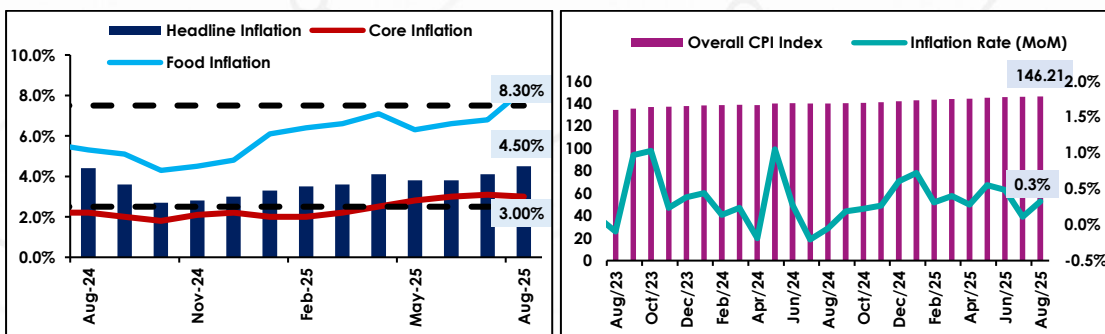


ECONOMICS AND RESEARCH INFLATION REACTION

August 2025

Inflationary Pressures Rise on Account of Elevated Food Prices

- Annual headline inflation rose by 40-basis points from 4.1% to 4.5% in August 2025. On a month-on-month basis, the consumer price index rose by 0.3%.
- The non-core index increased to 9.2% from 7.2% previously, while the core index was largely unchanged at 3.0% from 3.1%.
- Inflationary pressures were broadly fuelled by food inflation that rose to 8.3% from 6.8%, predominantly led by higher costs of maize and select vegetables.
- We largely attribute the pressure on select vegetable items to seasonality factors. Specifically, on an annualized basis, carrots (+24%), tomatoes (+38.3%), and sukuma wiki (+17%) led the increase and far outweighed the disinflation registered on potatoes (-4.5%) and bean (-0.5%) prices.
- On maize, fortified maize flour prices were up 18.7% year-on-year, while loose maize flour was up 13.4%. This is despite reasonable maize stocks held in the period under review. We therefore posit that the pressure stems from reluctance to sell by farmers, who reportedly hold over 17 million bags.
- Meanwhile, the housing, electricity, gas and fuel index rose marginally to 0.8% year-on-year, within which 50 kilowatts of electricity declined by 2.0%, petrol dropped by 1.6% and gas/LPG prices moved 1.8% lower.
- However, transport inflation rose to 4.4% year-on-year, reflective of higher fuel price, while almost flat-lined month-on-month at 0.5%.
- In the near term, we anticipate vegetables price pressure to emanate from forecast dry weather conditions into September that are expected to push vegetables prices up.
- Positively on the international front, brent prices are expected to hold within recent ranges (US \$65-70 a barrel) due to slackening US demand and ongoing anxiety about Russian supplies. Meanwhile, non-energy commodity prices are projected at current levels or slightly lower.
- Overall, absent any significant weather shocks, inflation is expected to gradually rise toward the mid-point of the target band (5%) into the close of the year.



Source: KNBS, CBK, NCBA Research