

Economic Update

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Inflation



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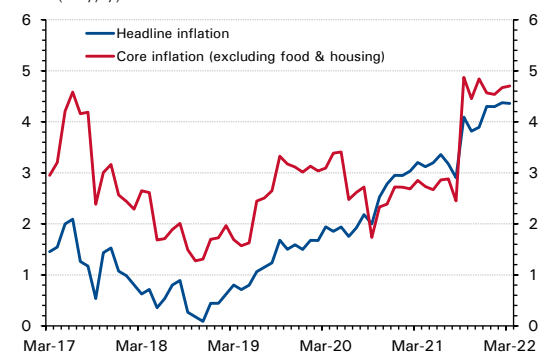
Kuwait: Consumer prices up again in 1Q22 amid persistent global inflationary pressures

Summary

Consumer prices ended 1Q22 up 4.4% y/y. Robust local consumer demand and global supply chain disruptions – recently worsened by the war in Ukraine and Covid-19 lockdowns in China – have driven price gains. Inflation is expected to persist in 2022, though monetary policy tightening by central banks could begin to dampen price rises by softening demand and economic growth more broadly.

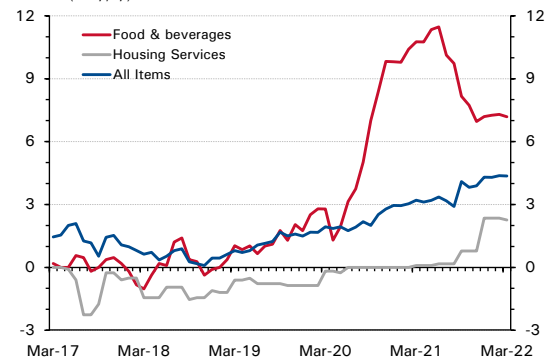
- Consumer price inflation continued to rise through 1Q22, finishing the quarter up 4.4% y/y, versus 4.3% in December 2021. Core inflation, which excludes food and housing, was higher at 4.7% (4.6% in December). (Chart 1.)
- Price pressures stemming from a mixture of buoyant consumer demand and supply chain disruptions have persisted. The latter, which materialized during the Covid-19 pandemic, have been exacerbated in recent months by the Russia-Ukraine conflict and China's zero-Covid lockdown policies. Global food and commodity prices have been especially affected. Pass-through into domestic prices has been quite pronounced in economies heavily dependent on imports and where state price controls are absent or minimal, therefore.
- In Kuwait, food and beverages have a 17% weight in the consumer price index (CPI), so this component has had a significant influence on the headline rate. During 2021, inflation in the food and beverages category was responsible for more than 46% of the 3.4% increase in the overall year-average CPI. As of March, however, while still elevated, food price inflation had slowed to 7.2% from a peak of 11.5% last summer. (Chart 2.) The price of seafood, fruit and meat continue to increase at double or near-double-digit rates. For context, the FAO Food Price Index, which tracks international food prices, reached an all-time high in March (and up 34% y/y), following the onset of the war in Ukraine, though it did slow slightly in April (-0.8% m/m).
- Meanwhile, prices in the housing services component were 2.3% y/y higher in March, following several hikes to rental prices in 2021. (See chart 2.) The indications are that after several years of stagnation, prices could start firming as landlords look to recoup higher construction costs and as demand in the mid-level expatriate rental market stabilizes after the pandemic.
- Price rises in the CPI have been broad-based, however, reflected in the further upward tick in core inflation in 1Q22. Notable price rises were recorded in the education (+19% y/y), clothing (+5.7%) and transport (+4.8%) categories. The higher cost of education is largely a reflection of last September's increase in school fees when in-school attendance resumed after the pandemic.
- The inflation outlook in 2022 is likely to be one of persistent price pressures, especially amid the ongoing Ukraine conflict, which is having an outsized impact on global food and energy prices. Nevertheless, with the US Fed leading other central banks, including the Central Bank of Kuwait, in tightening monetary policy, demand and overall economic growth is expected to soften this year. A stronger US dollar, to which the Kuwaiti dinar is partially pegged, is also probably helping to dampen price rises in Kuwait, by making imports less costly. Inflation could average around 4.3% this year.

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



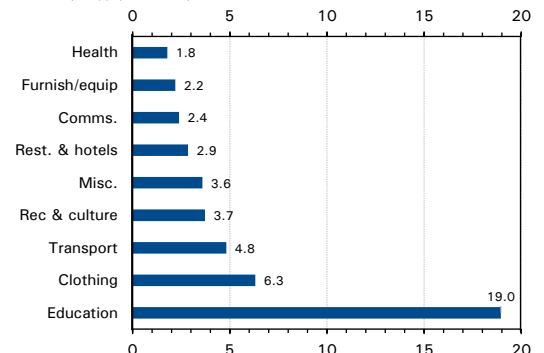
Source: Central Statistical Bureau (CSB), NBK

▶ **Chart 2: Inflation in food and housing services**
(% y/y)



Source: CSB

▶ **Chart 3: Inflation in 'core' components**
(% y/y, March)



Source: CSB

▶ **Table: Consumer price inflation**

CPI components	% y/y annual average		% m/m			% y/y		
	2020	2021	Jan '22	Feb '22	Mar '22	Jan '22	Feb '22	Mar '22
Food & beverages	4.9	9.5	0.3	0.7	0.3	7.3	7.3	7.2
Tobacco & cigarettes	2.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Clothing & footwear	3.8	6.0	0.2	0.2	1.0	5.5	5.5	6.3
Housing services	-0.2	0.5	0.0	0.0	0.0	2.3	2.3	2.3
Furnishings & household maintenance	3.5	3.5	0.2	0.1	0.1	2.4	2.4	2.2
Healthcare	1.7	2.2	0.0	0.0	0.2	2.0	1.9	1.8
Transportation	2.7	4.4	0.1	0.2	0.6	4.6	4.8	4.8
Communication	4.0	4.5	0.0	0.0	0.0	2.4	2.4	2.4
Recreation & culture	3.8	6.3	0.2	0.4	0.3	3.8	3.9	3.7
Education	-3.5	-5.3	0.0	0.0	0.0	19.0	19.0	19.0
Restaurants & hotels	0.6	0.8	0.0	0.0	0.6	2.4	2.4	2.9
Services & miscellaneous goods	4.9	4.2	0.3	0.3	0.4	3.3	3.6	3.6
General index	2.1	3.4	0.1	0.2	0.2	4.3	4.4	4.4
'Core' index (excl. food and housing)	2.7	3.4	0.1	0.2	0.3	4.5	4.7	4.7

Source: Central Statistical Bureau

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