

ECONOMICS AND RESEARCH INFLATION REACTION

September 2026

Headline Inflation Expectedly Rises to 6.8% Driven by Food Supply Pressure and Second-Round Effects from the Energy Shock

GEOPOLITICS & GLOBAL SUPPLY CHAIN

Brent price above \$100/bbl
Black Sea disruption.
Palm oil supply tightening & biofuel demand

DOMESTIC DRIVERS

Ongoing dry spell
Lower VAT on Fuel

OUTLOOK

Strong El Nino event and global oil price volatility
Headline inflation at 7.0% in the near term.

Faster Acceleration in Inflation Largely Due to Adverse Weather Impact on Food Prices

Annual headline inflation rose from 6.6% in August to 6.8% in September, while on a monthly basis, the consumer price index increased by 0.4%. Food inflation rose 9.5% annually relative to 9.0% in August. Vegetable prices recorded the largest increases, while higher milk prices due to the domestic dry spell added to the impact: potatoes (+33.6%), kale (+32.5%), cabbages (+25.8%), spinach (+23.1%), tomatoes (+21.1%), and oranges (+14.8%). Fresh unpackaged cow milk rose 7.7%, and long-life milk increased by 11.9%.

Due to high global energy prices, petrol and diesel cost surged 15.8% and 26.9% annually and transport expectedly followed the same path. The transport index rose by 15.6% reflecting a 20% increase in matatu fares and higher international flight cost. Although month-on-month, city/town matatu fares eased by 0.3%.

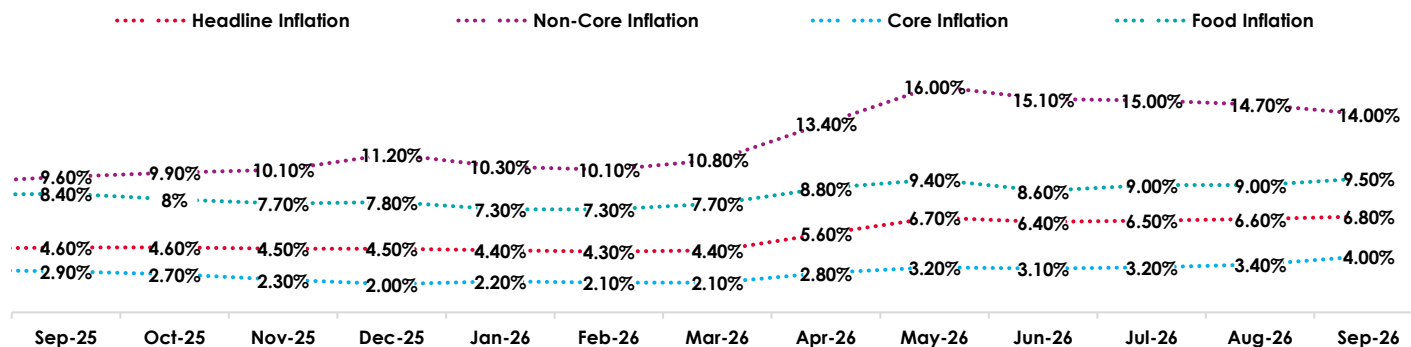
Supply Pressure on Non-volatile Food Items Pushes Core Inflation Up to 4.0%

The non-core index eased to 14.0% from 14.7% in August, while the core inflation rose jumped from 3.4% to 4.0% largely due to pressure from food prices, suggesting persistent supply side pressure as the dry spell created shortage of beef and milk in the market. However, the increase may be temporary as anticipated higher rainfall in the near-term increases food supply. In the meantime, producers are expected to continue the transmission of higher energy cost to consumers.

Outlook Driven by Uncertainties Surrounding El Niño and Geopolitics

Into Q4, El Niño weather conditions will heighten risk of flooding which may further raise food and transportation costs. On the global landscape, key commodities continue to face pressure from the outstanding US-Iran and Russia-Ukraine wars, predominantly in energy, fertilizer and agriculture. Concerningly, supply of refined products such as diesel is constrained amidst a wide cracking spread. Assuming the fuel subsidy and VAT reduction which expires in mid-October does not fall off, we expect headline inflation to average 7.0% in the near-term.

KENYA INFLATION TRENDS



Source: KNBS, NCBA Economic Research