



Inflation Report — February 2012

Inflation

| | Monthly change | Annual change |
|---------------|----------------|---------------|
| February 2012 | 0.3 | 5.4 |
| January 2012 | 0.1 | 5.3 |

Another increase in rents lifted year-on-year inflation to 5.4 percent in February, the highest since December 2010, from 5.3 percent in January. Other domestic inflationary pressures continued to rise.

Annual change in inflation (percent)

| | 2011 | | | | 2012 | |
|------------------------------|------------|------------|------------|------------|------------|------------|
| | Sep | Oct | Nov | Dec | Jan | Feb |
| Food & beverages | 4.8 | 3.2 | 4.2 | 4.0 | 3.9 | 4.3 |
| Fabrics, clothing & footwear | 0.6 | 0.8 | 0.9 | 2.1 | 2.5 | 2.7 |
| Housing & related items | 7.9 | 8.0 | 8.0 | 8.0 | 9.1 | 9.3 |
| Home furniture | 0.0 | 2.5 | 2.9 | 3.1 | 3.0 | 3.2 |
| Medical care | 0.4 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 |
| Transport & telecoms | 2.0 | 2.0 | 2.4 | 2.4 | 2.5 | 2.3 |
| Education & entertainment | 1.1 | 3.5 | 3.4 | 3.4 | 3.5 | 3.6 |
| Other expenses & services | 11.8 | 12.3 | 9.4 | 9.6 | 8.1 | 8.1 |
| Total | 5.3 | 5.2 | 5.2 | 5.3 | 5.3 | 5.4 |

Most components of the cost of living index rose in February, owing to strong domestic demand. Most significantly, rents rose again. At 9.3 percent, rental inflation was at its highest since May 2010. We think this increase is the result of rising disposable incomes among the national population; specifically some of those with jobs or new sources of income from government programs may be entering the rental market, or at least landlords are raising rents on the assumption that this will happen. At the same time, additions to the supply of housing continue to be small. Indications are that work on new housing construction is picking up, but it will take some time for this to reach the market.

Food prices, the largest item in the cost of living index, recorded the biggest gain in year-on-year terms in February, rising to a six-month high. The rises were concentrated in the prices of fresh foods, which may reflect higher costs or reduced supply of products originating in or transiting through Syria. International food price inflation (measured by the UN Food and Agriculture Organization's index) fell for the ninth consecutive month. Inflation for clothing and footwear, education and entertainment and home furniture continued to rise, with both of the former at long-term highs.



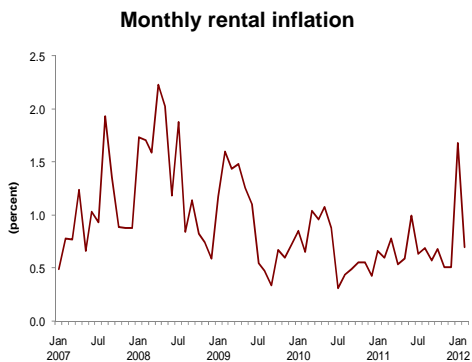
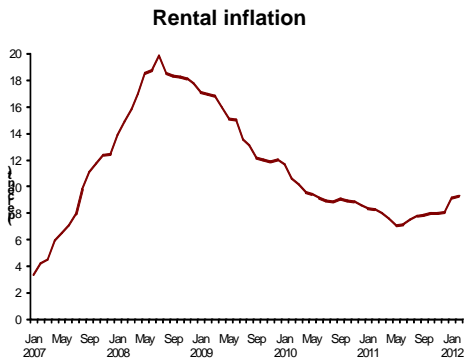
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Monthly change in inflation (percent)

| | 2011 | | | | 2012 | |
|------------------------------|------------|------------|------------|------------|------------|------------|
| | Sep | Oct | Nov | Dec | Jan | Feb |
| Food & beverages | 0.4 | 0.0 | 0.6 | -0.1 | -0.6 | 0.5 |
| Fabrics, clothing & footwear | 0.1 | 0.1 | 0.0 | 1.2 | 0.7 | 0.2 |
| Housing & related items | 0.6 | 0.7 | 0.5 | 0.5 | 1.7 | 0.7 |
| Home furniture | 0.2 | 1.5 | 0.3 | 0.3 | 0.0 | 0.0 |
| Medical care | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transport & telecoms | -0.4 | 0.1 | 0.4 | 0.1 | 0.8 | 0.1 |
| Education & entertainment | 0.1 | 3.5 | -0.1 | 0.0 | 0.1 | 0.1 |
| Other expenses & services | 3.9 | 0.2 | -0.9 | 0.2 | -1.8 | 0.0 |
| Total | 0.9 | 0.5 | 0.2 | 0.2 | 0.1 | 0.3 |

Monthly inflation rose to 0.3 percent in February from 0.1 percent in January. Although this was the highest for five months, it is slightly below the average monthly rise during 2011. The jump in rents in monthly terms was much less than in January, and broadly in line with February readings in recent years (monthly rental inflation tends to be higher in the first half of the year). Nonetheless, the rise in rental inflation over the past three months (2.4 percent) is higher than for any three-month period since mid-2009. Fresh fruit and vegetables, eggs and fish were the main source of the jump in food prices; prices of watermelons and pomegranates were up by more than 10 percent in February. Most other components of the cost of living index were either stable or up slightly in February.

Annual inflation rates (percent)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012* |
|------------------------------|------------|------------|------------|------------|------------|------------|
| Food & beverages | 7.0 | 14.1 | 2.0 | 6.2 | 5.2 | 4.1 |
| Fabrics, clothing & footwear | -2.4 | 0.4 | 0.5 | -0.7 | 0.4 | 2.6 |
| Housing & related items | 8.1 | 17.5 | 14.1 | 9.5 | 7.7 | 9.2 |
| Home furniture | 1.3 | 7.7 | 8.5 | 2.8 | 0.5 | 3.1 |
| Medical care | 4.2 | 5.0 | 0.7 | 0.4 | 0.8 | 0.0 |
| Transport & telecoms | -0.9 | 0.2 | 1.0 | 1.1 | 2.1 | 2.4 |
| Education & entertainment | 0.2 | 2.1 | 1.3 | 0.9 | 1.6 | 3.5 |
| Other expenses & services | 5.3 | 10.7 | 4.3 | 7.4 | 9.0 | 8.1 |
| Total | 4.1 | 9.9 | 5.1 | 5.3 | 5.0 | 5.3 |

* Year to date

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