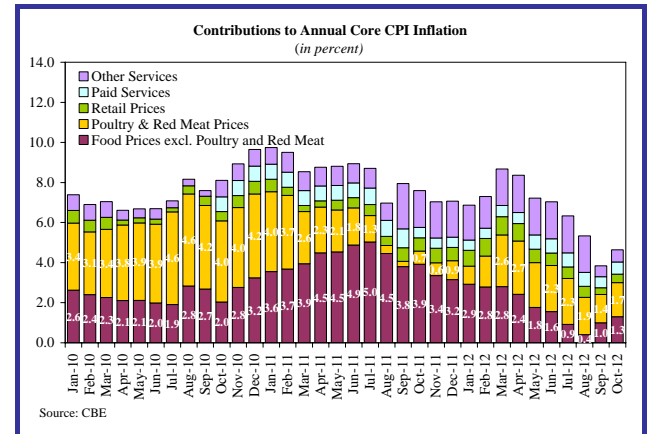
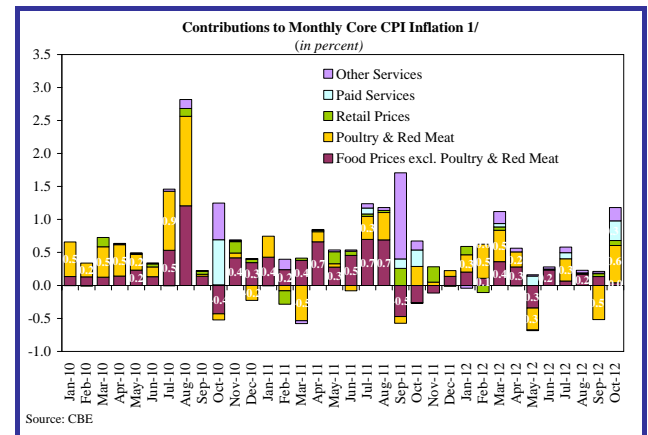
- Red meat prices increased by 2.73 percent in October, after remaining mostly unchanged in the first nine months of the year. In the meantime, poultry prices recorded a monthly increase of 4.90 percent (m/m) following a decline of 8.17 percent registered in the previous month. Prices of red meat and poultry contributed by 0.40 percentage points to monthly headline inflation.
- Rice prices increased by 4.53 percent in October, to contribute by 0.09 percentage points to monthly headline inflation. Despite the recent inch up, rice prices witnessed a cumulative decline of 8.62 percent since January 2012.
- Paid services rose by 3.76 percent (m/m) in October to contribute by 0.21 percentage points to monthly headline inflation, driven by a 10.62 percent increase in tutoring fees. This marks the fifth monthly increase in paid services since the beginning of the year.
- Other services inched up by 0.70 percent (m/m) in October compared to 0.10 percent in the previous month, on the back of an increase in the expenditure on restaurants as well as private fees for schools and hospitals. Meanwhile retail prices recorded a modest inch up of 0.44 percent (m/m) in October driven by increases in school supplies and books coinciding with the start of the school year.

2. Core Inflation²

Core CPI increased by 1.18 percent (m/m) in October compared to a decline of 0.31 percent (m/m) in September. This month's increase comes in sharp contrast with the average monthly pace of 0.33 percent recorded between January and September

2012. The annual rate increased to 4.64 percent in October from 3.84 percent in September.

The monthly developments in October were partly driven by the changes in the food prices mentioned above which altogether contributed by 0.60 percentage points to the monthly core inflation. Price changes in paid services and other services witnessed during October have contributed by 0.30 percentage points and 0.20 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 2011	October 2012	October 2012 to September 2012	October 2012 to October 2011
	(in percent)	(index)	(index)	(percentage change)	(percentage change)
		(January 2010 = 100)			
Headline - All items	100.00	119.24	127.23	0.79	6.70
Food and beverages	39.92	131.58	143.21	-0.90	8.84
Tobacco and related products	2.19	185.53	201.78	0.00	8.76
Clothing and footwear	5.41	103.88	107.14	0.28	3.14
Housing, water, electricity, gas and other fuels	18.37	106.69	112.74	2.88	5.67
Furnishings, household equipment and routine maintenance of the dwelling	3.77	108.77	114.85	0.14	5.58
Medical care	6.33	102.04	104.63	0.76	2.54
Transportation	5.68	102.44	104.90	0.13	2.40
Communications	3.12	94.88	95.47	0.00	0.63
Recreation and Culture	2.43	116.65	124.11	1.78	6.39
Education	4.63	136.59	152.18	11.41	11.41
Hotels, cafes and restaurants	4.43	114.05	118.88	1.52	4.24
Miscellaneous goods and services	3.73	104.32	105.25	0.01	0.89
Selective aggregates					
Fruits & vegetables 3/	6.90	163.07	192.75	-7.39	18.20
Regulated items	18.66	115.16	125.49	4.46	8.97
Food excl. fruits & vegetables	31.08	126.36	134.70	1.31	6.60
Retail items	14.48	105.63	108.15	0.44	2.39
Paid services	5.87	116.58	125.57	3.76	7.71
Other services	23.00	109.01	111.30	0.70	2.10
Core CPI	74.43	116.19	121.59	1.18	4.64

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits