

Headline and Core Inflation – November 2009

Headline CPI published by the Central Agency for Public Mobilization and Statistics (CAPMAS) on December 10, 2009, declined by 0.1 percent (m/m) in November 2009 compared to the strong monthly pace of 2.2 percent witnessed in October 2009, marking the first monthly drop since December 2008. The annual rate remained largely unchanged at 13.3 percent. The negative monthly inflation was largely due to slightly lower prices of fruits and vegetables which have been the key drivers of headline inflation over the past nine months. This monthly decline was marginally offset by an increase in regulated prices related to water supply. In the meantime, the annual Core inflation computed by the CBE registered 6.6 percent in November 2009 compared to 6.5 percent in October, despite a slight decline in the monthly rate. This slight decline was mainly due to lower food prices, especially those of fish, eggs and sugar which were almost outweighed by an increase in the prices of meat and poultry, given higher demand ahead of Eid. Moreover, while retail prices inched up slightly on the back of a seasonal increase in the prices of clothing also associated with the Eid festivities, paid services have remained broadly unchanged since February 2009.¹

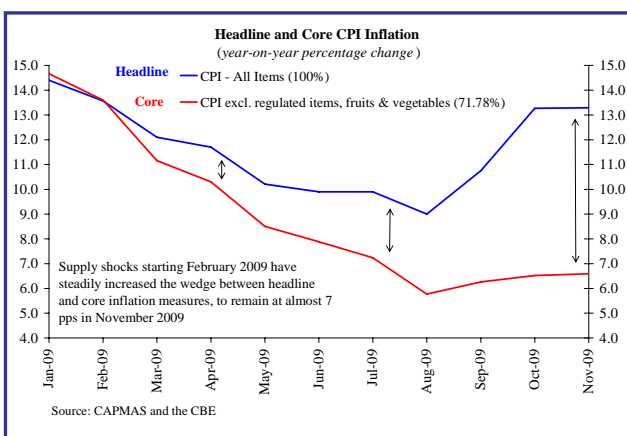
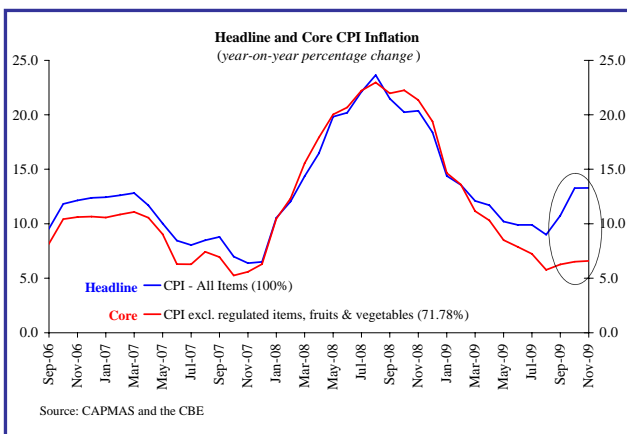
Despite the recorded monthly decline in November 2009, the annual headline and core inflation rates remained almost unchanged compared to the previous month given the unfavorable base effects from November 2008. In the meantime, the annual headline inflation continued to reflect the accumulated sharp accelerations in the prices of fruits and vegetables that had occurred between February and October 2009, accounting for more than 50 percent of the annual headline inflation in November 2009. On the other hand, previous increases in the prices of poultry and red meat account for 47 percent of annual core inflation in November 2009.

The wedge between the annual headline and the core inflation rates remained almost unchanged at 6.7 percent in November 2009.

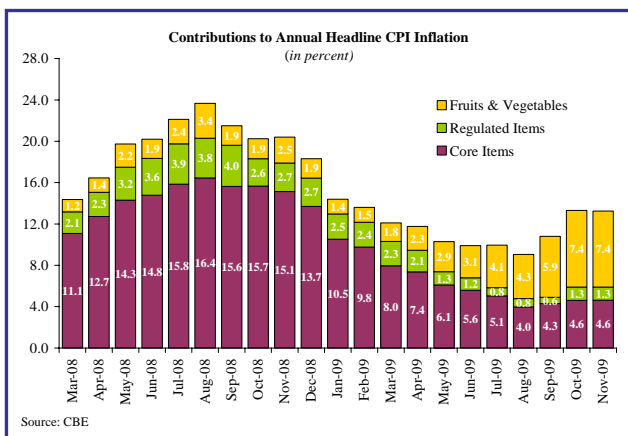
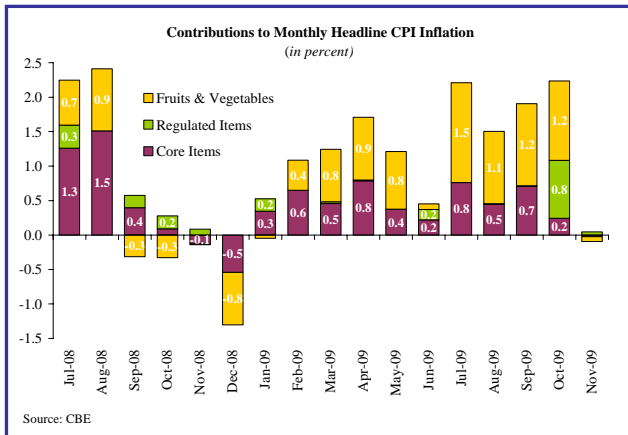
It is worth mentioning that November monthly developments showed that the prices of fruits and vegetables have reversed direction. While this development is encouraging, future changes in the prices of fruits and vegetables will continue to be closely monitored, given their impact on headline inflation.

1. Headline CPI

Annual headline inflation remained largely unchanged in November 2009 standing at 13.3 percent, down from the 23.6 percent peak recorded in August 2008. In contrast to the strong monthly pace of 2.2 percent witnessed in October 2009, headline CPI decelerated by 0.1 percent (m/m) in November, recording the first monthly drop since December 2008. This compares to the average pace of 1.4 percent (m/m) witnessed since the beginning of the year and through October 2009.



The reverse in the monthly trend was mostly accounted for by 0.5 percent (m/m) decline in the prices of fruits and vegetables during November 2009, compared to a rise of 8 percent (m/m) in the previous month. Moreover, the slight deceleration of core prices contributed favorably to this month's outturn.



While the prices of volatile food items, namely fruits & vegetables, increased monthly during the first eleven months of 2009 by a cumulative 68.6 percent, core prices within the headline have inched up by only 5 percent.

Monthly Contributions to Headline Inflation between January and November, 2009:

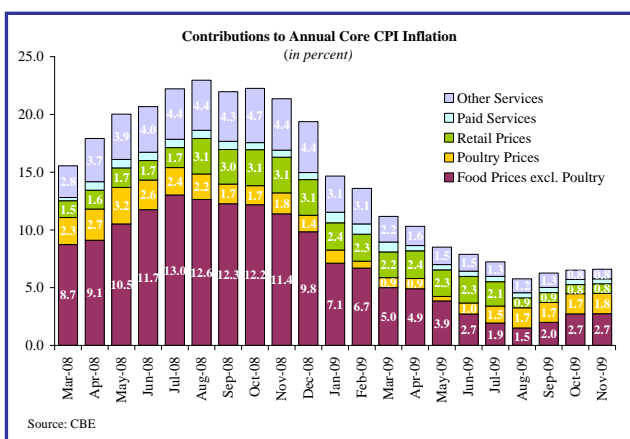
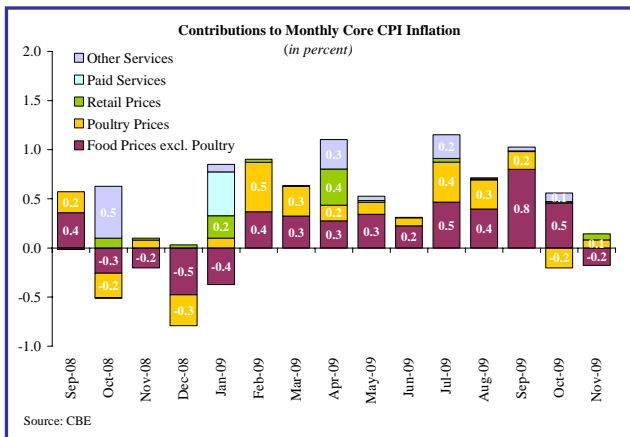
- Monthly contributions show that the sharp acceleration in volatile food items, namely fruits and vegetables, accounted for 56 percent of the monthly increases in headline inflation between January and November 2009.

- Another 10.2 percent were accounted for by the rise in poultry prices driven by the re-surfacing of the avian flu shock in early 2009 and possible upward pressures emanating from higher prices of animal feed over the past few months.
- Sugar prices, which had gained momentum between July and October 2009, increasing by a cumulative 38.5 percent, accounted for 2.3 percent of the monthly increases in the headline between January and November 2009. It is worth mentioning, however, that this upward trend did not persist in November as sugar prices fell by 2.5 percent (m/m).
- While the contribution of regulated price adjustments to monthly headline inflation was almost negligible between January and September 2009, the recent inch up in health insurance and school tuition in October 2009, and water supply in November 2009, pushed it up to account for 9 percent of the monthly increases in the headline since January 2009.
- Out of the remaining 22.5 percent: (i) 5.5 percent accounted for a pick up in red meat prices since August 2009, (ii) 7.7 percent accounted for sporadic tame inch ups in different food items over the past nine months (iii) 4.2 percent were due to 1.2 percent, 1.7 percent and 0.3 percent (m/m) increases in retail prices in January, April and November, respectively, and (iv) 2.2 percent were the result of 7.4 percent inch up in paid services witnessed in January 2009.

2. Core Inflation

Annual core inflation registered 6.6 percent in November 2009, compared to 6.5 percent in the previous month, down from the 23 percent peak recorded in August 2008. In the meantime, core CPI decelerated by 0.03 percent in November down from 0.36 percent (m/m) in October. This compares to the average of 0.72 percent (m/m) witnessed since the beginning of the year and through October 2009.

The slight decline in monthly core inflation in November 2009 was mainly due to lower food prices, especially those of fish, eggs and sugar which were almost outweighed by a seasonal increase in the prices of meat and poultry, given higher demand ahead of Eid.



Meanwhile, retail prices also inched up by 0.3 percent (m/m) during November due to a rise in demand for clothing related to Eid festivities. Nonetheless, its contribution to core inflation was quite marginal. On the other hand, paid services remained broadly unchanged since February 2009, reflecting subdued inflationary pressures through November 2009.

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.

Table 1.
Classification of All Items included in Core CPI

Food	Retail	Paid Services	Other Services
Bread and cereals	Clothing	Tailors & laundry	Rentals (new law)
Meat	Fabrics	Portman & gardener's services	Rental value of owner occupied housing
Fish and other seafood	Footwear	Cook & maid's services	Hospital services
Eggs & Dairy products	Maintenance and repair of the dwelling	Technicians to HH appliances	Public transportation
Oils and fats	Furniture	Physicians	Mobile services
Pulses	Carpets and other floor covering	Mechanics	Recreational & sporting services
Sugar and confectionery	Household (HH) textiles	Teachers	Cultural services
Other food products	HH appliances	Hairdressers	Hajj & Omra trips
Non alcoholic beverages	Glassware, tableware and HH utensils		Restaurants and Cafes
	HH small tools & supplies		Accommodation services
	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/	November 2008	November 2009	November 2009 to October 2009	November 2009 to November 2008
	(in percent)	(index)	(percentage change)		
	(January 2007 = 100)				
Headline - All items	100.00	127.4	144.3	-0.06	13.29
Food and non-alcoholic beverages	43.88	136.5	166.7	-0.30	22.14
Tobacco and related products	2.57	121.0	121.0	0.00	-0.02
Clothing and footwear	7.90	114.7	119.0	0.59	3.74
Housing, water, electricity, gas and other fuels	13.46	110.7	112.5	0.42	1.65
Furnishings, household equipment and routine maintenance of the dwelling	4.17	120.8	125.3	0.00	3.76
Medical care	3.61	112.1	117.6	0.00	4.87
Transportation	5.22	123.2	125.5	0.00	1.86
Communications	3.64	109.5	109.3	-0.03	-0.15
Recreation and Culture	3.39	133.3	140.9	0.00	5.74
Education	4.38	144.1	157.6	0.00	9.36
Hotels, cafes and restaurants	3.55	154.4	170.6	0.00	10.47
Miscellaneous goods and services	4.23	111.2	138.8	0.10	24.85
Selective aggregates					
Fruits & vegetables 3/	8.80	140.9	250.3	-0.46	77.60
Regulated items	19.42	123.6	132.6	0.25	7.28
Food excl. fruits & vegetables	33.27	137.6	149.9	-0.18	8.96
Retail items	17.34	115.9	120.5	0.28	3.99
Paid services	4.96	110.4	118.6	0.00	7.38
Other services	16.21	122.3	126.6	0.00	3.52
Core CPI	71.78	127.0	135.4	-0.03	6.59

1/ Source: CAPMAS and CBE calculations

2/ Based on the 2004/2005 Household Expenditure Survey

3/ Excluding pulses