

Consumer price inflation

Kuwait: Inflation steadies at 3.3% at the start of 2017

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Inflation in consumer prices steadied at 3.3% year-on-year (y/y) in January, as inflation across most components remained stable or came in unchanged. (Chart 1.) Local food inflation remained weak as global food inflation remained soft. Core inflation, which excludes food prices, held steady at around 4.1% y/y after witnessing a surge in the aftermath of the fuel price hike in September 2016; this came largely on the back of lower inflationary pressures from housing rent.

Inflation is expected to witness renewed upward pressures in 2017 from May onward, as the government introduces higher electricity and water tariffs, though the impact is now thought to be more limited. The government recently approved new tariffs that are well below those initially approved in legislation last year. The hikes are now expected at 50-150% for the various sectors. As a result, upward pressures could push average inflation to around 3.5% in 2017, up from 3.2% in 2016.

Inflation in local food prices maintained its weakness in January, after logging in a reading of 0.2% y/y (Chart 2). Price growth in this component continues to be weighed down by soft global food price inflation. However, we may see inflation in this segment gain momentum in the near-to-medium term on the back of gains in global food price inflation. According to the Commodity Research Bureau, international prices of commodity foods rebounded and jumped to a multi month high of 2.9% y/y in January following several months of deflationary prices.

After easing in December in line with some softness in the real estate market, inflation in housing services remained unchanged. Inflation in the housing component, which is mostly comprised of housing rents and is updated quarterly, eased from 7.4% y/y in 3Q16 to 6.4% y/y in 4Q16 (Chart 3). Nonetheless, on a quarter-on-quarter basis the 4Q16 increase remained surprisingly strong at 2.8%. We expect the momentum in this segment to see some further easing in the near term on a year-on-year basis before gathering pace in the second half of 2017 on the back of utility hikes.

Inflation in the retail sector continued to face downward pressures at the start of 2017. (Chart 4.) Inflation in clothing & footwear and the other goods & services segments continued to decelerate in January; in fact, clothing & footwear prices continued to decline due to softer consumer demand, extended seasonal promotions and a stronger dinar. After jumping in December, inflation in the furnishings & household maintenance segment stabilized at 4.0% y/y in January.

The stabilization in inflation in the furnishings & household maintenance segment was reflected in the inflation in services excluding housing segment. After surging on higher fees in the household maintenance segment in December, inflation in services excluding housing stabilized at 2.3% y/y in January. (Chart 6.)

Chart 1: Consumer price inflation

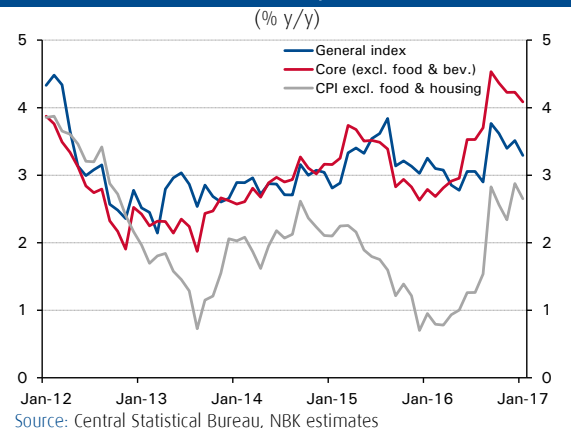


Chart 2: Inflation in food prices

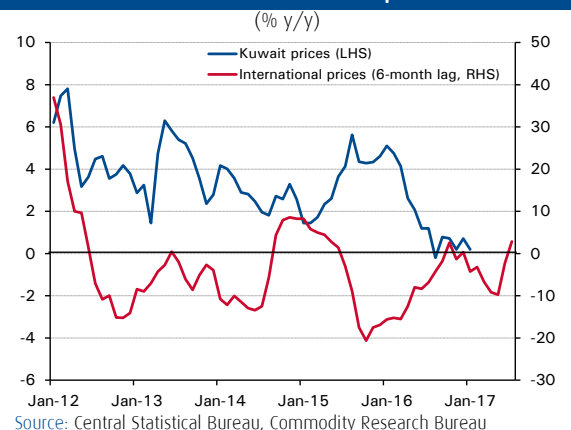


Chart 3: Inflation in housing services



Inflation in the transportation sector stood pat above the 10% y/y mark for the fourth straight month in January. After surging in September, on the heels of a fuel price hike, inflation in this segment has thus far held steady around 10% y/y. We may see some upward pressures in this segment in the short to medium-term as transport services readjust their prices to account for the fuel price increases. But any further upward pressures are likely to be at least partly offset by the continued decline in car prices, which weigh more heavily on the transportation index.

Table: Consumer price inflation

(% change)	Year-on-year		Annual average	
	Dec-16	Jan-17	2015	2016
Food & beverages	0.7	0.2	3.4	1.9
Tobacco & cigarettes	0.1	0.1	6.0	0.7
Clothing & footwear	-1.5	-1.5	-0.9	-0.2
Housing services*	6.4	6.4	6.0	6.8
Furnishings & household maintenance	4.0	4.0	3.4	2.7
Healthcare	1.9	1.5	1.7	1.7
Transportation	10.5	10.7	0.5	2.5
Communication	0.1	0.0	0.4	0.5
Recreation & culture	0.3	0.2	-0.2	-0.1
Education	1.2	1.2	4.4	3.1
Restaurants & hotels	3.4	3.4	5.7	3.1
Other goods & services	0.9	0.3	1.9	1.0
Core**	4.2	4.1	3.2	3.5
Durable goods	0.8	0.4	1.1	0.8
Semi-durable goods	-0.4	-0.5	0.2	0.6
Non-durable goods	3.6	3.2	2.6	2.6
Services	4.8	4.8	4.9	4.7
Services ex-housing	2.3	2.3	3.3	1.6
General index	3.5	3.3	3.3	3.2

Source: Central Statistical Bureau, NBK estimates

* Updated once every quarter

** Excludes food and beverages; estimated by NBK

Chart 4: Inflation in other sectors

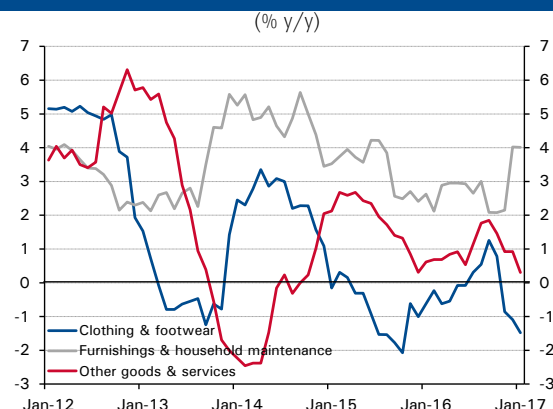


Chart 5: Goods inflation

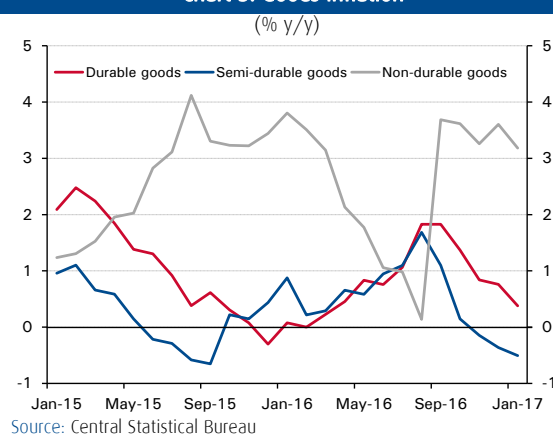
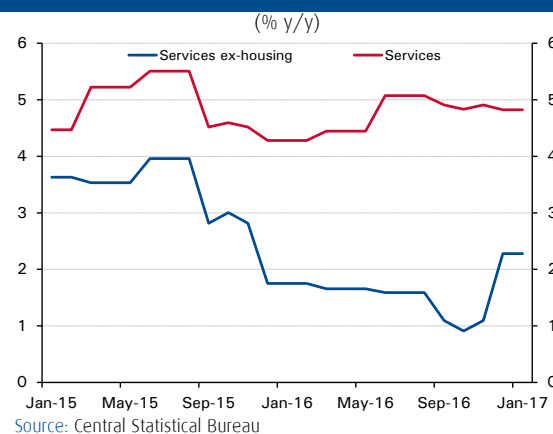


Chart 6: Services inflation



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