

### III QUARTERLY PRICE DEVELOPMENT

#### 3.1 National Level Price Development

Headline inflation stood at 1.5 percent in the third quarter of 2004/05, exhibiting a marginal increase compared with 1.1 percent in the preceding quarter and 2.6 percent deflation observed in the same period last year. Rising non-food inflation, associated with an increase in the inflation rates of transport and communication, house rent, construction materials, water, fuel and power and personal care sub-groups in the review period, have contributed to the rise in the overall price level.

During the review quarter, food inflation dropped to 0.2 percent from the level of 0.8 percent in the preceding quarter while it has shown a significant increment compared to -5.2 percent in the third quarter of 2003/04. Quarterly cereal inflation, which was the underlining cause for the decline in the quarterly food inflation, has followed the same trend. In the review period, cereal inflation reached -3.3 percent compared with 0.3 percent in the preceding quarter.

Core inflation, proxied by non-food inflation, however reached 3.9 percent, the second highest quarterly increase since 2000. Core inflation during the review period was higher by 2.2 and 1.3 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, personal care, 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 0.1 percent compared with 1.6 percent in the preceding quarter and -1.0 percent a year earlier. Food inflation moved from -0.5 percent to -1.1 while non-food inflation declined from 3.0 percent to 1.2 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.III	Qtr.II	Qtr.III		
	A	B	C	C-A	C-B
General	-2.6	1.1	1.5	4.1	0.4
Food	-5.2	0.8	0.2	5.4	-0.6
-Cereal	-10.7	0.3	-3.3	7.4	-3.6
-Pulses	-5.6	-1.2	-1.2	4.4	0
-Oils & Fats	0.6	2	0.7	0.1	-1.3
-Vegetables & Fruits	16.8	-5	14.4	-2.4	19.4
Non-Food	2.6	1.7	3.9	1.3	2.2
-Beverages	-0.3	0.0	-0.2	0.1	-0.2
-House Rent & Others	3.7	2.7	6.7	3	4

2. Addis Ababa					
Items	2003/04	2004/05		Change in Percentage Points	
	Qtr.III	Qtr.II	Qtr.III	C-A	C-B
	A	B	C		
General	-1.0	1.6	0.1	1.1	-1.5
Food	-3.5	-0.1	-1.4	2.1	-1.3
-Cereal	-7.4	0.9	-5.5	1.9	-6.4
-Pulses	-3.6	1.6	-2.4	1.2	-4
-Oils & Fats	-0.4	1.5	-1.6	-1.2	-3.1
-Vegetables & Fruits	11.4	-12.7	1.1	-10.3	13.8
Non-Food	1.1	3.0	1.2	0.1	-1.8
-Beverages	0.2	-0.2	0.7	0.5	0.9
-House Rent & Others	0.4	4.0	0.9	0.5	-3.1

**Source:** CSA and NBE Staff Computation

### 3.2 Developments in Regional Consumer Price Inflation

Compared with the preceding quarter, average headline inflation declined in most of the regions. Relative to the same period last year, however, all Regions except Amhara and Benshangul Gumz registered higher headline inflation during the quarter under review. Food inflation also followed the country level inflation trend.

In a similar development, core inflation went down in Addis Ababa Afar, Harari, and Gambela Regional States. While Somali, SNNP and Tigray experienced slowdowns in non-food inflation compared with the previous quarter.

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