

# Kuwait: Inflation edges up to 3.2% in 1Q 2021, led by higher food costs

> Ensaf Al-Matrouk  
Research Assistant  
+965 2259 5366  
ensafalmatrouk@nbk.com

> Omar Al-Nakib  
Senior Economist  
+965 2259 5360  
omarnakib@nbk.com

### Highlights

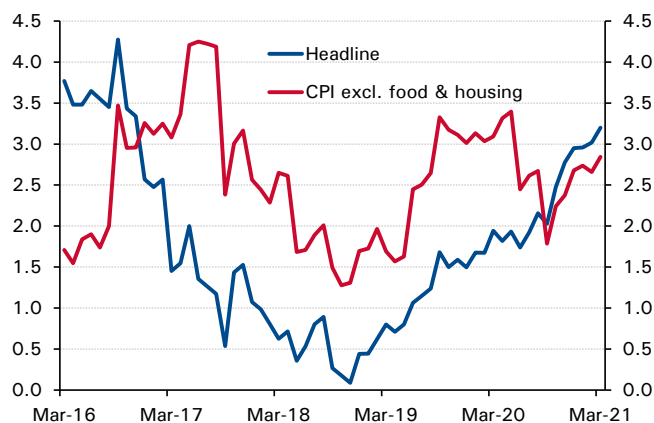
- Inflation edged up in 1Q21, ending the quarter at 3.2% y/y.
- The food, clothing and recreation segments were key drivers of inflation in 1Q21.
- Food prices are being pushed up by international factors. However core inflation, which excludes food and housing, has edged up too, to 2.9%.
- Inflation is expected to average 2.5% in 2021, though upside risks have increased somewhat.

### Both headline and core inflation rose in 1Q21

Consumer price inflation rose to 3.2% y/y in March (+0.3% m/m; +0.6% q/q) from 3.0% at the end of 2020. (Chart 1.) The pick-up in inflation was largely due to the food component of the consumer price index, fueled in turn by a surge in international food prices. Other prices have continued their upward trajectory, a trend likely driven by supply side disruptions brought on by the coronavirus pandemic. The housing component edged up 0.1% y/y after holding flat since June 2019. Core inflation, which excludes food and housing, rose to 2.9% at the end of 1Q21 (from 2.7% at the end of 4Q20), with most core components either flat or accelerating.

#### Chart 1: Consumer price inflation

(% y/y)



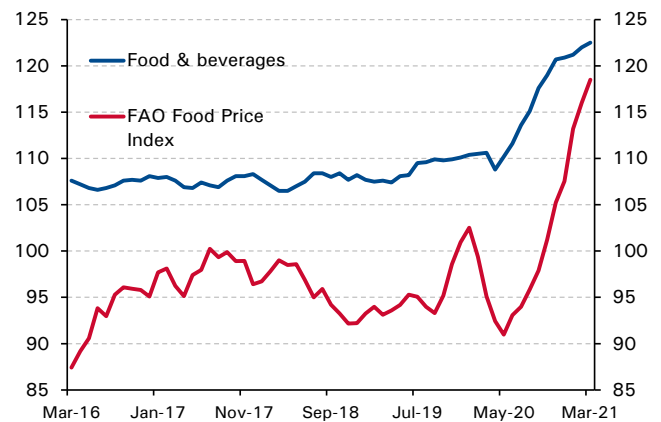
### Food prices surge, but housing costs inch up only marginally

Food price inflation came in at a high of 10.8% y/y in March. Most food sub-indices witnessed price increases, with the exception of the volatile fish and seafood category. The rise in food costs is at least partly attributed to the surge in international

food prices since early in the pandemic last year, a result of strong demand (including from inventory building), disruptions to supply chains, poor weather and also positive sentiment towards commodities in general. Some of these price rises have been passed on to consumers. (Chart 2.)

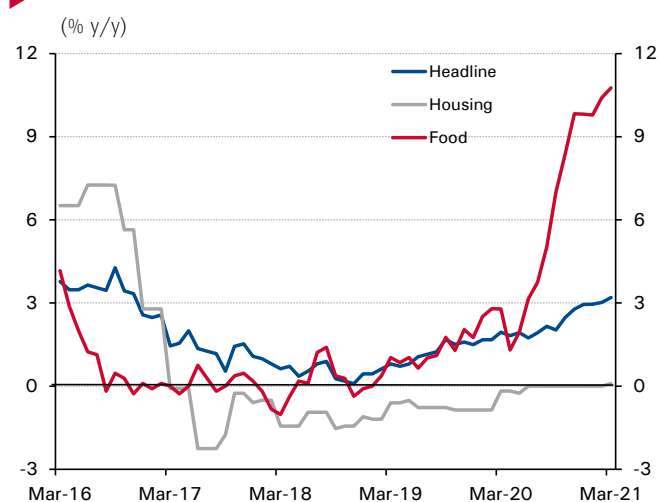
#### Chart 2: FAO Food Price index and Food & Beverages CPI

(Indices)



Meanwhile, housing costs inched up in March (+0.1% m/m; +0.1% y/y), the first time there has been movement in this segment since 2019. The rise was due to an increase in the 'services and maintenance repair' sub-category (+2.2% y/y), which could reflect higher construction/raw material costs; 'housing rents', though, remained flat. Prices in this component, which are usually reported every three months, have not budged since June 2019. And this is despite reports of rents being discounted during the pandemic—at the request of tenants whose incomes were under pressure and/or in order to attract new tenants following the departure of thousands of expatriates. (Chart 3.)

**Chart 3: Inflation in food and housing services**

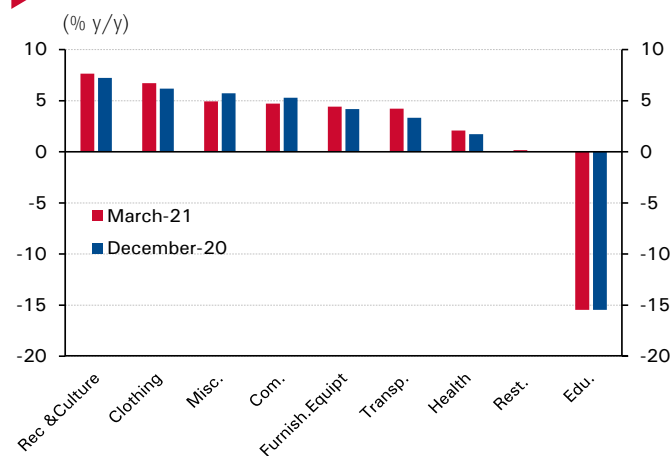


Source: CSB

### Inflation in core components mixed in 1Q21

The rise in core inflation to 2.9% y/y in March came as inflation in the clothing (+6.7%), miscellaneous goods (+4.9%) and communication (+4.7%) categories continued to trend upwards. (Chart 4.) Inflation was strongest in the recreation category (+7.7%). This was mostly due to a significant rise in the costs of information-processing equipment (personal laptops/computers), with computer-based learning and remote working surging during the pandemic.

**Chart 4: Inflation in core sectors**



Source: CSB

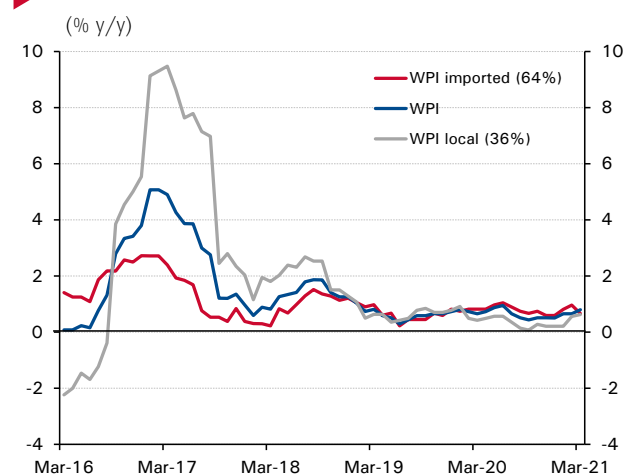
While most core components witnessed price increases, prices in education declined 15.5% y/y on the back of the Ministry of Education’s decision to reduce school fees by up to 25% for private schools as physical schooling was replaced with online schooling for the 2020/2021 academic year.

### Wholesale price inflation remains subdued

Wholesale price inflation, which measures the prices charged between businesses rather than from businesses to consumers, stood at a subdued 0.8% y/y in March 2021, according to the

CSB. This was slightly higher than the reading of 0.5% at the end of the previous quarter, but still far below the rate in the CPI. Although not a complete measure of businesses’ costs, subdued wholesale price inflation should moderate the pressure on retailers to increase prices. Inflation in the price of imported goods stood at 0.9% in March, and 0.6% for locally produced goods, pointing to limited inflationary pressures from wholesale prices. (Chart 5.)

**Chart 5: Wholesale Price Index**



Source: CSB

### Inflation to ease slightly in 2021, but upside risks present

Looking ahead, although it is possible that inflation will ease somewhat later this year as some of the pandemic-linked spike in costs from 2020 fall out of the annual comparison, upside risks to our 2021 year average forecast of 2.5% are emerging. Local and international inflationary impulses, for example, are either persisting, in the case of supply chain constraints, or rising, such as with global commodity prices. Pent-up consumer demand remains strong, supported by higher household savings rates, which is an international phenomenon. Finally, the downward impulse to housing rents (33% of the CPI basket) that might have been expected given the departure of thousands of expatriates has so far failed to materialize. On the other side, a moderate pace of economic recovery (excluding consumers), the absence of obvious wage pressures and cost control efforts by companies are expected to be constraining factors on the inflation outlook.

► **Table: Consumer price inflation**

CPI component	% y/y annual average		%m/m			% y/y		
	2019	2020	Jan	Feb	March	Jan	Feb	March
Food & beverages	1.1	4.9	0.2	0.7	0.4	9.8	10.4	10.8
Tobacco & cigarettes	3.7	2.6	0.0	0.0	0.0	2.4	2.0	2.0
Clothing & footwear	1.3	3.8	0.4	0.2	0.3	6.9	6.5	6.7
Housing services	-0.8	-0.2	0.0	0.0	0.1	0.0	0.0	0.1
Furnishings & household maintenance	2.6	3.5	0.1	0.1	0.3	4.3	4.3	4.4
Healthcare	2.7	1.7	0.2	0.1	0.3	1.9	1.9	2.1
Transportation	3.4	2.7	0.2	0.0	0.0	3.3	3.3	4.2
Communication	5.1	4.0	0.2	0.0	0.0	5.4	5.3	4.7
Recreation & culture	2.8	3.8	0.1	0.3	0.5	7.2	7.3	7.7
Education	2.7	-3.5	0.0	0.0	0.0	-15.5	-15.5	-15.5
Restaurants & hotels	0.7	0.6	0.0	0.0	0.2	0.0	0.0	0.2
Other goods & services	0.8	4.8	0.3	0.0	0.4	5.4	5.3	4.9
<b>General index</b>	<b>1.1</b>	<b>2.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.3</b>	<b>3.0</b>	<b>3.0</b>	<b>3.2</b>
<b>* ex food and housing</b>	<b>2.4</b>	<b>2.7</b>	<b>0.1</b>	<b>0.1</b>	<b>0.3</b>	<b>2.7</b>	<b>2.7</b>	<b>2.9</b>

Source: Central Statistical Bureau

## Head Office

### Kuwait

National Bank of Kuwait SAKP  
Shuhada Street,  
Sharq Area, NBK Tower  
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 France SA  
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 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  
34h Floor, NBK Tower  
Shuhada'a street, Sharq Area  
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