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# High input costs force producers to review prices

Photo/ AFP

**HIGH OUTPUT:** Workers packaging salt at one of the salt firms in Magarini, Kilifi county.

BY LOLA OKULO

PRODUCER prices increased by 0.47 per cent during the first quarter of the year driven by high cost of manufacturing beverages and chemicals.

Data from the Kenya National Bureau of Statistics shows that under beverages the producer prices for malt liquor and malt increased and this caused the index to rise by 7.68 per cent.

The KNBS report also shows that while the general production cost of food products dropped by 1.4 per cent, the producer prices for flour and dairy products rose.

The decrease in producer prices for food was largely attributed to a drop in cost of sugar and tea.

The producer price index tracks the average change in retail prices of goods and services to producers in the wholesale market.

"Producer prices of chemical and chemical products increased due to rise in prices of soap and detergents, cleaning and polishing preparations. The mining and quarrying index increased by 2.95 per cent in the first quarter due to rise of salt extraction," said KNBS in the report.

These prices affect the cost of production of various goods generated by manufacturers and are passed on to retail buyers of the finished product.

For example, a 500gm packet of salt which for a long time has been retailing at not more than Sh10 has become more expensive over the last one year to sell at between Sh13 and Sh20.

Producer prices for manufacture of motor vehicles went up by 1.93 per cent while the index for provision of water supply remained unchanged.

In energy, the producer price index for electricity rose by 0.09 per cent. Other areas where producer prices increased include in manufacture of tobacco products and textiles which rose by 0.02 and 0.23 per cent.

In some areas the PPI reduced including in the manufacture of leather and related products which dropped by 0.15 per cent, basic metals by 1.67 per cent and manufacture of equipment which reduced by 0.35 per cent.

The overall consumer price index for March rose by 0.45 per cent. During the month, the food and alcoholic beverages product basket index increased by 0.56 per cent compared to February. The alcoholic beverages, tobacco and narcotics index rose by 0.55 per cent while the housing, water, electricity and gas price index rose by 0.28 per cent.

During the month however, inflation which is the general rise of the prices of goods and services dropped to 6.27 per cent to 6.86 per cent.

## FKE says work permit delays hurting investors

BY RITA DAMARY

THE Federation of Kenya Employers has called on the government to speed up the issuance of work permits to genuine applicants.

FKE executive director Jacqueline Mugo said the delay interferes with the operations of many firms especially in the flower sector thus holding up investment.

Mugo said the Ministry of Interior and Coordination has put stringent measures in issuing the work permits to foreigners and urged the government to strike a balance between taming the threats of insecurity and facilitating investors.

Speaking in Nakuru during the 26th Rift Valley branch annual general meeting, Mugo said while FKE supports the move to weed out illegal immigrants through the ongoing security operation dubbed 'operation usalama watch', this should be done humanely.

Mugo said the government should seal loopholes and break corruption cartels in the country's registration system that make it easier for aliens to obtain documentation compared to genuine investors.

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## THE NEW SET OF RISKS ARE GEOPOLITICAL RISKS

"The new set of risks are geopolitical risks. Most of the attention is to the question of what's happening in the Ukraine, and the relationship between Russia and the US But we've also pointed to the geopolitical risks in the Middle East, what's happening in Syria, and geopolitical risks in terms of the relationship between China and Japan.  So there are geopolitical risks that are a bit more on the radar screen than in past years, and given the fragility of recovery, they're more salient than they might otherwise be." said the IMF's David Lipton last week.

From Lipton's comments, we can appreciate that there are multiple theatres and spillover risks that remain. The cause and effect on the markets remains real high. The Russian Micex trades on 4.5x earnings, for example, which is about one third of the valuation imputed to emerging markets. The Syrian pound has collapsed. The impact on Chinese and Japanese markets of a serious collision between the two would be brutal and violent. Getting caught up in crossfire of geopolitical uncertainty not only decimates lives but decimates your wealth. Interestingly, gold which tends to be a proxy for geopolitical risks whilst +8.00% in 2014, in fact, trades much softer than you would have expected given the levels of geopolitical uncertainty.

The Arab Spring which was ignited by Mohamed Bouazizi's self-immolation in 2011 also speaks to a different type of geopolitical risk, that being internal but nevertheless just as risky. Whilst most states have an overwhelming monopoly on the instruments of violence, what we know is that there are moments when the state's monopoly counts for naught, just ask Ben-Ali, who fled to Saudi Arabia with his wife. As the inestimable Ryszard Kapuscinski said in his book "Shah of Shahs"

"All books about all revolutions begin with a chapter that describes the decay of tottering authority or the misery and sufferings of the people. They should begin with a psychological chapter, one that shows how a harassed, terrified man suddenly breaks his terror, stops being afraid. This unusual process, sometimes accomplished in an instant like a shock or a lustration, demands illuminating. Man gets rid of fear and feels free. Without that there would be no revolution.

It is authority that provokes revolution....This occurs when a feeling of impunity takes root among the elite: We are allowed anything, we can do anything. This is a delusion, but it rests on a certain rational foundation. For a while it does indeed look as if they can do whatever they want. Scandal after scandal and illegality after illegality go unpunished. The people remain silent...They are afraid and do not yet feel their own strength. At the same time, they keep a detailed account of the wrongs, which at one particular moment are to be added up. The choice of that moment is the greatest riddle of history."

There is a school of thought that the kingdom of Saudi Arabia is sitting on the cusp of such a moment that a system developed in the early 20th century is simply not optimised to handle the 21st century.

Coming to Africa, we have to accept that geopolitical risks have ratcheted higher. At a macro level, the US and China are in my view in a conflictual relation on our continent. As we drill further down to the micro level, we can see from South Sudan [where I cannot see how either side can win this decisively] to places like CAR, a significant deterioration. This comment by the leader of Nigeria's Boko Haram Islamists Abubakar Shekau caught my attention;

"We are in your city," he said, addressing Nigeria's President Goodluck Jonathan.

That comment could have been made by the Al-Shebaab.

Both Boko Haram and Al-Shebaab represent a risk that David Lipton did not touch on, that being asymmetric risks. The recent bombings in Abuja and last years attack on Westgate confirm the potency of asymmetric risks. African markets have taken these risks in their stride. They might stumble if these asymmetric risks ratchet higher.

**Shares go up and down and readers are advised that this column represents Mr Satchu's personal opinions.**