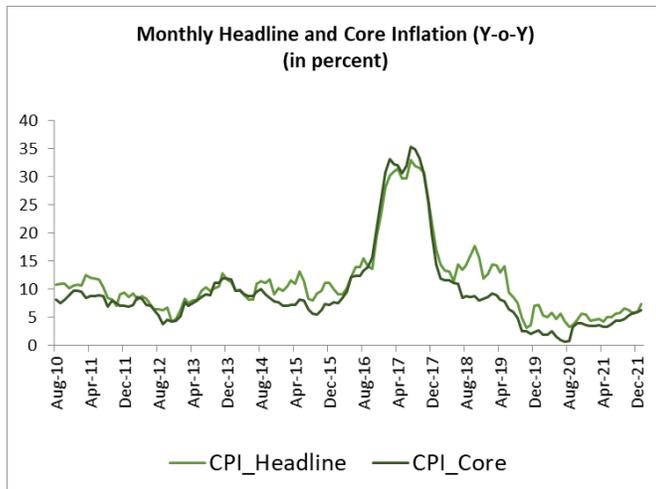


# Headline and Core Inflation up in January 2022

Thursday 10<sup>th</sup> of February 2022

7.3% in January, compared to 5.9% a month earlier. The monthly dynamics showed an increase of 0.9% in January compared to negative 0.4% in the same month of the previous year and compared to negative 0.1% in January 2021. Meanwhile, core inflation accelerated in January to record 6.3% (Y-o-Y) compared to 6.0% a month earlier. This came on the back of higher m-o-m rate of 0.8% in January 2022, compared to 0.5% during the same month of the previous year.

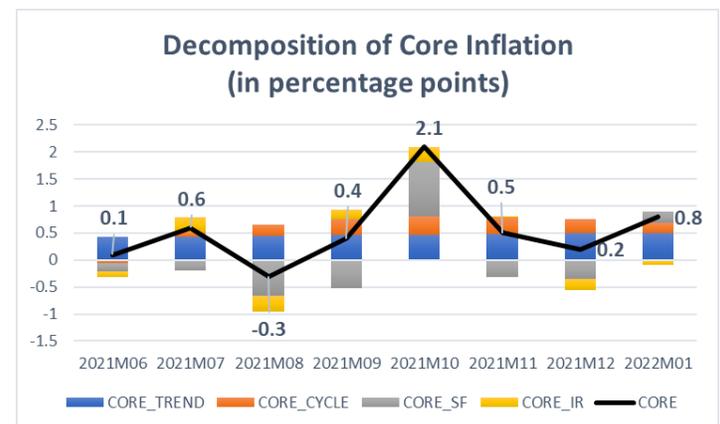


**...Sources of demand-driven inflation ...** January's dynamics indicates an acceleration in monthly core

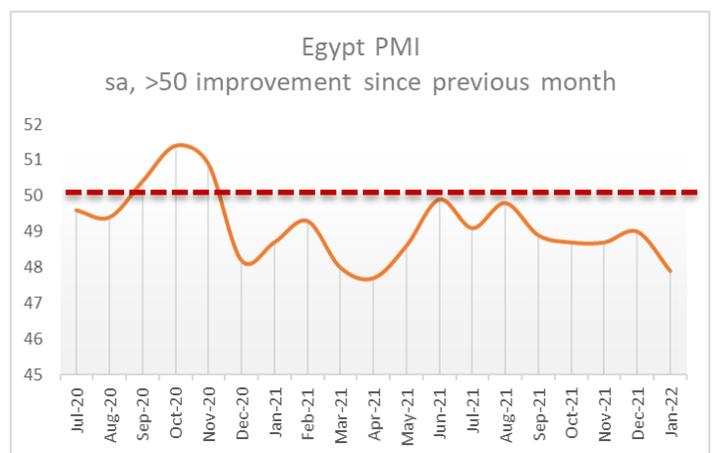
Source: CAPMAS and Central Bank of Egypt.

inflation emerged from higher seasonal factors attributed to accelerated prices of food items other than fruits and vegetables. In addition to slight increase in the implied inflation.

marginally pulled up core inflation during January 2021. This is coupled with the positive contribution of both inflation expectations and the cyclical factors accounting for 0.50 and 0.18 percentage points, respectively.



Source: MAP's Estimates, MPED and CBE



Source: IHS Toolkit.

**...January's PMI and Inflationary Pressures...** The IHS Markit Purchasing Managers' Index (PMI)—which measures business activity in the non-oil private sector—dropped to a nine-month low of 47.9 in January from December's 49.0. Consequently, the index moved further below the 50-threshold, where it has been for the past 14 months, signaling a sharper deterioration in business operating conditions from the previous month.

January's downturn was largely due to output decreasing at the sharpest pace since June 2020. This came amid a large decline in new orders, brought about by high prices for goods and services, as well as pandemic-related supply bottlenecks. Turning to input prices, costs for raw materials, components and transport all continued to increase in January, although firms only partially passed on the extra burden to clients.

**...Forecasts for headline and core inflation ...** The implemented forecasts present two models, in addition to the average of the two scenarios which are calculated using univariate a multiple model specification and a Vector Error Correction Model (VECM), wherein the estimation period spans from 1Q 2010/11 through 4Q 2020/21.

**Headline inflation forecasts for FY2021/22...**

According to the baseline scenario, we still expect that urban headline inflation will be maintained during FY2021/22 at a single digit, albeit it will increase to reach 6.3%. This would be attributed to the favorable pass-through effect from stable FOREX market. Moreover, inflation expectations are broadly managed as obvious from the decomposed core figures accounting for only 0.50 percentage points of January monthly inflation rate. In addition, output gaps and money gaps suggest downside risks to inflation during the upcoming quarters, especially over the short-term.

However, alternative scenario's medium-term forecasts indicate that headline inflation can uptick to 11.6% during the FY 2021/22 attributed to the movements in international oil and food prices. Moreover, it is expected that it will surge to 12.8% during the FY 2022/23, knowing that food represents about 35.9% of the CPI basket and the energy prices' weight is 1.8% along with 30% pass-through effect from transport service having a weight of 3.3% of the CPI basket. As such, the total weight of the energy prices is 2.8% of the CPI basket being 1.8% plus 30% of 3.3%.

We still emphasize that future dynamics in inflation will partially depend on how the economy will perform on the real activity front along with the dynamics in both inflation rate and FOREX market during the next couple of quarters.

	Headline Forecasts _Baseline	Weight	Contribution of Food Prices to Headline 35.90%	Contribution of Energy Prices to Headline 2.80%	Total Effect on Headline CPI
Jun-21	4.78				
Sep-21	6.04				
Dec-21	6.99		2.61	2.70	12.31
Mar-22	6.63		3.38	1.51	11.52
Jun-22	5.50		4.15	1.35	11.00
	6.29		3.38	1.85	11.61
Sep-22	7.31		4.92	1.41	13.64
Dec-22	5.54		5.68	1.00	12.22
Mar-23	5.28		6.45	1.00	12.72
Jun-23	4.41		7.22	0.92	12.55
	5.63		6.07	1.08	12.78

Source: MAP's Estimates.