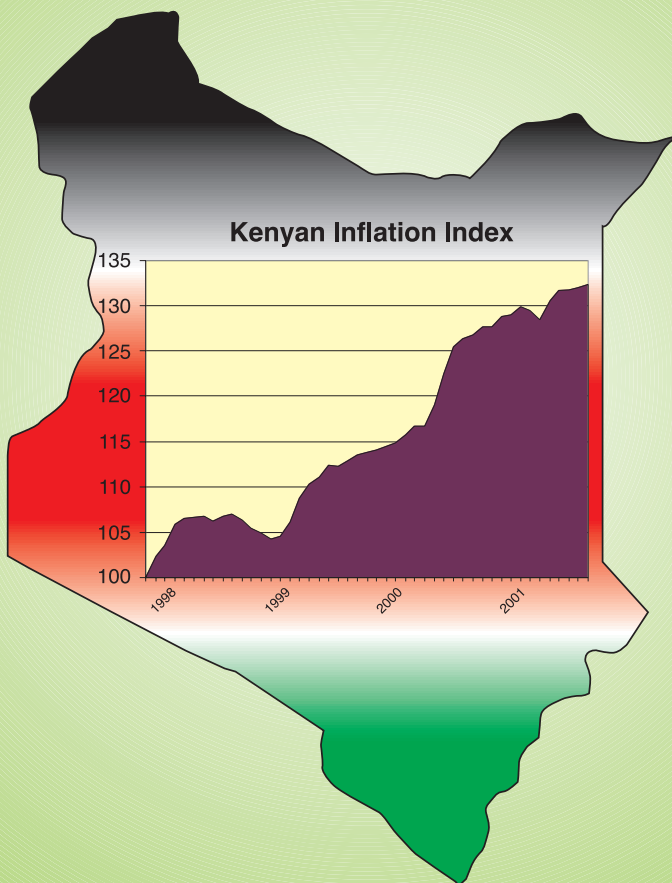




KENYA CONSUMER PRICE INDEX

A BRIEF GUIDE



*Prepared by the
Central Bureau of Statistics*

CONSUMER PRICE INDEX

The Consumer Price Index (**CPI**) is a key macroeconomic indicator showing the state of the Kenyan economy and the impact of inflation. It is used by many organisations including the government, international agencies, researchers and non-governmental organisations.

SHOPPING BASKET

A convenient way of thinking about the CPI is to imagine a very large “shopping basket” full of goods and services on which people typically spend their money: from rice to coffee, from electricity to clothes. The contents of the basket are fixed but as the prices of individual commodities in the basket change so does the total cost of the basket. The CPI is a measure of how these prices change.



COST OF LIVING INDEX

Many users tend to confuse the CPI with a Cost of Living Index. Strictly speaking the CPI is not a Cost of Living Index. It uses a sample of fixed market basket of goods and services. It is not designed to measure

what consumers actually purchase; rather it measures the cost of purchasing a fixed sample of the same goods and services as in the previous time period.

A Cost of Living Index would measure how a person's purchasing patterns change. It combines both changes in prices and changes in what people buy.

WHAT IS INCLUDED IN THE BASKET?

It would be impossible to measure the prices of everything on sale in every single shop. In 1993/4 an Urban Household Budget Survey was carried out to find out exactly what Kenyans spend on different commodities.

The results of this survey were used to select which goods and services would be priced in the CPI. 221 items were selected to be priced for each income group. In total around 11,000 prices are collected each month.

WHAT IS NOT INCLUDED?

- **Savings, Life Insurance and Pensions** – these are types of investment not consumption so are excluded.
- **Loans** – these are excluded as no direct service is provided and nothing is actually purchased.

- **Second-hand Goods** – although purchases of second-hand clothing are very high, there are difficulties in collecting their prices on a consistent and comparable basis.
- **Consumption from Own Production** – these are also excluded.
- **Expenditure on lotteries and other forms of gambling** – these are excluded as no actual goods and services are purchased.

PRICE COLLECTION

Every month each enumerator collects three price quotations for each of the commodities. They collect these from 10 areas in Nairobi and in twelve other towns throughout Kenya. Towns were randomly selected to represent each province. Towns were selected using a combination of their population and total expenditure by urban households in each province. The sample was based on all urban centres over 10,000 population plus all district headquarters irrespective of population size. Some of the larger towns were selected more than once and in these cases the town are split into separate areas for price collection.

PROVINCE	TOWN
Nairobi	Nairobi (10 areas)
Central	Nyeri
Coast	Mombasa (3 areas)
	Malindi
	Kilifi
Eastern	Meru
North Eastern	Garissa
Nyanza	Kisii
	Kisumu
Rift Valley	Nakuru (2 areas)
	Kitale
	Kabarnet
Western	Kakamega

In Nairobi two areas were selected to represent Middle/Upper Income groups: Westlands and South C.

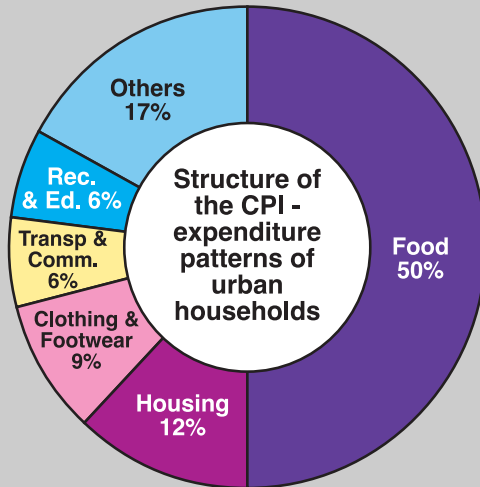
A further seven areas were selected to represent low income groups: Githurai, Kibera, Kawangware, Eastleigh, Kangemi, Dandora and Kariobangi.

The City Centre is used to represent both the Middle/Upper and Lower Income Groups with separate price collections for both groups.

WEIGHTING

Each commodity is given a weight that reflects the expenditure on that item compared with total expenditure on all

items. We spend more on some things than others so we would expect, for example, that an increase in the price of rice would have a greater impact on the CPI than an increase in the price of a matchbox. The commodities are “weighted” together to ensure that the CPI reflects the importance of the various items in the average shopping basket and the amounts which are spent in different regions of Kenya.



The weights for the index were derived from the 1993/4 UHBS survey. The survey covered 4,800 households randomly selected from 236 urban centres. To eliminate seasonal variation the survey was spread over one year

INCOME GROUPS

The expenditure patterns of people vary considerably by income group. The UHBS showed that expenditure rose sharply at the

8th decile which was then chosen as the cut-off point of the lower income group in Nairobi, that is households with less than Ksh 10,000 total expenditure per month. Analysis of the UHBS showed that there were very few households in the upper income group so the middle and upper income groups were combined. The other urban centres were assumed to be most similar to the lower income group in Nairobi. Three separate indices are produced for these groups: Nairobi Lower, Nairobi Middle/Upper and Rest of Kenya. An overall index to represent all urban households in Kenya is also produced.

CALCULATING THE INDEX

After all the price data have been collected they undergo a careful screening to ensure the validity of the data. Price changes for each commodity are calculated then combined using their weights. Indices are then compiled for each sub-group then each group and finally the all-items index. The index uses fixed weights set in October 1997 and then compares how prices of this same basket of goods have changed since then, that is a Laspeyres index. The base period is October 1997 when the index was started and so is set at 100. The commonly used measure of inflation is month-on-month which compares the current month's prices with those one year ago.

Central Bureau of Statistics
Ministry of Finance & Planning
P.O. Box 30266 Nairobi, Kenya
Tel: 254-2-333970 / 1-6
Fax: 254-2-33030
Email: director@cbs.go.ke
www.treasury.go.ke