

3.1 National Level Price Development

General inflation stood at 1.1 percent in the second quarter of 2004/05, exhibiting a significant decline compared with 2.4 percent in the preceding quarter and a significant increment compared with the 3.3 percent deflation observed in the same period last year. Declining food inflation, associated with low level of cereal inflation in the review period, contributed to the fall in the overall price level.

During the second quarter of 2004/05, food inflation dropped to 0.8 percent from the level of 3.1 percent in the preceding quarter while it has shown a significant increment compared to -5.2 percent in the first quarter of 2004/05. Quarterly cereal inflation, which was the underlining cause for the decline in the quarterly headline and food inflation, has followed the same trend. In the review period, cereal inflation reached 0.3 percent compared with 7 percent in the preceding quarter.

Core inflation, proxied by non-food inflation, reached 1.7 percent, the second highest quarterly increase since 2000/01. Core inflation during the review period was higher by 1.0 and 1.1 percentage point compared with the respective level of the preceding quarter and the same period last year. The growth in quarterly core inflation was a reflection of the upward movement in the prices of construction materials, oil, medical care and health, house rent etc.

Quarterly inflation developments for Addis Ababa followed more or less the country level inflation trend. General inflation in the city during the review period, was 1.6 percent compared with 3.3 percent in the preceding quarter and -0.3 percent a year earlier. Food inflation declined from 3.4 percent to -0.1 while non-food inflation increased from 3.2 percent to 3.4 percent in the review period.

Table 3.1 Quarterly Movements in Consumer Prices (in percent)

1. National					
Items	2003/04	2004/05		Change in Percentage Points	
	Qtr.II	Qtr.I	Qtr.II		
	A	B	C	C-A	C-B
General	-3.3	2.4	1.1	4.4	-1.3
Food	-5.2	3.1	0.8	6	-2.3
-Cereal	-11.2	7	0.3	11.5	-6.7
-Pulses	1.3	2.8	-1.2	-2.5	-4
-Oils & Fats	-0.8	-2.6	2	2.8	4.6
-Vegetables & Fruits	-5.5	-12.5	-5	0.5	7.5
Non-Food	0.7	0.6	1.7	1	1.1
-Beverages	0.1	1.4	0.0	-0.1	-1.4

-House Rent & Others	2.4	1.8	2.7	0.3	0.9
2. Addis Ababa					
Items	2003/04	2004/05		Change in Percentage Points	
	Qtr.II	Qtr.I	Qtr.II		
	A	B	C	C-A	C-B
General	-0.3	3.3	1.6	1.9	-1.7
Food	-2.1	3.4	-0.1	2	-3.5
-Cereal	-4.0	6.6	0.9	4.9	-5.7
-Pulses	0.5	6.9	1.6	1.1	-5.3
-Oils & Fats	-3.6	-0.5	1.5	5.1	2
-Vegetables & Fruits	-13.7	-4.8	-12.7	1	-7.9
Non-Food	1.0	3.2	3.4	2.4	0.2
-Beverages	-0.2	0.1	-0.2	0.0	-0.3
-House Rent & Others	4.0	4.8	4.0	0.0	-0.8

Source: CSA and NBE Staff Computation

3.2 Developments in Regional Consumer Price Inflation

Compared with the preceding quarter, average headline inflation declined in all regions except Afar and Gambella. On the other hand, compared with the same period last year, all Regions registered higher headline inflation during the quarter under review. Food inflation also followed the country level inflation trend.

On the other hand, in the quarter under review, core inflation went up in Amhara, Dire Dawa, Harari, Somali and Tigray Regional States when compared to the preceding quarter.

In sum, the general CPI movements in the Regions are closely tied with the movements in food prices particularly of cereals which, in turn, have strong correlations with weather condition.