

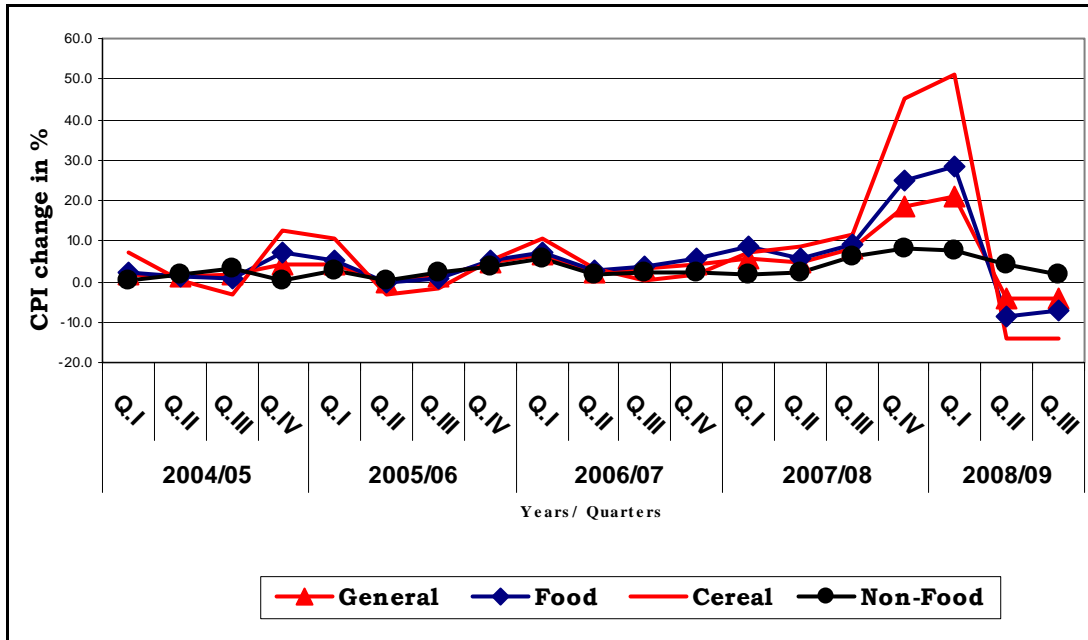
IV QUARTERLY PRICE DEVELOPMENTS

4.1 Developments in National CPI

The third quarter of 2008/09 witnessed a continued negative trend in inflation but an increase compared to the preceding quarter (Fig. III.1). Accordingly, headline inflation increased to -4.2 percent from -4.4 percent in the preceding quarter, but lower than 8.0 percent against same period last year. Food inflation accounted for -4.7 percentage points of the -4.2 percent

headline inflation with non-food inflation making up 0.5 percentage point contribution (Table 3.1). Similarly, the contribution of food inflation to the 0.2 percentage points quarterly increase in headline inflation over the preceding quarter was 0.98 percentage points; while that of non-food was -0.78 percentage points.

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



Source: Central Statistical Agency(CSA) and NBE Staff Computation

Similarly, food inflation increased to -7.3 percent from -8.4 percent a quarter

earlier though still lower as compared to 9.3 percent same period of last year.

Cereals, vegetables and fruits and potatoes, other tubers and stems accounted for the bulk of the quarterly change in the food prices. The combined contribution of these food items to the quarterly increase in food inflation was 1.7 percentage points.

Non-food inflation declined to 1.5 percent from 4.1 percent in the previous quarter and 6.0 percent inflation rate

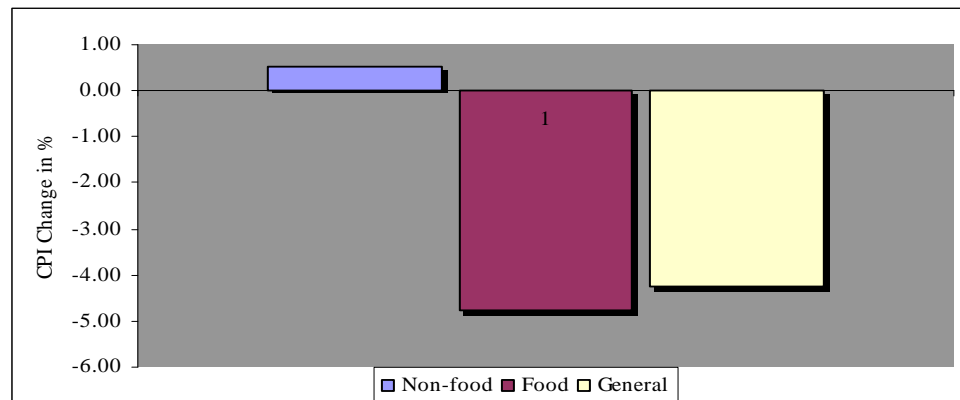
recorded last year. The 2.6 percentage points decline in the quarterly non-food inflation over that of the preceding quarter was mainly caused by lower rates of inflation in house rent, construction materials, water, fuel and power, and transport and communication sub-categories of the CPI jointly contributing -2.5 percentage points.

Table 4.1: Quarterly National General Consumer Prices (%)

| | Weights | 2007/08 | 2008/09 | | Change in %age points | | Contribution to | |
|----------|---------|---------|---------|------|-----------------------|------|-------------------------|---------------------------------------|
| | | QIII | QII | QIII | C-A | C-B | QIII headline inflation | change in headline inflation over QII |
| | | A | B | C | | | | |
| Headline | 100.0 | 8.0 | -4.4 | -4.2 | -12.2 | 0.2 | -4.2 | 0.20 |
| Food | 57.0 | 9.3 | -8.4 | -7.3 | -16.6 | 1.1 | -4.7 | 0.98 |
| Non-Food | 43.0 | 6.0 | 4.1 | 1.5 | -4.5 | -2.6 | 0.5 | -0.78 |

Source: CSA and NBE Staff Computation

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 | 2007/08 | 2008/09 | | Change in %age points | | Contribution to | |
|--------------------------------------|--------------|------------|-------------|-------------|-----------------------|------------|---------------------|-----------------------------------|
| | | QIII | QII | QIII | C-A | C-B | QIII food inflation | change in Food Inflation over QII |
| | | A | B | C | | | | |
| Food | 57.01 | 9.3 | -8.4 | -7.3 | -16.6 | 1.1 | -7.3 | 1.1 |
| Cereals | 22.54 | 11.4 | -13.9 | -14.2 | -25.6 | -0.3 | -7.0 | 0.3 |
| Pulses | 4.31 | 5.7 | -1.6 | -3.6 | -9.3 | -2.1 | -0.2 | -0.1 |
| Bread and other prepared food | 1.87 | 10.3 | 4.6 | -1.7 | -12.1 | -6.3 | -0.1 | -0.2 |
| Meat | 2.82 | 6.3 | 1.0 | -0.3 | -6.6 | -1.3 | 0.0 | 0.0 |
| Milk, cheese and egg | 1.96 | 9.9 | 3.3 | 4.1 | -5.8 | 0.8 | 0.1 | 0.0 |
| Oil and fats | 2.39 | 11.7 | -4.2 | -5.2 | -16.8 | -1.0 | -0.2 | 0.0 |
| Vegetables and fruits | 2.55 | 19.4 | -1.5 | 17.2 | -2.2 | 18.7 | 0.6 | 0.6 |
| Spices | 1.98 | -2.7 | -22.8 | -34.8 | -32.1 | -12.0 | -1.9 | -0.4 |
| Potatoes, other tubers and stems | 4.16 | 21.3 | -1.1 | 11.3 | -10.0 | 12.4 | 0.7 | 0.8 |
| Coffee, (bean, whole) and tea leaves | 4.27 | 5.1 | 0.6 | 2.6 | -2.5 | 2.0 | 0.1 | 0.1 |
| Other foods items | 1.23 | 12.0 | 5.9 | 15.3 | 3.3 | 9.3 | 0.3 | 0.2 |
| Milling charge | 1.17 | 4.2 | 0.6 | 0.5 | -3.7 | 0.0 | 0.0 | 0.0 |
| Food taken away from home | 5.76 | 5.7 | 4.1 | 3.7 | -2.0 | -0.4 | 0.3 | 0.0 |

Source: CSA and NBE Staff Computation

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

| | Weights | 2007/08 | 2008/09 | | Change in %age points | | Contribution to | |
|--|--------------|------------|------------|------------|-----------------------|-------------|-------------------------|---------------------------------------|
| | | QIII | QII | QIII | C-A | C-B | QIII Non-food inflation | change in non-food inflation over QII |
| | | A | B | C | | | | |
| Non-Food | 43.00 | 6.0 | 4.1 | 1.5 | -4.5 | -2.6 | 1.5 | 2.6 |
| Beverages | 2.02 | 7.1 | 2.3 | 1.6 | -5.5 | -0.7 | 0.1 | 0.0 |
| Cigarettes and Tobacco | 0.48 | 9.9 | 3.6 | 9.3 | -0.6 | 5.7 | 0.1 | 0.1 |
| Clothing and Footwear | 8.32 | 4.5 | 7.6 | 6.6 | 2.1 | -1.0 | 1.3 | -0.1 |
| House Rent, Construction Materials, Water, and Fuel and Electric Power | 20.56 | 6.4 | 3.3 | -0.3 | -6.6 | -3.6 | -0.1 | -1.7 |
| Furniture, Household Equipment and Operation | 3.75 | 9.6 | 3.8 | 3.5 | -6.1 | -0.3 | 0.3 | 0.0 |
| Medical Care and Health | 1.11 | 3.3 | 2.4 | 2.7 | -0.6 | 0.3 | 0.1 | 0.0 |
| Transport and Communication | 2.49 | 7.5 | 6.1 | -9.4 | -16.9 | -15.5 | -0.5 | -0.8 |
| Recreation, Entertainment and Education | 1.09 | 3.2 | 4.4 | 2.9 | -0.3 | -1.5 | 0.1 | 0.0 |
| Personal Care and Effects | 0.83 | 7.0 | 2.2 | 5.3 | -1.7 | 3.0 | 0.1 | 0.1 |
| Miscellaneous Goods | 2.34 | 1.5 | 0.5 | 0.3 | -1.2 | -0.2 | 0.0 | 0.0 |

Source: CSA and NBE Staff Computation

4.2 Developments in Regional CPI

During the quarter under review, simple average regional headline inflation was -4.2 percent, which was almost equal to the weighted average figure recorded at national level.

On the other hand, there was a wide margin in the rates of inflation registered among regional states. The difference between the maximum (0.7 for Somali) and the minimum (-10.6 for Gambella) quarterly headline inflations was about 11.3 percentage points, showing significant variation in the rate at which the cost of living is manifested in the different parts of the country. The deviation of the regional headline inflation rates from the regional average as represented by standard deviation¹ was about 3.6 percentage points.

As compared to the same quarter last year, this regional variation tended to widen. In the third quarter of 2007/08 fiscal year, the range was about 6.2 percentage points and standard deviation about 2.3 percentage points², both lower than those of the review quarter.

Moreover, a statistical measure of dispersion known as coefficient of variation,³ which is more suitable for comparing different data sets, showed the existence of more variation in the review quarter than the same period of last year.

Simple average regional food inflation of -6.8 percent was higher than the national weighted average of -7.3 percent. Tigray, Gambella, Benishangul Gumz and Amhara each registered a quarterly food inflation rate lower than the regional average.

The highest rate of inflation was registered in Somali; whereas the lowest in Gambella bringing the range to 15.3 percentage points. Like the headline inflation, the variation in food inflation has widened since same period last year as the computed coefficient of variation was higher (0.7 against 0.39) in the period under review.

¹ Standard deviation is the square root of the average of squared deviation of each data point from the common mean

² Range is the difference between maximum and minimum values in a given data

³ Coefficient of variation is the ratio of standard deviation to mean

Meanwhile, simple average regional non-food inflation reached 0.8 percent, which was lower than the national weighted average of 1.5 percent. Oromia, Harari, Benishangul Gumz, Amhara and Dire Dawa regions registered a quarterly non-food inflation rates greater than the regional average. The highest rate of inflation was recorded in Oromia, but the lowest in Gambella, the range being 6.4 percentage points.

Since the third quarter of 2007/08, the variation in non-food inflation has significantly increased. The computed coefficient of variation being 2.1 compared to 0.34 in the same period last year.

Table 4.3: Annualized Regional Headline, Food and Non-Food Inflation

| Regions | 2007/08 | | | 2008/09 | | | | | | Change | | | Change | | |
|------------------------|------------|------------|------------|-------------|-------------|------------|-------------|-------------|------------|---------|-------|----------|---------|------|----------|
| | QIII | | | QII | | | QIII | | | 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 | 9.9 | 12.4 | 6.5 | -6.9 | -12.9 | 5.1 | -4.0 | -6.7 | 0.6 | -13.9 | -19.1 | -5.9 | 2.9 | 6.2 | -4.5 |
| Harari | 7.1 | 9.0 | 5.2 | 0.7 | -1.5 | 4.0 | -1.0 | -3.1 | 2.1 | -8.1 | -12.1 | -3.1 | -1.7 | -1.6 | -1.9 |
| Oromia | 10.1 | 11.8 | 7.3 | -5.9 | -10.2 | 4.0 | -3.1 | -6.2 | 3.1 | -13.2 | -18.0 | -4.2 | 2.8 | 4.0 | -0.9 |
| Tigray | 5.9 | 8.2 | 2.1 | -2.7 | -5.8 | 5.0 | -6.8 | -10.0 | 0.4 | -12.7 | -18.2 | -1.7 | -4.1 | -4.2 | -4.6 |
| Gambella | 5.2 | 5.0 | 5.6 | -6.0 | -12.3 | 8.4 | -10.6 | -14.6 | -3.3 | -15.8 | -19.6 | -8.9 | -4.6 | -2.3 | -11.7 |
| Addis Ababa | 8.3 | 8.9 | 7.7 | 1.2 | -2.6 | 5.3 | -2.3 | -4.4 | -0.2 | -10.6 | -13.3 | -7.9 | -3.5 | -1.8 | -5.5 |
| Dire Dawa | 8.3 | 12.3 | 3.8 | 1.4 | 0.4 | 3.0 | -0.5 | -1.7 | 1.4 | -8.8 | -14.0 | -2.4 | -1.9 | -2.1 | -1.6 |
| Ben. Gumz | 9.3 | 13.0 | 3.8 | -6.5 | -10.7 | 3.6 | -8.1 | -13.0 | 2.1 | -17.4 | -26.0 | -1.7 | -1.6 | -2.3 | -1.5 |
| Somali | 9.1 | 11.9 | 4.2 | -4.0 | -8.5 | 8.4 | 0.7 | 0.7 | 0.7 | -8.4 | -11.2 | -3.5 | 4.7 | 9.2 | -7.7 |
| Afar | 3.9 | 3.8 | 3.9 | -3.2 | -4.5 | -0.6 | -3.3 | -5.1 | 0.1 | -7.2 | -8.9 | -3.8 | -0.1 | -0.6 | 0.7 |
| Amhara | 4.1 | 3.8 | 4.5 | -3.0 | -4.9 | 2.3 | -7.3 | -10.6 | 1.8 | -11.4 | -14.4 | -2.7 | -4.3 | -5.7 | -0.5 |
| Regions Average | 7.4 | 9.1 | 5.0 | -3.2 | -6.7 | 4.4 | -4.2 | -6.8 | 0.8 | | | | | | |

Source: CSA and NBE Staff Computation