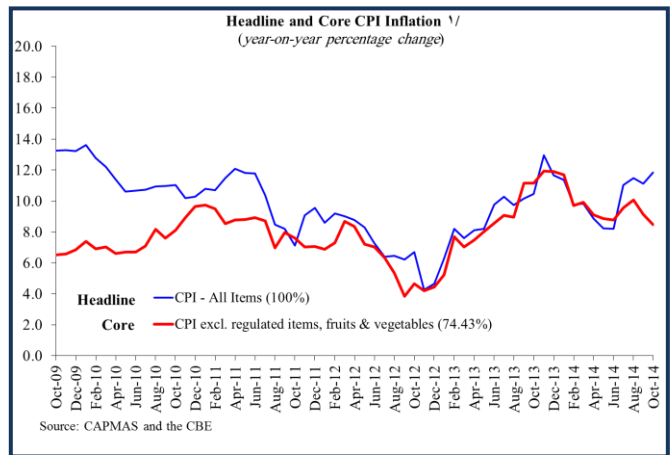
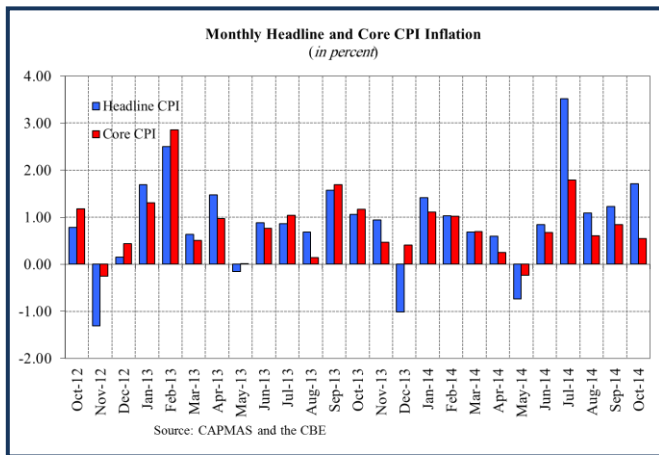


Headline and Core Inflation – October 2014

Headline CPI published by the Central Agency for Public Mobilization and Statistics on November 10, 2014, increased by 1.71 percent (m/m) in October compared to 1.23 percent (m/m) in September, the annual rate increased to register 11.84 percent in October from 11.12 percent in September. The bulk of the monthly increase was explained by the increase in the prices of fresh vegetables together with the inch up in the school tuition and private lessons, in addition to the adjustment in the prices of water supply which is a regulated item. Nonetheless, the monthly pace was partially offset by the decline in the prices of other food items. Meanwhile, core CPI computed by the Central Bank of Egypt, increased by 0.55 percent (m/m) in October compared to 0.84 percent (m/m) in September. The annual rate declined to 8.47 percent in October compared to 9.15 percent in September, on the back of the decline in the prices of food items, coupled with favorable base effect from previous year. Meanwhile, the prices of paid services, retail items and other services increased by varying degrees.¹

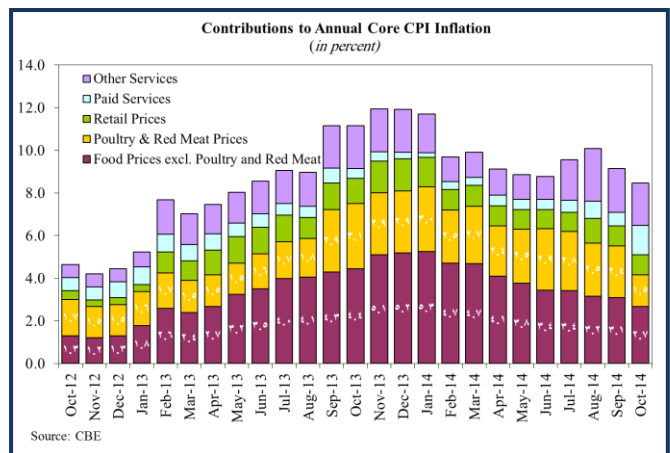
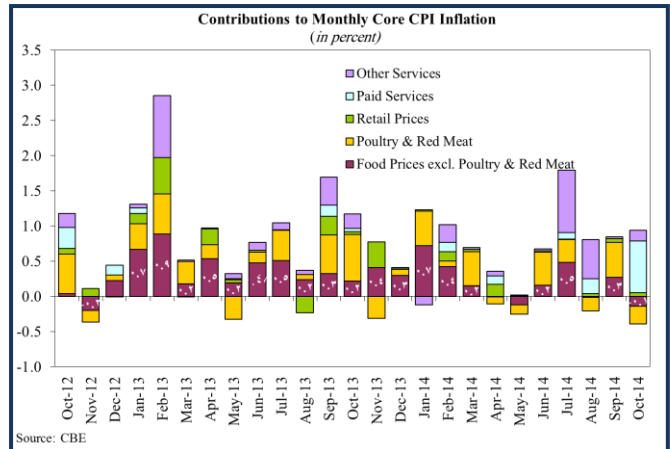


1. Headline CPI²

Headline CPI increased by 1.71 percent (m/m) in October compared to 1.23 percent (m/m) in September, which came above the monthly average of 1.07 percent recorded during the first nine months of 2014. Meanwhile, the annual rate increased to record 11.84 percent in October, compared to 11.12 percent in September.

Key Highlights

- Prices of regulated items increased by 3.40 percent (m/m) in October, contributing by 0.62 percentage points to monthly headline inflation. This month's increase is attributed to the increase in the prices of public school tuition by 22.42 percent, public lessons by 16.44 percent and student dormitories by 71.76 percent, in addition to the adjustment in the prices of water supply by 10.83 percent.
- The prices of fresh vegetables increased by 7.81 percent (m/m) in October, which contributed by 0.72 percentage points to monthly headline inflation. In the meantime, the prices of fresh fruits declined slightly by 0.47 percent in October. Together, the prices of fruits and vegeta-



bles contributed by 0.70 percentage points to monthly headline inflation.

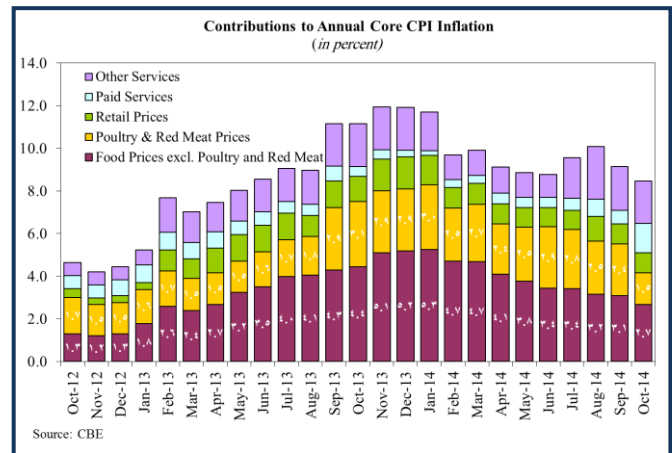
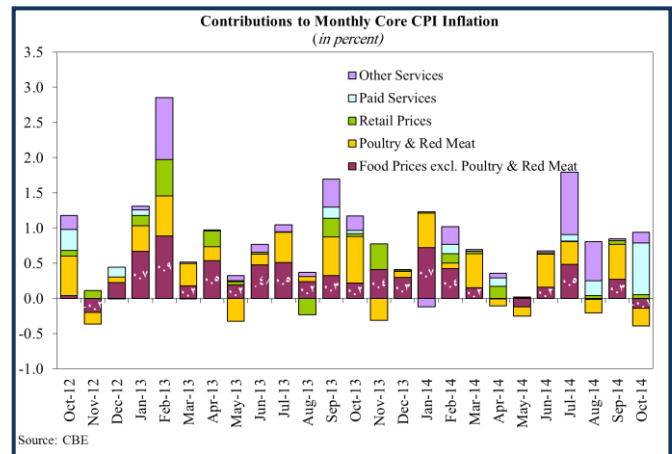
- Prices of poultry decreased by 3.46 percent in October to contribute negatively by 0.17 percentage points to monthly headline inflation. In the meantime, the prices red meat remained stable in October.
- Prices of fish and seafood declined by 2.44 percent (m/m) in October, contributing by negative 0.08 percentage points to monthly headline inflation.
- Moreover, prices of eggs declined by 1.56 percent (m/m) in October, to contribute by negative 0.03 percentage points to monthly headline inflation.
- The prices of pulses increased slightly in October to contribute by 0.01 percentage points to monthly headline inflation.
- Prices of paid services increased by 9.49 percent (m/m) in October to contribute by 0.51 percentage points to monthly headline inflation. This came on the back of the inch up in the prices of private lessons by 28.90 percent (m/m).
- Prices of other services increased marginally by 0.57 percent (m/m) in October, contributing by 0.11 percentage points to headline inflation. This came on the back of the inch up in the prices of private schools.
- Moreover, prices of retail items increased marginally by 0.33 percent (m/m) in October, contributing by 0.04 percentage points to headline inflation, which was driven primarily by the increase in the prices of HH textile, fabrics, furniture and books.

2. Core Inflation²

Core CPI computed by the Central Bank of Egypt, increased by 0.55 percent (m/m) in October compared to 0.84 percent (m/m) in September, which is below the average monthly pace of 0.75 percent recorded during the first nine months of 2014. The annual rate declined to 8.47 percent in October, from 9.15 percent in September, on the back of the decline in the prices of food items, coupled with favorable base effect from previous year.

The monthly dynamics in October was mainly driven by the developments in the prices of the previously mentioned paid services and other services, which contributed by 0.88 percentage points to monthly core inflation. This was in addition to the slight in-

crease in retail prices. Nevertheless, the monthly pace was partially offset by the decline in the prices of food items which subtracted 0.39 percentage points from 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 2013 | October 2014 | October 2014 to September 2014 | October 2014 to October 2013 |
|--|---------------------|---------------------------------|---------------|--------------------------------|------------------------------|
| | (in percent) | (index) (January 2010 = 100) | | (percentage change) | |
| Headline - All items | 100.00 | 140.52 | 157.15 | 1.71 | 11.84 |
| Food and beverages | 39.92 | 165.18 | 184.21 | 0.91 | 11.52 |
| Tobacco and related products | 2.19 | 218.43 | 283.73 | 0.00 | 29.90 |
| Clothing and footwear | 5.41 | 109.58 | 115.07 | 0.17 | 5.01 |
| Housing, water, electricity, gas and other fuels | 18.37 | 114.88 | 121.32 | 0.46 | 5.60 |
| Furnishings, household equipment and routine maintenance of the dwelling | 3.77 | 129.72 | 137.09 | 0.77 | 5.68 |
| Medical care | 6.33 | 114.83 | 131.17 | 0.00 | 14.23 |
| Transportation | 5.68 | 112.72 | 137.38 | 0.00 | 21.87 |
| Communications | 3.12 | 95.36 | 96.91 | 0.00 | 1.62 |
| Recreation and Culture | 2.43 | 145.17 | 161.89 | 0.18 | 11.52 |
| Education | 4.63 | 157.94 | 196.93 | 24.68 | 24.68 |
| Hotels, cafes and restaurants | 4.43 | 145.75 | 167.35 | 0.22 | 14.82 |
| Miscellaneous goods and services | 3.73 | 105.61 | 110.90 | 0.00 | 5.01 |
| Selective aggregates | | | | | |
| Fruits & vegetables 3/ | 6.90 | 221.41 | 270.66 | 6.19 | 22.24 |
| Regulated items | 18.66 | 132.03 | 157.25 | 3.40 | 19.11 |
| Food excl. fruits & vegetables | 31.08 | 156.56 | 170.05 | -0.80 | 8.62 |
| Retail items | 14.48 | 115.58 | 122.11 | 0.33 | 5.65 |
| Paid services | 5.87 | 132.46 | 156.01 | 9.49 | 17.78 |
| Other services | 23.00 | 119.20 | 127.91 | 0.57 | 7.30 |
| Core CPI | 74.43 | 135.14 | 146.59 | 0.55 | 8.47 |
| 1/ Source: CAPMAS and CBE calculations | | | | | |
| 2/ Based on 2008/2009 Household Expenditure Survey | | | | | |
| 3/ Excluding pulses, processed vegetables and dried fruits | | | | | |