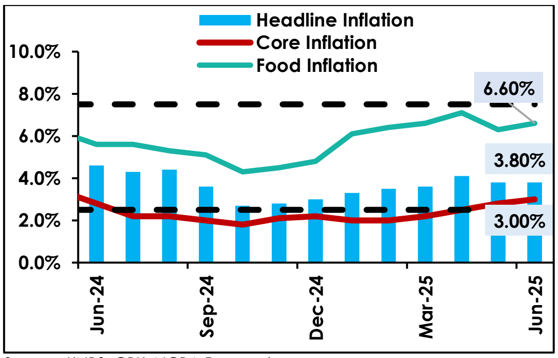
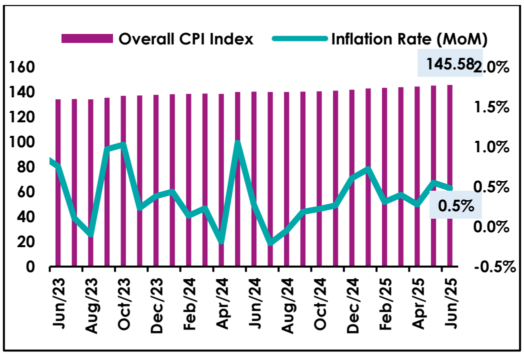
ECONOMICS AND RESEARCH INFLATION REACTION

June 2025

Headline Inflation Flat at 3.8% while Core Prices Nudge Higher to 3.0%

- Annual headline inflation remained unchanged at 3.8% in June 2025 as lower energy prices appeared to offset increases in the cost of select food items.
- Food inflation registered at 6.6%, up from 6.3% recorded in May. On an annualized basis, the cost of carrots (+20.6%), sifted maize flour (+18.8%), cabbages (+17.3%), and tomatoes (+12.3%) have substantially risen.
- To help stabilize flour prices and curb a potential shortage, the Ministry of Agriculture at the end of May released 200,000 bags of subsidized maize to millers and effected measures to deter hoarding. This may partly explain the slower rise in sifted maize flour prices in the month at 2.6%, down from 3.9%, previously.
- On energy, EPRA marginally adjusted Super petrol prices higher and lowered diesel and kerosene prices by KES 1.95/litre and 2.06/litre, respectively. To this end, the housing, water, electricity and gas index was unchanged month-on-month and up only 0.8% year-on-year.
- Meanwhile, demand pressures rose mirroring a gradual recovery in consumer incomes and spending. Higher credit uptake buoyed this position further as highlighted by a 2.0% growth in credit in May up from 0.4% in the month prior. Core inflation therefore ticked up to 3.0% in June from 2.8% in May.
- In the near term, local programs like the maize subsidy and potential price controls could help moderate the price swings though their sustainability in a high fiscal deficit environment is arguable.
- Globally, oil prices remain susceptible to volatility. In June, Brent oil prices staged a sharp, albeit brief spike to US $ 78 per barrel amidst an escalation in the Israel-Iran conflict. Brent prices have since cooled to US $ 66 a barrel following the announcement of a ceasefire between the two nations, and is expected to average US $ 64 a barrel in 2025 owing to ample global supply amidst weaker economic growth as well as a long-term slowdown in global oil demand.
- For imported soft commodities, surplus sugar supply in the international market into the second half of the year will assist counter tighter markets for maize and wheat.
- Overall, we foresee inflation trending within the 5% mark into Q3 anchored by continued stability on the local currency. Within-target inflation may support further accommodation in the policy stance. Though focus will lean more toward closing the output gap.





Source: KNBS, CBK, NCBA Research