

Kuwait: Inflation picks up in Q3 on rebounding consumer demand and supply-side disruptions

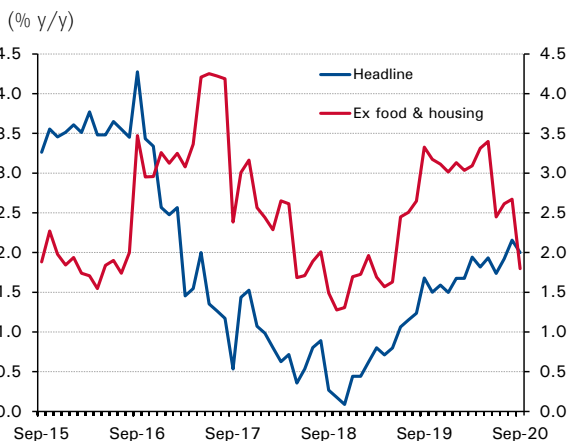
Highlights

- Inflation rose through 3Q20, ending the quarter at 2.0% y/y, up from 1.7% y/y at the end of 2Q.
- A jump in food price inflation to 5.3% y/y on average in 3Q20 likely reflects pent-up demand and supply chain issues.
- Housing inflation was flat in 3Q, but demand weakness from departing expatriates/income pressures could lag.
- Headline inflation projected to average 1.8% in 2020, up from 1.1% in 2019.

Inflation gathers pace in 3Q20

Consumer price inflation rose through 3Q20, ending the quarter up 2.0% y/y, from 1.7% y/y at the end of Q2. (Chart 1.) On an annual average basis, however, inflation is currently averaging 1.6% so far this year from 1.1% in 2019 and in line with our expectations. The pick-up in inflation has likely been driven by rising prices in the food and furnishings & household maintenance categories. Inflation in the housing component, however, has remained unchanged at 0.0%y/y for the fourth consecutive month. 'Core' inflation, which excludes both food and housing, moderated towards the end of the quarter to 1.8% y/y from 2.4% at the end of 2Q20.

▶ **Chart 1: Consumer price inflation**



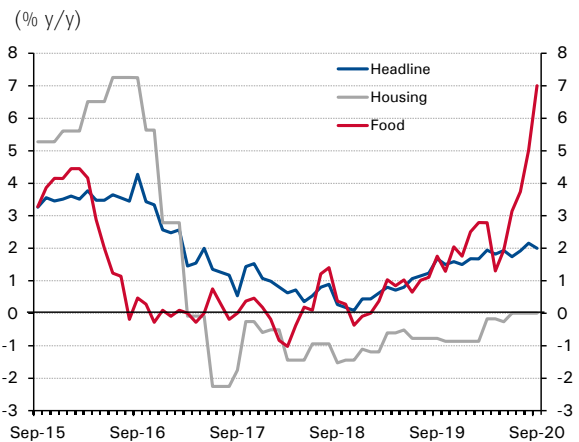
Source: Central Statistical Bureau / NBK

Food price inflation soars, housing costs flat

Food price inflation jumped from an average of 2.1%y/y in 2Q20 to 5.3% y/y in 3Q20 (+7.0% y/y in September). The increase in food prices reflects a combination of pent-up demand and supply chain issues at the local and international level that may have

contributed to the increase in international food prices in recent months, especially as many countries face a second wave of lockdown measures and restrictions as Covid-19 cases surge. (Chart 2.)

▶ **Chart 2: Inflation in food and housing services**



Source: Central Statistical Bureau

Meanwhile, housing costs remained flat in September (0.0%) for the fourth month in a row, having experienced deflation since early 2017. The index has not moved in 16 months, however; reports that many landlords have had to drop residential rents by 25-50% during the coronavirus pandemic appear not to have fed through into the CPI survey. Also, there is likely to be a lag before the negative effect of demand weakness due to expatriate departures and disposable income pressures from salary reductions or layoffs become visible in the CPI basket.

Inflation in core components mixed in 3Q

Core inflation eased to 1.8% y/y in September, down from 2.4% in June. This was largely on the back of a 5.2% q/q (-15.1% y/y) drop in the education sector, which more than offset rises in

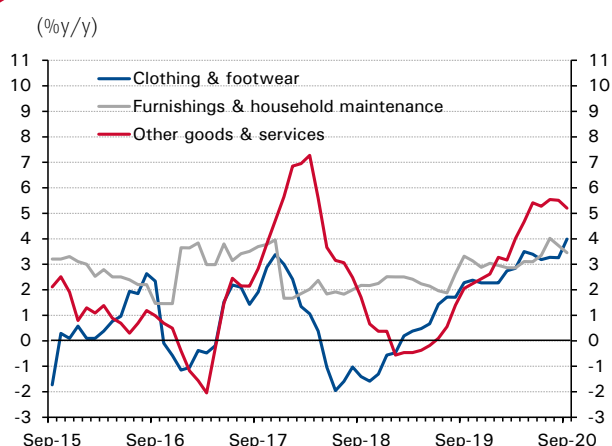
transportation (+1.2% q/q; +1.3% y/y), recreation (+2.3% q/q; +3.0% y/y) and 'services and miscellaneous goods' (+1.6% q/q; +5.4% y/y).

Inflation in the recreation segment was mainly due to a significant rise in the costs of information processing equipment (personal laptops/computers), which was likely driven by the shift to virtual learning and remote working caused by the coronavirus pandemic.

As of October, most academic institutions had started the academic year virtually, through e-learning systems. The sharp drop in education prices reflects the Ministry of Education's decision to cut tuition fees up to 25% for private schools in accordance with the implementation of an online learning system for the academic year 2020/2021. Meanwhile, the pick-up in costs in the services and miscellaneous goods categories was largely driven by a continued rise in jewelry as gold prices have been elevated amid the ongoing economic uncertainty.

That said, consumer spending has continued its solid rebound in 3Q20 following the easing of the strict lockdown measures and restrictions of the second quarter.

Chart 3: Inflation in other sectors



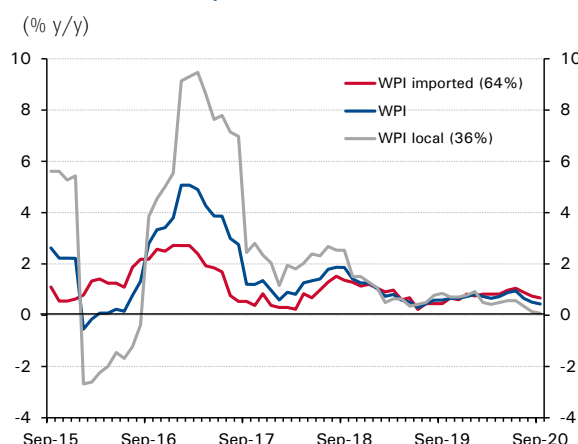
Source: Central Statistical Bureau

Wholesale price inflation remains subdued

Wholesale price inflation, which measures price changes between businesses (rather than to consumers), stood at a subdued 0.4% y/y in September, moderating from 1.0% y/y in June. (Chart 4.)

Meanwhile, inflation in the price of imported goods increased by 0.7% y/y during the same period; inflation in locally produced goods also increased, but by a marginal 0.1% y/y in September compared to 0.6% in June.

Chart 4: Wholesale price inflation



Source: Central Statistical Bureau

Inflation could end up higher this year and remain subdued in 2021

We now expect inflation to pick up from an annual average of 1.1% in 2019 to an estimated 1.8% in 2020, mainly because of the economic disruptions brought about by the virus outbreak. Looking ahead to 2021, there may be downside pressure stemming from the expected weakening in housing demand on the back of a drop in expat numbers, which may help to offset some of the inflationary impulses expected from improving economic activity. Moreover, with lockdowns being imposed recently in Europe to manage the Covid-19 second wave, supply-side disruptions could once more have a material impact on import and retail prices.

► **Table: Consumer price inflation**

CPI component	% y/y annual average		%m/m			% y/y		
	2018	2019	July 2020	Aug 2020	Sept 2020	July 2020	Aug 2020	Sept 2020
Food & beverages	0.1	1.1	1.8	1.3	2.2	3.7	5.0	7.0
Tobacco & cigarettes	11.5	3.7	0.0	0.0	0.0	3.3	3.3	3.3
Clothing & footwear	-0.5	1.3	0.3	0.4	1.1	3.3	3.3	4.0
Housing services	-1.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Furnishings & household maintenance	2.0	2.6	0.6	0.6	0.6	4.0	3.7	3.5
Healthcare	1.9	2.7	0.0	0.1	0.1	1.5	1.4	0.9
Transportation	1.3	3.4	0.1	0.0	2.9	0.3	0.4	3.3
Communication	3.7	5.1	0.1	0.0	1.2	3.2	2.8	2.9
Recreation & culture	4.1	2.8	0.5	1.4	2.8	0.8	2.5	5.6
Education	1.4	2.7	0.0	0.0	-15.5	1.7	1.7	-15.1
Restaurants & hotels	1.7	0.7	0.0	0.0	0.0	-0.1	-0.1	-0.1
Other goods & services	3.5	0.8	0.5	0.5	0.3	5.5	5.5	5.2
General index	0.6	1.1	0.4	0.4	0.2	1.9	2.2	2.0
* ex food and housing	1.9	2.4	0.3	0.4	-0.3	2.6	2.7	1.8

Source: Central Statistical Bureau

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