ECONOMICS AND RESEARCH INFLATION REACTION

October 2026

Headline Inflation Expectedly Rises, Surpassing the 7.0% level

GEOPOLITICS & GLOBAL SUPPLY CHAIN	DOMESTIC DRIVERS	OUTLOOK
Brent price to average $91bbl in 2026 In adverse scenario $105bbl expected in 2027 Global food prices to rise by 10% year-on-year.	Ongoing dry spell Lower VAT on Fuel Absence of fuel subsidy	Delayed onset of short rains Possible El Nino event and global oil price volatility Headline inflation at 7-7.5% in the near term.

Accelerated Price Pressure Primarily linked to Unfavourable Weather Conditions and Cessation of the Fuel Subsidy

October annual inflation rose to 7.3% from 6.8% in September, translating to an increase of 0.7% month-on-month. The acceleration in prices was primarily attributed to food inflation that rose by 70 basis points from September to 10.2%. This reflected increases across select vegetables, most notably Irish potatoes (+34.9%), cabbages (+29.1%), onions (+15.2%) and oranges (+8.9%). Similarly, fresh unpackaged and packeted cow milk rose by 11.9% and 14.4%, respectively amid dry weather conditions following the delayed onset of short rains.

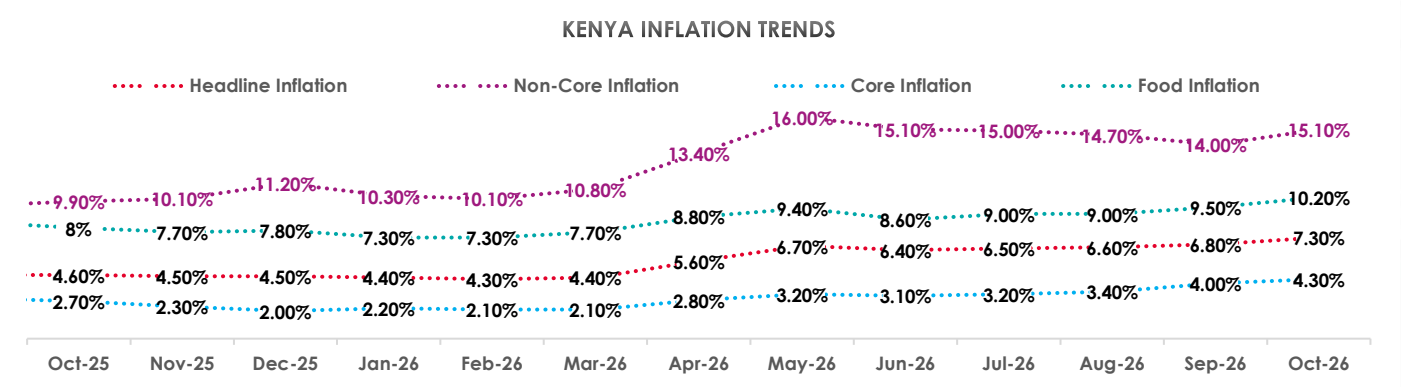
Moreover, high global energy prices and the cessation of the fuel subsidy saw domestic petrol and diesel cost surge by 22.8% and 32.5% annually. Consequently, the transport index rose by 17.1%, up from 15.6% in September evidenced by higher matatu fares and international flight cost. Illustratively, city/town and country/city matatu fares rose by 25% and 30% annually. Similarly, month-on-month, transport costs increased by 1.7% owing to higher taxi fares, offsetting the decline in local flight costs.

Core Inflation Rises for the Fourth Consecutive Month Amid Supply Pressures on Processed Food Items

October core inflation rose to 4.3% from 4.0% in September. The surge was largely attributed to elevated prices on processed food items, exacerbated further by delays in the onset of the October-December short rains. We project core inflation to remain elevated into November, owing to sustained pass-through of these higher prices to consumers by the producers.

Overall, Into End Year, We Project Headline Inflation to Hold Above 7.0%

In the remainder of the fourth quarter, the Meteorological Department projects near-average to above-average rainfall in most parts of the country while the risk of El Niño still looms large. If realized, this could support recovery food production and ease pressure on vegetable and milk prices. However, externally, the global commodity market outlook points to a 10% rise in overall food prices amid weather related risks and geopolitical uncertainty at the Black Sea. Notably, Ukraine's cereals exports including wheat are 70% lower annually as of August 2026. On the energy front, fuel prices are projected to average $91 per barrel in 2026 relative to $69 per barrel in 2025. Therefore, despite the government's 90-day extension of the 8% VAT reduction on fuel, the absence of the fuel subsidy, and high food and energy price pass-through to domestic prices should keep inflation elevated. Against this backdrop we project headline inflation to record within the 7.0-7.5% range in November and December.



Source: KNBS, NCBA Economic Research

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