

Economic Update

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Inflation



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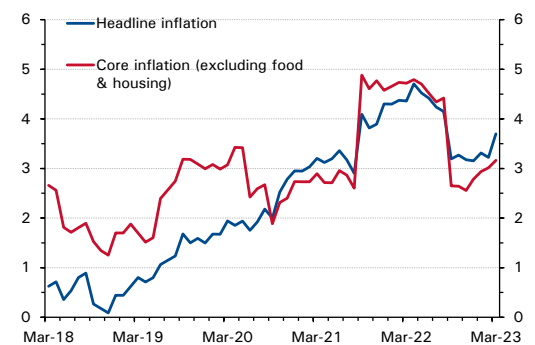
Kuwait: Inflation edges up in 1Q23 amid still firm consumer activity

Summary

Inflation rose to 3.7% y/y at end-1Q23 amid still solid – albeit softening – consumer demand. Price pressures were most evident in the food and clothing components, while housing rents also moved higher. Inflation is expected to average 3.1% this year, down on 2022's rate of 4.0%, as consumer spending growth moderates and as the impact of tighter monetary policy continues to filter through.

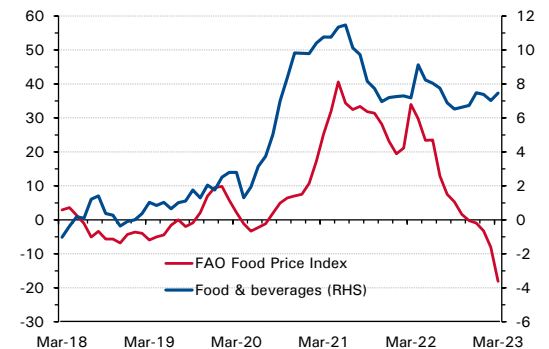
- Consumer price inflation ticked up during 1Q23, from 3.2% at end-2022 to 3.7% y/y in March, amid price rises across several components including food, clothing and housing services. This comes against a backdrop of still strong (albeit slowing) consumer spending growth. Core inflation, which excludes food and housing, continued to rise in 1Q23, finishing the quarter at 3.2% y/y (+2.8% in December 2022). (Chart 1.)
- Growth in the food and beverages component of the CPI remained elevated in March, though unchanged from December's rate of 7.5% y/y. Among the subcomponents, price rises in the meat & poultry (+8.8% y/y), fruits (+9.8%) and vegetables (+10.2%) segments trended higher during the quarter while those in the volatile fish & seafood component eased. Domestic food price trends continued to diverge from international food price benchmarks, such as the UN's FAO index, which fell 18.0% y/y in March on a likely combination of base effects from Russia's invasion last year and normalizing global food supply chains. (Chart 2.)
- Meanwhile, prices in the housing services components (the largest CPI component by weight at 33%) rose 2.5% y/y at end-1Q23, up from 1.4% at end-2022. The gain was largely due to an increase in housing rents, which rose 2.8% y/y. Inflation in this component has spent most of the past six years in flat-to-negative territory, turning mildly positive only in 2H 2021. Growth in the much smaller "Services of Maintenance and Repair" subcomponent, which tends to reflect construction and raw material costs, was unchanged at 1.6% y/y.
- The latest move in core inflation included a month-on-month gain in March of 0.5%. This came on the back of a broad-based rise in subcomponent prices in which the biggest contributors (after accounting for their weight in the index) were Clothing (+5.9% y/y), Furnishings & household maintenance (+2.2%), Services & miscellaneous goods (+4.3%), and Transportation (+3.1%). (Chart 3.) The increase in the "Services & miscellaneous" component, which includes jewelry, will have been affected by rising prices of precious metals including gold, which were up considerably in Q1.
- Looking ahead, we expect inflation to average 3.1% for the 2023 overall (from 2.7% previously). This is down from last year's average of 4.0% amid an absence of large external shocks such as the Russian invasion, an easing of domestic labor market shortages, the ongoing softening of consumer spending growth and as the impact of tighter monetary policy continues to filter through. However, with the US Federal Reserve near or at the end of its own tightening cycle, the scope for further increases in domestic interest rates could be limited.

▶ **Chart 1: Consumer price inflation**
(% y/y)



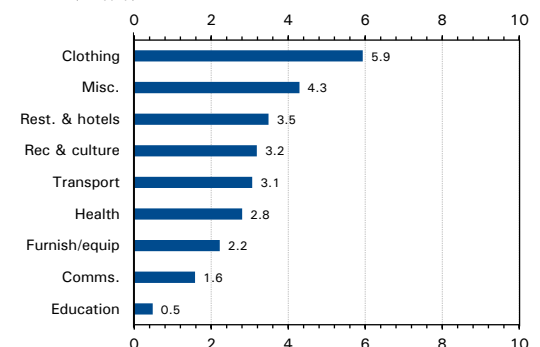
Source: Central Statistical Bureau (CSB), NBK

▶ **Chart 2: Food price inflation and FAO Index**
(% y/y)



Source: FAO, CSB

▶ **Chart 3: Core inflation components in March**
(% y/y)



Source: CSB

► Table: Consumer price inflation

CPI components	% y/y annual average		% m/m			%y/y		
	2021	2022	Jan-23	Feb-23	Mar-23	Jan-23	Feb-23	Mar-23
Food & beverages	9.5	7.4	0.2	0.4	0.7	7.4	7.0	7.5
Tobacco & cigarettes	0.6	0.1	0.0	0.1	0.0	0.2	0.3	0.3
Clothing & footwear	6.2	5.7	0.9	0.5	0.5	6.0	6.2	5.9
Housing services	0.5	2.2	0.0	0.0	1.1	1.4	1.4	2.5
Furnishings & household maintenance	3.5	2.1	0.2	0.3	0.3	1.8	2.0	2.2
Healthcare	2.2	2.1	0.0	0.1	0.3	2.6	2.7	2.8
Transportation	4.4	4.0	0.0	0.3	0.7	2.9	2.9	3.1
Communication	4.5	1.8	0.2	0.2	0.2	1.2	1.4	1.6
Recreation & culture	6.3	3.6	0.2	0.2	0.5	3.2	3.0	3.2
Education	-5.3	12.1	0.0	0.0	0.1	0.4	0.4	0.5
Restaurants & hotels	0.8	2.7	0.0	0.0	0.6	3.5	3.5	3.5
Services & miscellaneous goods	4.2	3.3	0.5	0.1	1.0	3.9	3.6	4.3
General index	3.4	4.0	0.2	0.2	0.7	3.3	3.2	3.7
Core index (excl. food and housing)	3.4	4.0	0.3	0.2	0.5	2.9	3.0	3.2

Source: Central Statistical Bureau

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