

**RELATIONSHIP BETWEEN CRUDE OIL PRICES AND THE CONSUMER
PRICE INDEX IN KENYA**

BY

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ABSTRACT

For almost half a century now global oil prices have undergone a lot of volatility. Theory predicts a close relationship between crude oil prices and consumer price index due the increased importance of oil in the production of goods and services across all sectors in world economies. The aim of this study was to establish the relationship between Crude oil prices and the Consumer Price Index in Kenya.

This study was a descriptive time series correlation study with monthly averages of CPI as the dependent variable while monthly averages of crude oil price per barrel made up the independent variable. Monthly average of crude oil prices in the United Arab Emirates at current US Dollar rates and the monthly CPI for the seven years spanning the period January 2006 to December 2012 were used for this study. The data was electronically collected from the Kenya National Bureau of Statistics and supplemented by data from the International Energy Association. Regression analysis was used to determine the relationship.

During the period before the revision of the calculation of CPI in December 2008, the constant term was 186.35 which was significant, the coefficient term was 0.76 which was significant. The regression was statistically significant though the variation in CPI was poorly explained by the variation in Crude Oil Prices. In the period after the revision, constant term was 126.78 which was statistically significant, the coefficient of Crude Oil Prices was -0.031 which was not significant. The regression was not statistically significant and the variation in CPI was not strongly explained by the variation in Crude Oil Prices. The study found that the composition of the products used in the calculation of CPI determined the relationship between CPI and crude oil prices.