

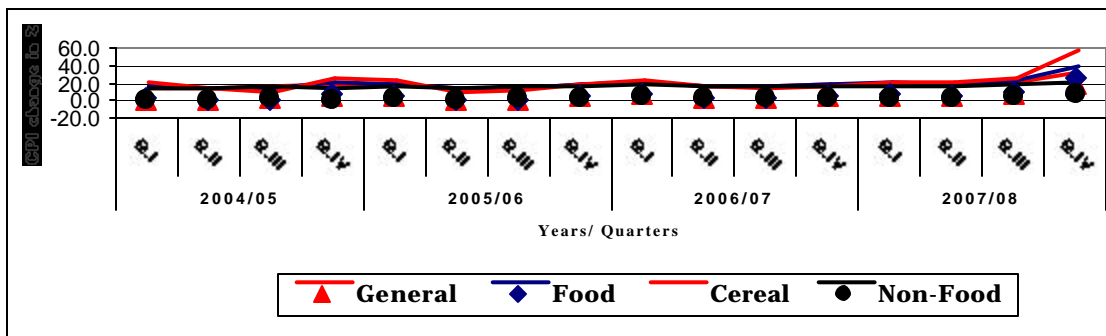
## IV. QUARTERLY PRICE DEVELOPMENTS

### 4.1 Developments in National CPI

The fourth quarter of 2007/08 witnessed a continuing surge in inflation (see Figure III.1). Headline inflation rose to 18.5 percent from 8.0 percent in the preceding quarter and 4.1 percent same period last year. Food inflation accounted for 15.3 percentage points of

the 18.5 percent headline inflation while non-food inflation for the balance (see Table 3.1). Similarly, the contribution of food inflation to the 10.5 percentage points increase in headline inflation over the preceding quarter was quite significant (9.7 percentage points).

**Fig.IV.1: Quarterly Movements in National Consumer Price Indices**



Source: CSA and NBE Staff Computatio

In the review quarter, food inflation increased to 25.1 percent from 9.3 percent in the preceding quarter and 5.5 percent in the fourth quarter of 2006/07. Cereals, potatoes, other tubers and stems; and spices accounted for the bulk of the surge in the food prices. The combined contribution of these food items to the quarterly food inflation was

20 percentage points.

However, the 15.8 percentage points rise of food inflation as compared to the preceding quarter was mainly due to higher inflation of cereals, spices, and pulses, which jointly took about 15.2 percentage points (96 percent). Their high contribution is attributed to the fact that expenditure on these food items accounts

for more than 50 percent of the total food consumption expenditure.

Non-food inflation grew to 8.2 percent in the quarter under review from 6.0 percent in the previous quarter and 2.1 percent in the previous year. The recorded quarterly inflation was

attributed to the increase in the respective inflation rates of house rent, construction materials, fuel, potable water and electric power; clothing and footwear; furniture, household equipment and operation sub-categories of the CPI, which jointly accounted for 5.5 percentage points.

**Table 4.1: Quarterly National General Consumer Prices (%)**

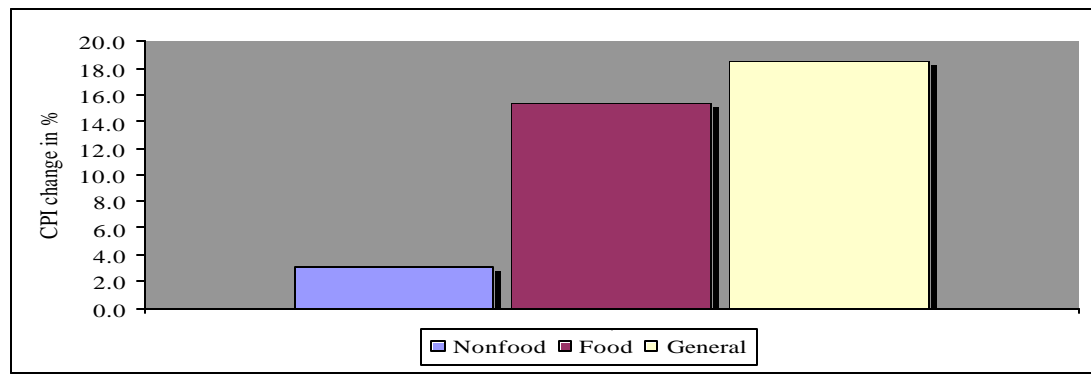
	Weights	2006/07	2007/08		Change in %age points		Contribution to	
		QIV	QIII	QIV	C-A	C-B	QIV headline inflation	change in headline inflation over June
		A	B	C				
Headline	100.0	4.1	8.0	18.5	14.5	10.5	18.5	10.5
Food	57.0	5.5	9.3	25.1	19.6	15.8	15.3	9.7
Non-Food	43.0	2.1	6.0	8.2	6.1	2.2	3.2	0.8

Source: CSA and NBE Staff Computation

However, the 2.1 percentage points rise in the quarter's nonfood inflation over that of the preceding quarter was mainly caused by higher rates of inflation of house rent,

construction materials, potable water, fuel, electric power; beverages; clothing and footwear, which jointly contributed 1.6 percentage points.

**Fig.IV.2: Quarterly Headline Inflation and Contribution of Food and Non-food Items**



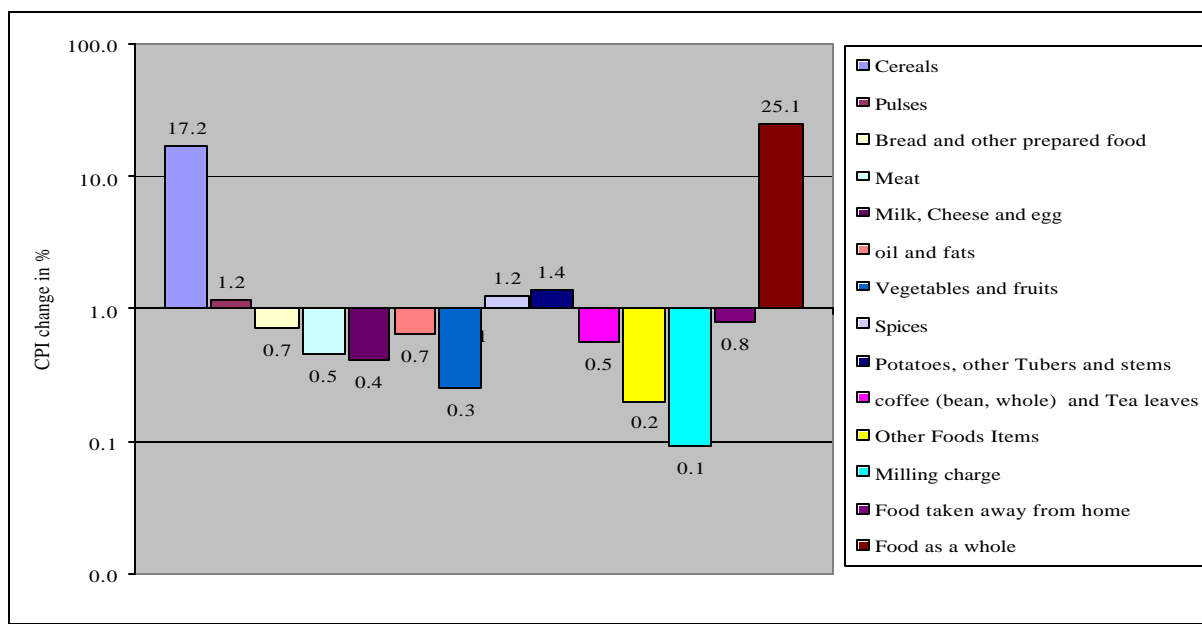
Source: CSA and NBE Staff Computation

**Table 4.2: Quarterly National Food Consumer Prices (%)**

	Weights	2006/07	2007/08		Change in %age points		Contribution to	
		QIV	QIII	QIV			QIV food inflation	Change in Food Inflation over June
		A	B	C	C-A	C-B		
<b>Food</b>	<b>57.01</b>	<b>5.5</b>	<b>9.3</b>	<b>25.1</b>	<b>19.6</b>	<b>15.8</b>	<b>25.1</b>	<b>15.8</b>
Cereals	22.54	1.8	11.4	45.1	43.2	33.7	17.2	12.92
Pulses	4.31	4.4	5.7	17.5	13.1	11.8	1.2	0.79
Bread and other prepared food	1.87	5.3	10.3	21.5	16.1	11.2	0.7	0.37
Meat	2.82	6.7	6.3	10.4	3.7	4.1	0.5	0.17
Milk, cheese and egg	1.96	4.0	9.9	13.4	9.4	3.6	0.4	0.11
Oil and fats	2.39	12.5	11.7	13.3	0.8	1.7	0.7	0.09
Vegetables and fruits	2.55	4.4	19.4	4.9	0.5	-14.5	0.3	-0.66
Spices	1.98	51.3	-2.7	15.5	-35.7	18.2	1.2	1.47
Potatoes, other tubers and stems	4.16	0.1	21.3	19.7	19.6	-1.6	1.4	0.04
Coffee, (bean, whole) and tea leaves	4.27	2.3	5.1	7.8	5.5	2.7	0.5	0.18
Other foods items	1.23	0.3	12.0	11.7	11.4	-0.3	0.2	0.00
Milling charge	1.17	5.1	4.2	5.3	0.2	1.1	0.1	0.02
Food taken away from home	5.76	4.0	5.7	8.8	4.8	3.1	0.8	0.26

Source: CSA and NBE Staff Computation

**Fig.IV.3: Quarterly Food Inflation and Contribution of Various Food Items (log scale)**



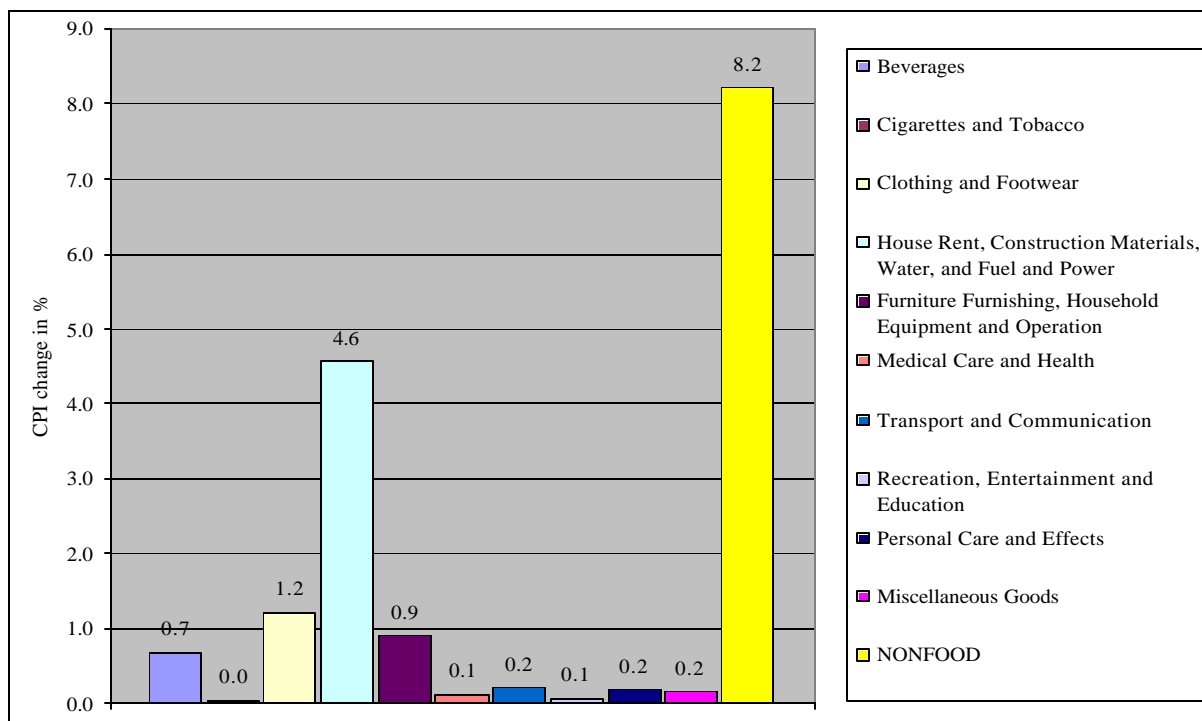
Source: CSA and NBE Staff Computation

**Table 4.3: Quarterly National Non-food Consumer Prices (%)**

	Weights	2006/07	2007/08		Change in %age points		Contribution to	
		QIV	QIII	QIV	C-A	C-B	QIV Non-food inflation	Change in Non-Food Inflation over June
		A	B	C				
<b>Non-Food</b>	<b>43.00</b>	<b>2.1</b>	<b>6.0</b>	<b>8.2</b>	<b>6.1</b>	<b>2.2</b>	<b>8.2</b>	<b>2.2</b>
Beverages	2.02	4.9	7.1	14.9	10.0	7.8	0.7	0.37
Cigarettes and Tobacco	0.48	0.1	9.9	4.1	4.1	-5.8	0.0	-0.06
Clothing and Footwear	8.32	3.1	4.5	6.2	3.0	1.6	1.2	0.31
House Rent, Construction Materials, Water, and Fuel and electric Power	20.56	1.6	6.4	9.7	8.1	3.3	4.6	1.59
Furniture, Household Equipment and Operation	3.75	4.1	9.6	9.3	5.2	-0.3	0.9	0.01
Medical Care and Health	1.11	2.5	3.3	4.5	2.0	1.2	0.1	0.03
Transport and Communication	2.49	0.8	7.5	4.0	3.2	-3.4	0.2	-0.18
Recreation, Entertainment and Education	1.09	0.2	3.2	2.8	2.6	-0.4	0.1	-0.01
Personal Care and Effects	0.83	1.5	7.0	9.6	8.1	2.6	0.07	0.02
Miscellaneous Goods	2.34	0.6	1.5	3.5	2.9	2.0	0.07	0.04

Source: CSA and NBE Staff Computation

Fig.IV.4: Quarterly Non-food Inflation and Contribution of Various Non-food Items



Source: CSA and NBE Staff Computation

## 4.2 Developments in Regional CPI

During the quarter under review, simple average regional headline inflation was 16.5 percent, which was 2 percentage points lower than the weighted average figure at national level. This was due to the fact that most of the regions with higher share in total national consumption expenditure are also the ones with higher headline inflation. For instance, SNNP, Harari, Oromia, Tigray, and Amhara regional states registered quarterly headline inflation greater than or equal to the regional average. Apart

from Harari, the other regional states each has significantly high share in the national consumption expenditure.

There is a wide margin in the rates of inflation registered among regional states. The difference between the maximum (SNNP) and the minimum (Benishangul Gumuz) quarterly headline inflation was about 11 percentage points, showing significant variation in the rate at which cost of living is manifested in the different

parts of the country. Deviation of the regional headline inflation rates from the regional average as represented by standard deviation<sup>1</sup> was about 3.8 percentage points.

As compared to the same quarter last year, this regional variation tended to narrow. In the fourth quarter of FY 2006/07, the range was about 5.0 percentage points and standard deviation about 1.7 percentage points<sup>2</sup>, both lower than those of the 4th quarter of FY 2007/08.

However, a statistical measure of dispersion known as coefficient of variation,<sup>3</sup> which is more suitable for comparing different data sets, showed the existence of less variation in the review quarter than the same period last year. This roughly indicates that, though still significant, regional inflation variation showed a narrowing tendency as market linkages in the regional states improved owing to advances in transportation and communication facilities.

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<sup>1</sup> Standard deviation is the square root of the average of the squared deviation of each data point from the common mean.

<sup>2</sup> Range is the difference between maximum and minimum values in a given data

<sup>3</sup> Coefficient of variation is the ratio of standard deviation to mean.

Simple average regional food inflation at 23.2 percent was less than the national weighted average of 25.1 percent. Harari, SNNP, Oromia, Tigray, and Addis Ababa each registered quarterly food inflation rate greater than the regional average.

The highest rate of inflation was registered in Harari and the lowest in Benishangul Gumuz, the range being 16.4 percentage points. Like the headline inflation, the variation in food inflation has narrowed since last year same period as the computed coefficient of variation was less (0.2 against 0.5) in the period under review.

Meanwhile, simple average regional non-food inflation reached 7.1 percent, which was less than the national weighted average of 8.2 percent. SNNP, Harari, Oromia, Tigray, and Gambella each registered quarterly non-food inflation rate greater than the regional average. The highest rate of inflation was recorded in SNNP and the lowest in Afar and Amhara, the range being 7.4 percentage points.

Since the fourth quarter of 2006/07, the variation in non-food inflation has declined even more than food inflation, the computed coefficient of variation being 0.4 compared to 2.1 in the same period last year.

In addition to the observed convergence in the regional rates of inflation, there have been close ties between the movements of headline inflation and food prices, particularly those of cereals, as it was the case at the national level.

**Table 4.4: Annualized Regional Headline, Food and Non-food Inflation**

Regions	2006/ 07			2007/08						Change			Change		
	QIV			QIII			QIV			D=C-A			D=C-B		
	A			B			C			D=C-A			D=C-B		
	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food
SNNP	3.2	3.4	3.0	9.9	12.4	6.5	22.9	30.7	11.2	19.7	27.3	8.2	13.0	18.3	4.7
Harari	0.3	0.5	32.1	7.1	9.0	5.2	21.7	32.1	10.4	21.4	31.6	-21.7	14.6	23.1	5.2
Oromia	4.2	5.3	2.6	10.1	11.8	7.3	20.7	27.1	9.8	16.5	21.8	7.2	10.6	15.3	2.5
Tigray	4.7	6.1	2.8	5.9	8.2	2.1	18.3	24.2	8.0	13.6	18.1	5.2	12.4	16.0	5.9
Gambella	3.8	5.6	1.6	5.2	5.0	5.6	14.4	19.2	7.4	10.6	13.6	5.8	9.2	14.2	1.8
Addis Ababa	4.5	7.9	2.0	8.3	8.9	7.7	14.2	23.3	7.0	9.7	15.4	5.0	5.9	14.4	-0.7
D. Dawa	5.2	7.9	2.5	7.6	11.0	3.8	12.8	18.9	5.6	7.6	11.0	3.1	5.2	7.9	1.8
B. Gum	4.2	6.1	1.8	9.4	13.0	4.1	11.8	15.7	5.5	7.6	9.6	3.7	2.4	2.7	1.4
Somali	0.2	0.0	0.6	9.1	11.9	4.2	15.7	21.2	5.4	15.5	21.2	4.8	6.6	9.3	1.2
Afar	3.6	7.8	-1.4	3.9	3.8	3.9	13.5	20.5	3.7	9.9	12.7	5.1	9.6	16.7	-0.2
Amhara	4.8	7.0	1.0	4.1	3.8	4.5	16.0	22.0	3.7	11.2	15.0	2.7	11.9	18.2	-0.8

Source: CSA and NBE Staff Computation