Voluntary _ Public

Date: 8/30/2012
GAIN Report Number:

Kenya

Post: Nairobi

Agricultural Price Inflation

Report Categories:
Agricultural Situation

Approved By:
Kate Snipes
Prepared By:
Karisha Kuypers & Carol N. Kamau

Report Highlights:
To date Kenya has escaped the upward pressure on food prices due to sufficient domestic supply. Food prices have dropped in recent months. However, pressures from increasing international food prices may increase prices of imported commodities near the end of the year or early in 2013. Typically Kenya depends on imports to meet recurrent production deficits for corn, wheat, rice, soybeans, soybean products, and edible oils.

General Information:
Kenya's food security situation is currently stable because of plentiful rain in many parts of the country. Production of most staple foods (corn, potatoes, rice, beans, millet, sorghum, fruits and vegetables) increased in the current marketing year due to normal to above-normal rainfall. As a result, the Ministry of Agriculture predicts that Kenya will have a stable supply of basic staple foods which will last until end of December 2012.

Given current weather predictions, this fall's corn harvest is being characterized as a bumper crop. The Ministry of Agriculture (MoA) expects a surplus of 891,000 metric tons of corn as at the end of December 2012. The corn surplus already takes into consideration predicted annual 15 percent post-harvest losses and the 360,000 metric ton loss from Maize Lethal Necrosis (MLN) disease in the South Rift and other parts of the corn growing regions. In addition, the MoA presumes 108,000 metric tons of corn imports from Tanzania, Uganda, and other neighboring countries and no exports from Kenya through the end of the year.

In anticipation of possible future price increases, the Kenyan government has set aside $24 million (Kshs. 2 billion) to purchase corn from farmers to increase strategic corn reserves from the current 198,000 metric tons 720,000 metric tons. National Cereals and Produce Board (NCPB) , a government parastatal will buy corn at $36 (Kshs. 3,000) per 90 kilo bag ($396 per metric ton), a price above the prevailing market price.

Kenya's overall inflation rate dropped to a 17-month low in July 2012, falling from 10.05 percent in June 2012 to 7.74 percent in July 2012. This is down from a high of 19 percent in November 2011 and is the lowest level of inflation since February 2011, when overall inflation was at 6.54 percent. Lower fuel prices, a stronger shilling, and increased food supply have contributed to easing of inflationary pressure.

The food and non-alcoholic drinks index, which accounts for 36 percent of total weight in the consumer Price Index (CPI), decreased by 1.88 percent between June and July 2012. The Kenya National Bureau of Statistics (KNBS) reports that the decrease was mainly due to continued falls in the prices of key staples (kale, milk, potatoes, tomatoes, cabbages, onions, beans, green corn, and spinach). For example, a 90-kilo bag of corn, Kenya's main staple food, is currently selling at a wholesale price of KSh 2,400-2,600 ($318-$344 per metric ton) in areas where harvesting has started, down from a record high of KSh 3,600 ($476 per metric ton) in the last marketing year.

While Kenya's food stocks and prices are now relatively stable, Kenya's Ministry of Agriculture is closely watching global food prices as higher international prices for wheat, rice, soybeans and soybean products. Kenya imports most of its total wheat requirements from Russia, the Black Sea region, Argentina, and some from Canada. Continued dry conditions in the Black Sea region and Argentina reduced production and stocks, raising concern that these countries may resort to export bans.

Kenyan wheat millers expect wheat prices to rise in a month's time due to high cost of the grain in the world market. Domestic wheat production, which accounts for about a third of total national requirements, will likely fall because of heavy rains during harvest in the South Rift region and an outbreak of wheat stem rust, Ug99, in the North Rift. Close to 90 percent of wheat produced in

Kenya comes from these two regions.

Kenya also gets much of its rice, soybeans and soybean products from India, where production of these staple commodities has been reduced as a result of this year's below-average monsoon.

Potential future higher food prices would disproportionately impact Kenya's poor by increasing the cost of living for net buyers of food, such as urban and low-income households. More than 72 percent of households in Kenya's urban centers are considered to be low-income, earning less than $3,760 per year, according to KNBS 2006 Kenya Integrated Household Budget survey.