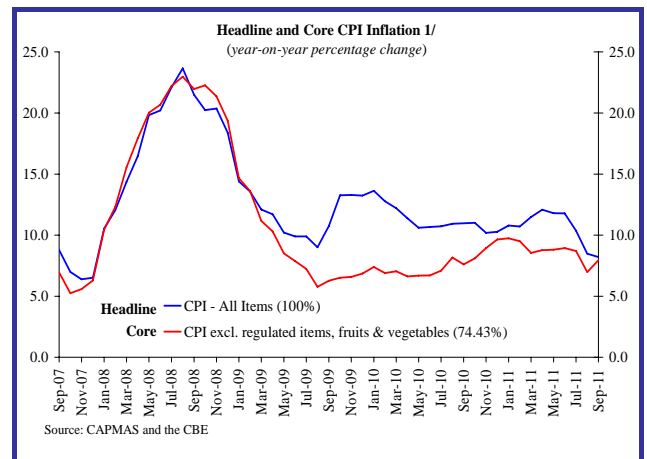
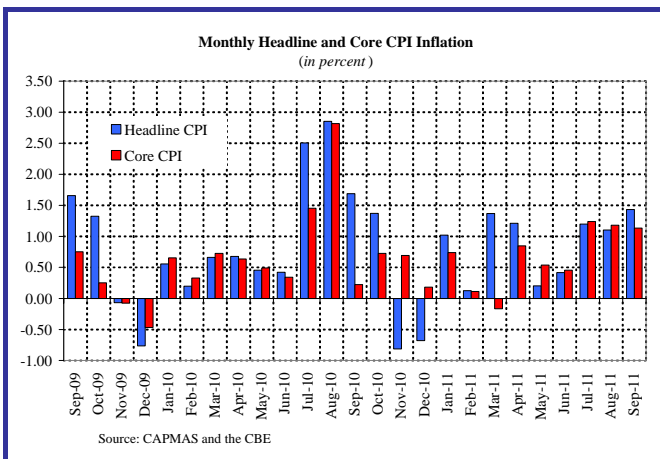


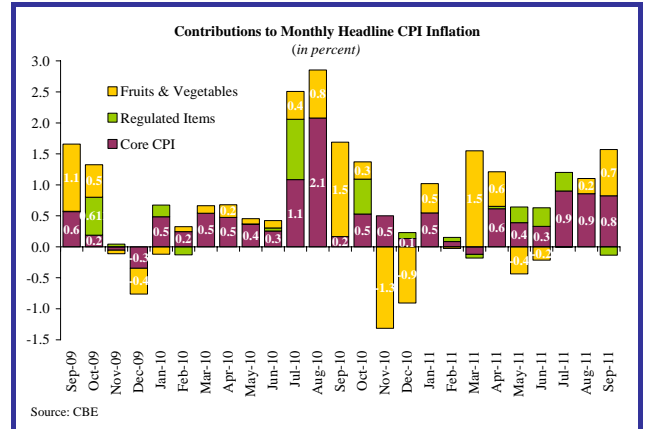
Headline and Core Inflation – September 2011

Headline CPI published by the Central Agency for Public Mobilization and Statistics on October 10, 2011, increased by 1.43 percent (m/m) in September following 1.10 percent (m/m) in August. Meanwhile, the annual rate declined slightly to 8.21 percent in September from 8.49 percent in the previous month, supported by favorable base effects from last year. More than half of the month-on-month development came on the back of an increase in housing rentals while the remaining portion was largely explained by a strong acceleration in the prices of vegetables. This was partially offset by a decline in the prices of several food items including rice and poultry. In the meantime, core CPI computed by the Central Bank of Egypt increased by 1.13 percent (m/m) in September following 1.18 percent (m/m) in August. The annual rate increased to 7.95 percent in September compared to 6.98 percent recorded in the previous month. Meanwhile, retail prices and paid services witnessed modest increases.¹



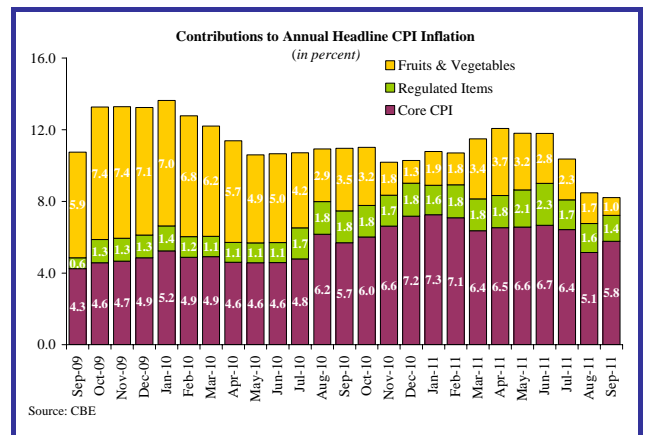
1. Headline CPI²

Headline CPI increased by 1.43 percent (m/m) in September following 1.10 percent (m/m) in August, which is above the average monthly pace of 0.83 percent recorded in the first eight months of 2011. For the second consecutive month, annual headline inflation was supported by favorable base effects from last year to decline further to 8.21 percent in September from 8.49 percent in August and 10.36 percent in July.



Key Highlights

- Housing rentals (new law) and rentals of owner occupied housing increased by 9.40 percent (m/m) and 8.06 percent (m/m) respectively to contribute by 0.92 percentage points to monthly headline inflation.
- The prices of fresh vegetable increased by 11.40 percent (m/m) in September following a cumulative increase of 9 percent (m/m) in the previous two months, reflecting a broad based acceleration. In the meantime, prices of fresh



fruits continued to decline to register a cumulative decrease of 15.57 percent since June 2011.

Several food items witnessed price declines in September following the seasonal increases witnessed during the month of Ramadan to contribute by negative 0.42 percentage points to monthly headline inflation:

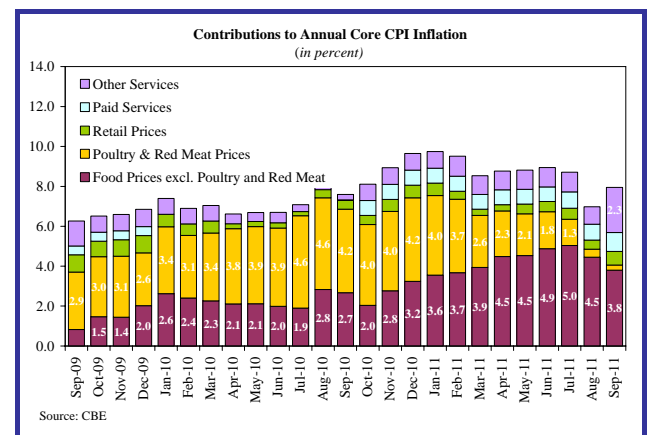
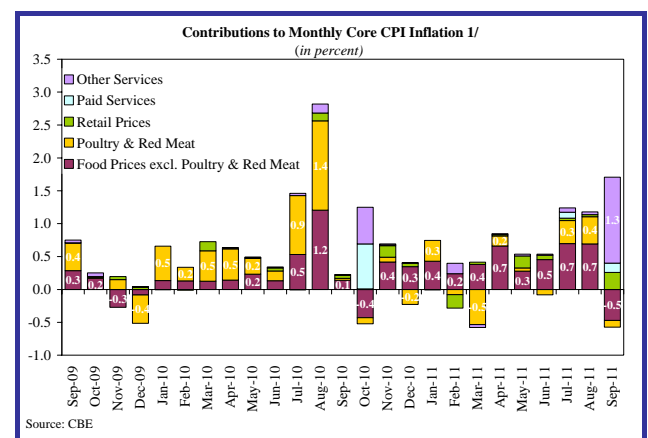
- Poultry prices registered a monthly decline of 4.98 percent (m/m) to almost fully offset the 5.97 percent (m/m) cumulative increase in the previous two months. In the meantime, red meat prices increased by 1.74 percent (m/m). The positive contribution of the latter to the monthly headline inflation was completely offset by the decline in poultry prices.
- For the first time since October 2010, rice prices recorded a decline of 14.40 percent (m/m) in September to contribute by negative 0.43 percentage points to monthly headline inflation. Despite the recent decline, rice prices witnessed a cumulative increase of 59.73 since November 2010.
- Egg prices fell by 4.30 percent (m/m) in September to partially offset the cumulative increase of 12.59 percent witnessed in the previous two months due to the Ramadan effect.
- Regulated prices declined by 10.88 percent (m/m) due to lower prices of landline telephone services which contributed by negative 0.14 percentage points to monthly headline inflation in September.
- Retail prices increased by 1.46 percent (m/m), mainly driven by higher prices of stationary & school supplies, clothing & footwear, gold, and household equipment, to contribute by 0.19 percentage points to monthly headline inflation. Meanwhile, in a delayed response to the increase in government salaries, paid services rose by 1.87 percent (m/m) to contribute by 0.10 percentage points to monthly headline inflation. This is the second monthly increase this year following a 1.17 rise in July 2011.

2. Core Inflation²

Core CPI increased by 1.13 percent (m/m) in September following 1.18 percent (m/m) in August.

This month's increase is well above the average monthly pace of 0.62 percent (m/m) recorded in the first eight months of 2011. In the meantime, the annual rate increased to 7.95 percent in September following a temporary decline to 6.98 percent in August which was supported by favorable base effects.

The bulk of the monthly increase in September was largely driven by higher housing rentals mentioned above and to a lesser extent by retail prices and paid services. However, the impact of these increases on monthly core inflation was partially offset by notable declines in the prices of rice, poultry, and eggs.



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/	September 2010	September 2011	September 2011 to August 2011	September 2011 to September 2010
	(in percent)	(index)	(percentage change)		
	(January 2010 = 100)				
Headline - All items	100.00	109.82	118.84	1.43	8.21
Food and beverages	39.92	121.34	132.19	0.73	8.93
Tobacco and related products	2.19	143.16	185.53	0.00	29.59
Clothing and footwear	5.41	102.04	103.88	1.52	1.81
Housing, water, electricity, gas and other fuels	18.37	99.30	106.69	6.17	7.44
Furnishings, household equipment and routine maintenance of the dwelling	3.77	102.75	108.77	2.01	5.86
Medical care	6.33	100.00	102.04	0.00	2.04
Transportation	5.68	100.91	102.38	0.32	1.46
Communications	3.12	99.87	94.88	-5.09	-5.00
Recreation and Culture	2.43	102.66	113.37	2.37	10.43
Education	4.63	100.00	124.31	0.00	24.31
Hotels, cafes and restaurants	4.43	102.96	114.01	0.79	10.73
Miscellaneous goods and services	3.73	100.82	104.77	0.75	3.92
Selective aggregates					
Fruits & vegetables 3/	6.90	151.18	166.92	8.19	10.41
Regulated items	18.66	104.95	113.48	-0.74	8.12
Food excl. fruits & vegetables	31.08	115.87	126.29	-1.23	9.00
Retail items	14.48	101.92	105.68	1.46	3.68
Paid services	5.87	100.08	112.91	1.87	12.82
Other services	23.00	100.66	108.51	4.67	7.80
Core CPI	74.43	107.21	115.73	1.13	7.95

1/ Source: CAPMAS and CBE calculations

2/ Based on 2008/2009 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits