

Consumer price inflation

Kuwait: Inflation softens to 1.2% in August on deflationary housing costs

> Dana Al-Fakir

Economist

+965 2259 5373, danafakir@nbk.com

> Nemr Kanafani

Senior Economist

+965 2259 5365, nemrkanafani@nbk.com

Consumer price inflation eased to a new multi-year low of 1.2% in August, mainly on the back of deflationary pressures from the housing component and weak food inflation. (Chart 1.) Core inflation, which excludes housing rent and food costs, remained more pronounced at 4.2% year-on-year (y/y), primarily due to the direct and indirect effects of the fuel price hikes imposed in September 2016. Nonetheless, these effects have largely subsided recently and are slated to witness a downward correction in the near- to medium-term due to base effects. In this setting, the overall inflation rate is expected to face some further downward pressure during the same period. If transportation costs are excluded, inflation held at a healthy 2.3% y/y thanks to ongoing inflationary gains in services excluding housing rent.

Inflation is now likely to average closer to 1.5% in 2017, noticeably lower than the 3.5% annual average recorded in 2016. While hikes in electricity and water tariffs on the apartment sector, which took effect in August, are projected to apply upward pressures in the months ahead, these pressures are likely to be partially offset by the deflationary rates in housing rent, soft food inflation and fading price growth in the transportation sector.

Housing rents remained in deflationary territory in August. Inflation in housing services – mostly comprised of housing rents and updated quarterly – slowed sharply from the second half of 2016 onwards, in line with softer activity in the housing market. Rental costs saw their first decline in years during 1Q17. In 2Q17, rents declined by a further -2.3% y/y. (Chart 2.)

Local food price inflation remained stubbornly weak on the back of softer inflation in global food prices. Local food prices declined by a mere -0.2% y/y in August as the pace of increase in international prices of commodity foods softened (Chart 3). According to the Commodity Research Bureau, global food price inflation reversed its upward trend in August and fell from an almost three-year high of 4.4% y/y in the preceding month, to a mere 0.5% y/y. This softness is projected to limit any significant increases in local food costs over the forthcoming months.

Inflation in the retail sector was mixed but still reflected some improvements in consumer demand as well as a weaker dinar. (Chart 4.) Inflation in clothing & footwear eased in August, but at 1.6% y/y it remained near multi-month highs. Inflation in “other goods & services” and furnishings & household maintenance remained relatively solid at 2.1% y/y and 3.5% y/y, respectively. The relatively more elevated inflation rates across these three major retail segments, mirror the improvements being witnessed in consumer demand and the recent depreciation in the local currency. The weaker dollar continues to weigh on the dinar’s trade-weighted index, which is currently down 3.5% year-to-date. Since a large proportion of the goods in the retail sector are imported, the weaker currency has propped up costs in the sector.

Chart 1: Inflation in consumer prices

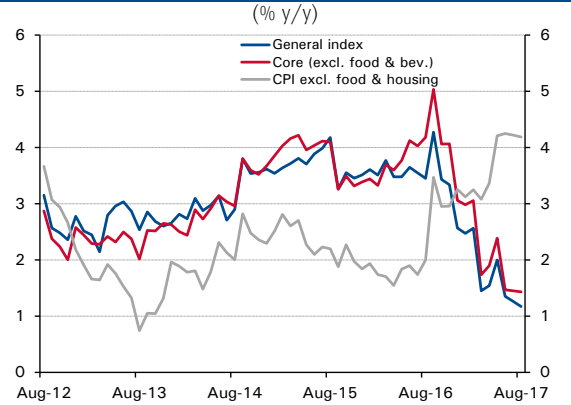


Chart 2: Inflation in housing services

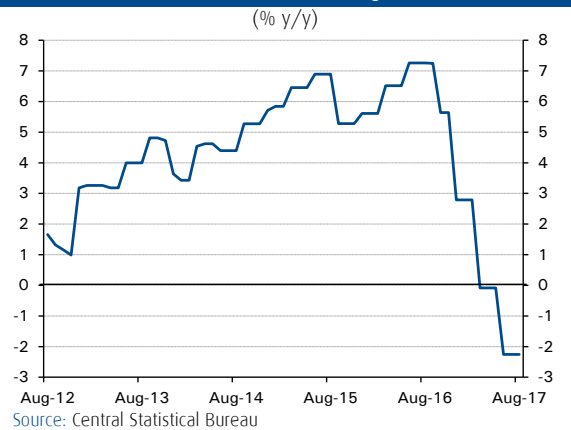
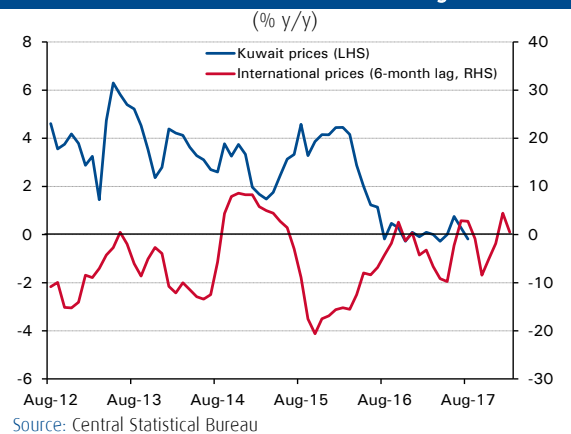


Chart 3: Inflation in food & beverages



Inflation in services excluding housing has been healthy around 3-4% thus far in 2017 (Chart 5). Inflation in this component has been supported by double-digit inflationary gains in transportation costs. (Chart 6.) While it may edge lower in the near term as the impact of last year's fuel price hikes fades, it is still expected to be supported somewhat by ongoing gains in inflation in recreation & culture.

Table: Consumer price inflation

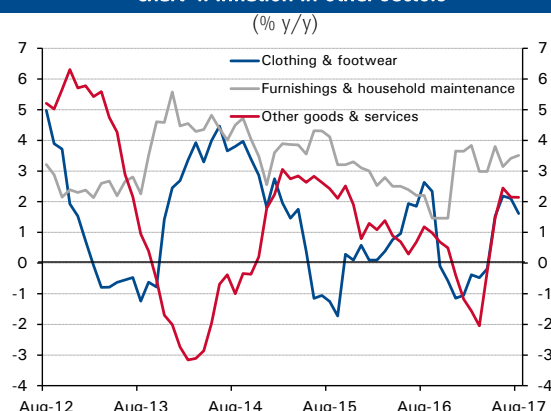
(% change)	Year-on-year		Annual average	
	Jul-17	Aug-17	2015	2016
Food & beverages	0.3	-0.2	3.0	1.7
Tobacco & cigarettes	1.7	2.1	5.6	0.3
Clothing & footwear	2.1	1.6	0.3	0.8
Housing services [†]	-2.3	-2.3	6.1	6.1
Furnishings & household maintenance	3.4	3.5	3.7	2.3
Healthcare	-0.7	-0.7	1.7	1.2
Transportation	15.5	15.4	0.9	4.1
Communication	-1.1	-1.3	0.6	2.0
Recreation & culture	3.4	4.2	-0.3	-1.8
Education	3.6	3.6	4.8	3.6
Restaurants & hotels	2.6	2.6	6.3	6.9
Other goods & services	2.2	2.1	2.4	0.8
Core**	1.5	1.4	3.8	3.9
Durable goods	4.5	4.3	2.4	2.5
Semi-durable goods	1.9	1.4	1.4	1.1
Non-durable goods	2.7	2.5	0.0	0.4
Services	-0.5	-0.4	5.4	4.9
Services ex-housing	3.3	3.3	3.9	2.4
General index	1.3	1.2	3.7	3.5

Source: Central Statistical Bureau, NBK estimates

[†] Updated once every quarter

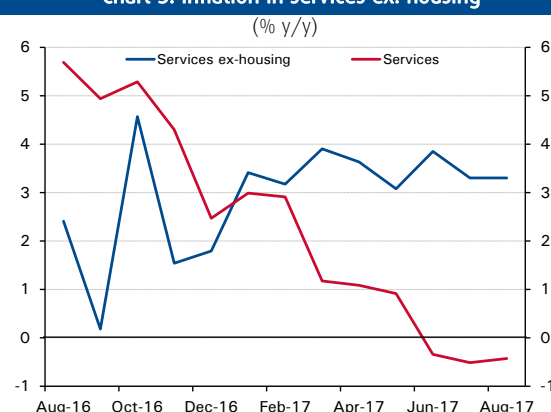
** Excludes food and beverages; estimated by NBK

Chart 4: Inflation in other sectors



Source: Central Statistical Bureau

Chart 5: Inflation in services ex. housing



Source: Central Statistical Bureau, NBK estimates

Chart 6: Inflation in transportation



Source: Central Statistical Bureau

Head Office

Kuwait

National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France

National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353