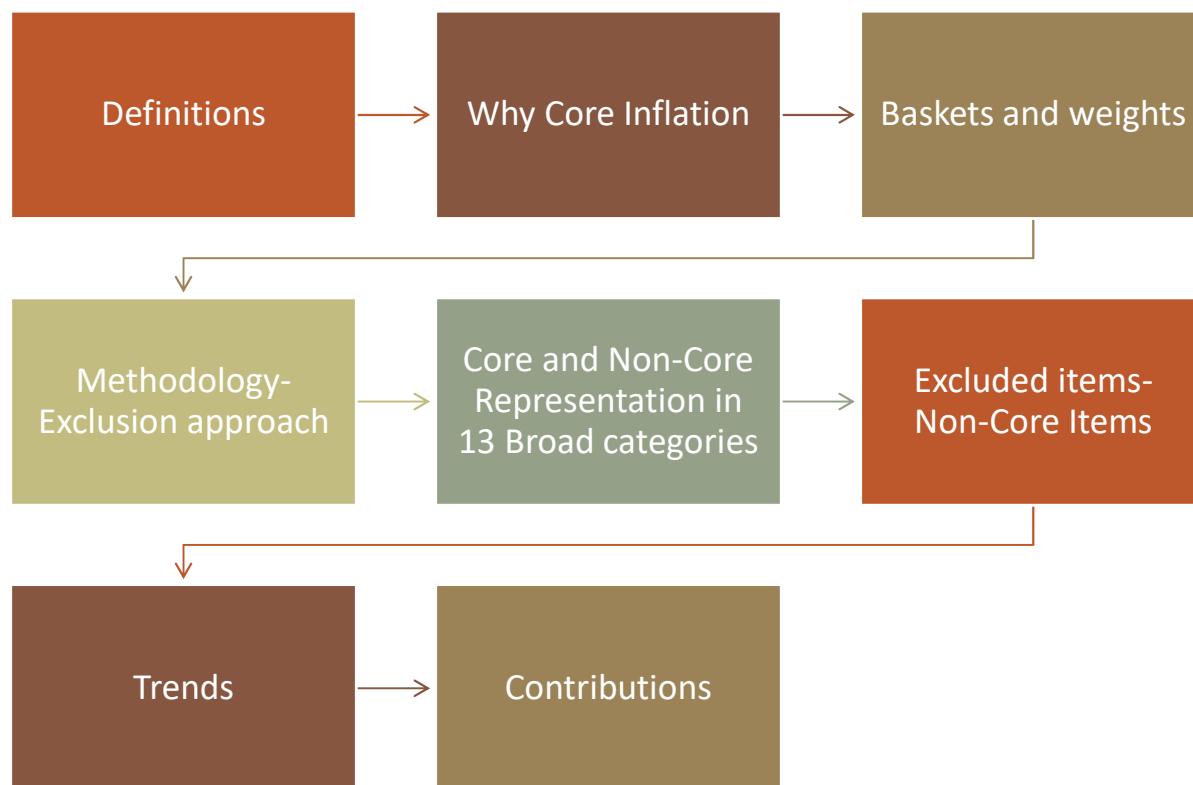PRESENTATION ON CORE AND NON-CORE INFLATION
MEASURES FOR KENYA

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Outline

# Understanding Core and Non-Core Inflation

Core inflation derived statistics from the national CPI which is intended to show underlying inflation by excluding price movements arising from transient or volatile product groups. Items in categories of food and energy are excluded.

Non- core inflation is derived statistics from national CPI which show price movements of volatile products group (items with very volatile price changes)
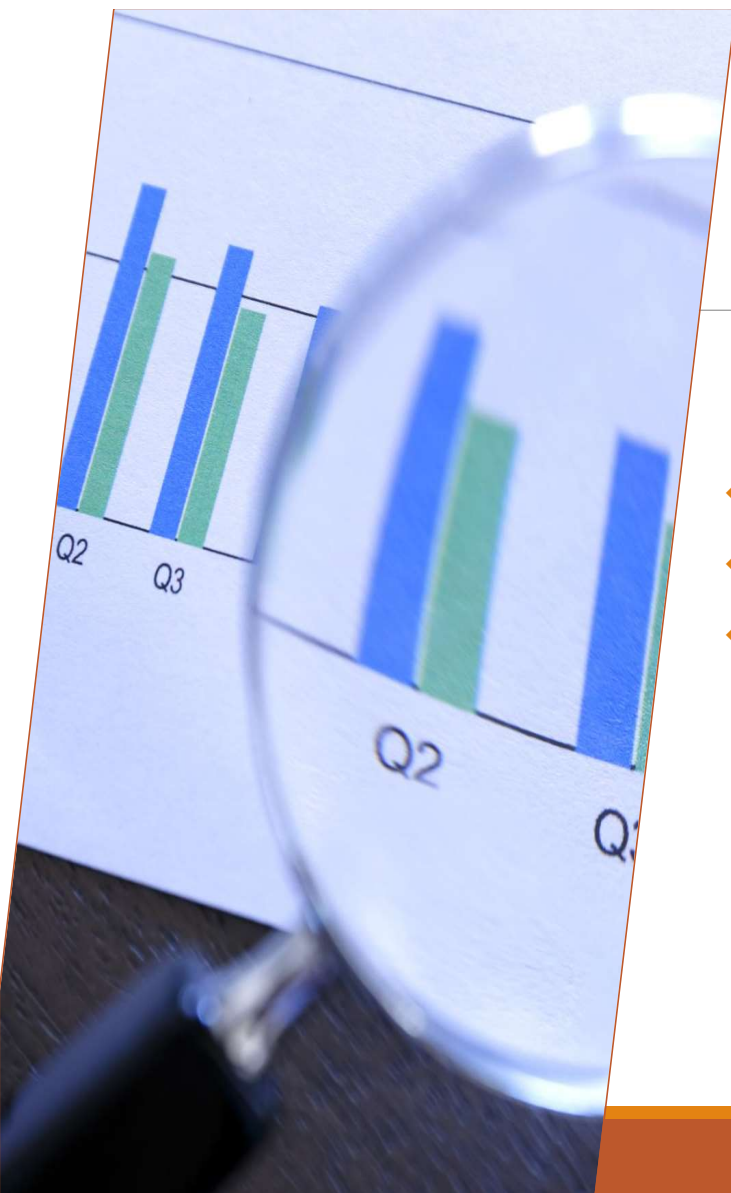
Why Core Inflation

Headline measure of inflation contains price changes of some commodities that are subject to price volatility from time to time due to factors such as;
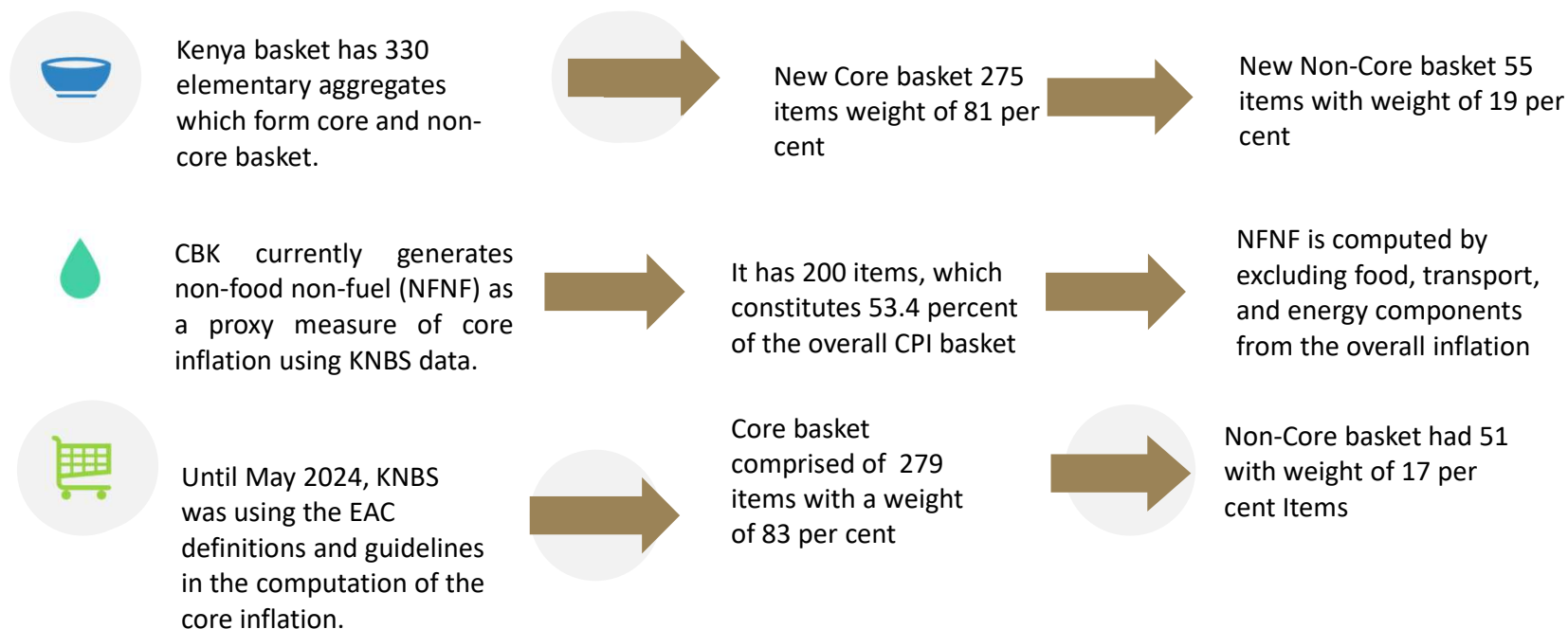
❖ Weather changes

❖ Shocks in the global economy

❖ Supply side factors

CBK is the main user of CPI and inflation data as a measure for assessing achievement its primary objective of ensuring stability in general level of prices of goods and services in the economy.
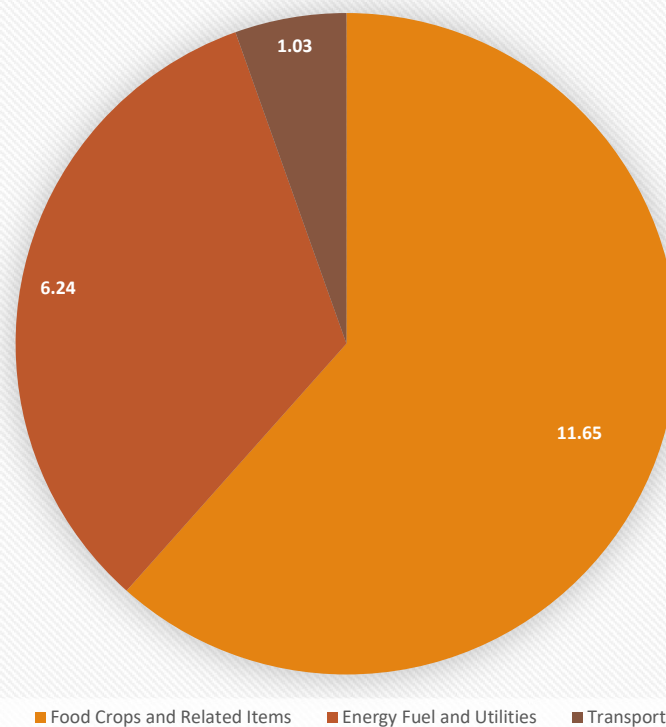
Price stability promotes long-term planning, investment and economic growth.

Core inflation, therefore, provides a relatively stable measure of inflation which is commonly used by central banks to inform monetary policy decisions.

Baskets and Weights

Kenya basket has 330 elementary aggregates which form core and non-core basket.

→ New Core basket 275 items weight of 81 per cent

→ New Non-Core basket 55 items with weight of 19 per cent

CBK currently generates non-food non-fuel (NFNF) as a proxy measure of core inflation using KNBS data.

→ It has 200 items, which constitutes 53.4 percent of the overall CPI basket

→ NFNF is computed by excluding food, transport, and energy components from the overall inflation

Until May 2024, KNBS was using the EAC definitions and guidelines in the computation of the core inflation.

→ Core basket comprised of 279 items with a weight of 83 per cent

→ Non-Core basket had 51 with weight of 17 per cent Items

Non-Core Weight Distribution

Food Crops and Related Items ■ Energy Fuel and Utilities ■ Transport

1.03
6.24
11.65

Exclusion Approach to Achieve Core Basket

List of items recommended for exclusion in the computation of core under the EAC guidelines for computation of harmonized CPIs for the Partner States was applied.

Statistical methods of assessing volatility to determine additional products to be excluded was employed.

Following generation of core CPI sub-basket, core inflation calculated based on annual, monthly or quarterly changes in the sub-basket index.

List of Non-Core Items

Product Name	Product Name	Product Name
Maize Grain - Loose	Apples	Green grams
Green Maize	Melons	Dolicos (Njahi)
Green Maize- Loose	Groundnuts	Peas
Maize Flour - Loose	Spinach	Cowpeas
Dried/Smoked Fish (Excl Omena)	Kale-Sukuma Wiki	Dried Cassava
Omena	Traditional Vegetables	Coriander Leaves (Dania)
Fresh unpacketed cow milk / Goat Milk	Cabbages	Water- Water Service Provider
	Tomatoes	Water- Vendors
Camel Milk	Capsicums (Pilipili Hoho)	Electricity
Ripe Bananas	Pumpkins/Butter Nut	Gas/LPG
Mangoes	Peas (Garden, Snap, Snow)	Kerosene/Paraffin
Avocado	Carrots	Firewood
Paw paws	Onion -Leeks and Bulbs	Charcoal
Pineapples	Cooking bananas	Petrol
Passion	Potatoes (Irish)	Diesel
Tree Tomato	Sweet Potato	Country Bus /Matatu (Inter-town)
Coconut	Arrow Roots-Nduma	Local Flights
Oranges	Cassava	
Lemons	Beans	

Comparison of Core, Non-Core , and Headline Inflation

Evolution of Inflation
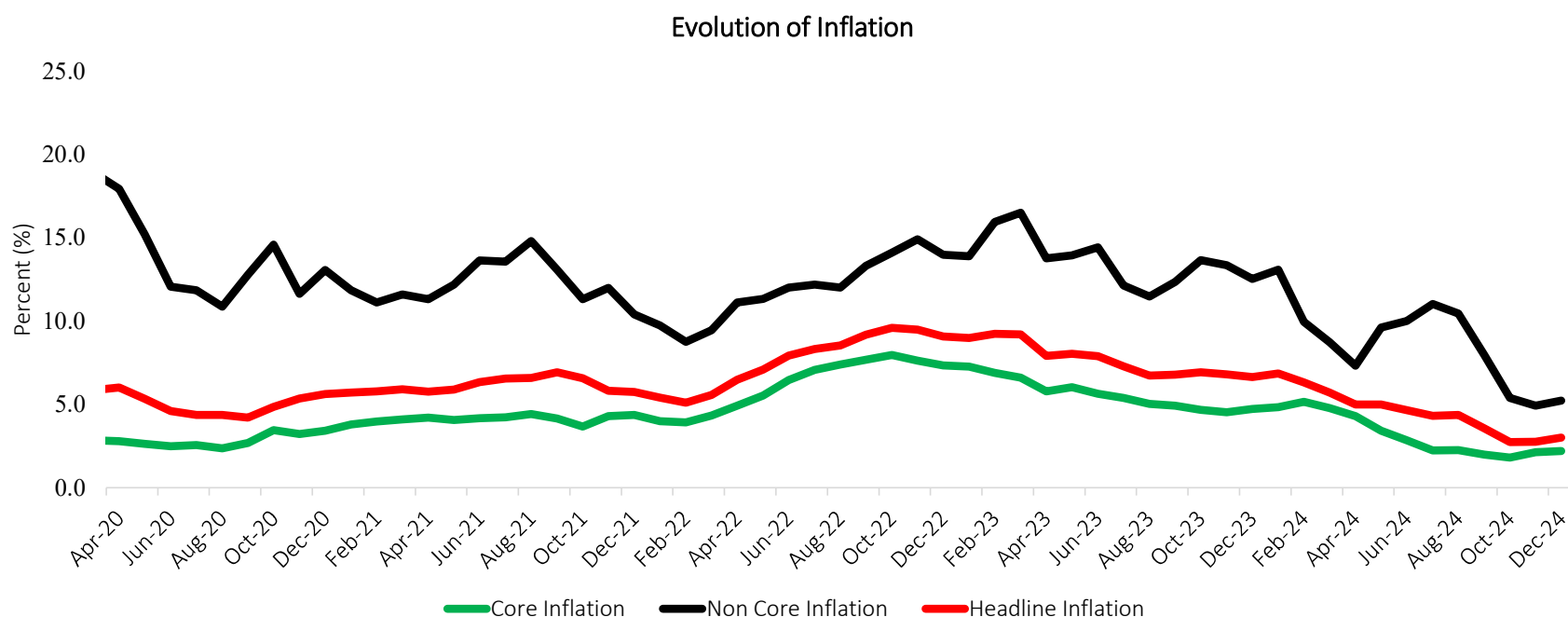
Comparison of Core, Non-Food Non-Fuel, and Headline Inflation

Core, NFNF vs Headline Inflation
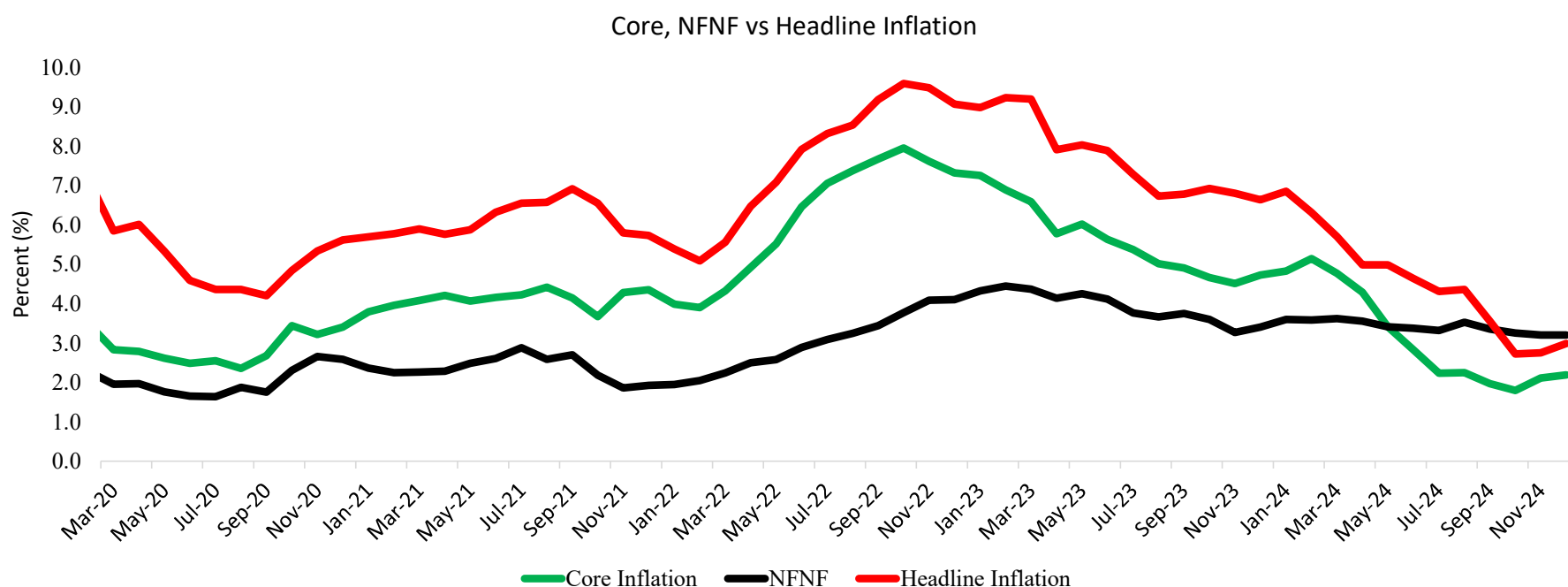
Contributions to Core, Non-Core, and Overall Inflations, December 2024

	Core	Non Core	Total
Food and Non-Alcoholic Beverages	0.2	1.1	**1.3**
Alcoholic Beverages, Tobacco and Narcotics	0.2	0.0	**0.2**
Clothing and Footwear	0.1	0.0	**0.1**
Housing, Water, Electricity, Gas and Other Fuels	0.1	0.0	**0.1**
Furnishings, Household Equipment and Routine Househol	0.2	0.0	**0.2**
Health	0.1	0.0	**0.1**
Transport	0.2	-0.1	**0.0**
Information and Communication	0.1	0.0	**0.1**
Recreation, Sport and Culture	0.1	0.0	**0.1**
Education Services	0.2	0.0	**0.2**
Restaurants and Accommodation Services	0.4	0.0	**0.4**
Insurance and Financial Services	0.0	0.0	**0.0**
Personal Care, Social Protection and Miscellaneous Goods	0.2	0.0	**0.2**
Total	**2.0**	**1.0**	**3.0**

Thank You