

Economic Update

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Inflation

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Kuwait: Inflation edges up in 2020, with higher food costs the main contributor

Highlights

- Inflation edged up in 4Q20, ending the year at a high of 3.0% y/y (vs. 2.0% at the end of 3Q20).
- Food (+4.9% y/y) and household furnishings/maintenance (+3.5% y/y) were the primary drivers of inflation in 2020.
- Core inflation came in at 2.7% y/y in December, higher than the 1.8% recorded at the end of Q3.
- Inflation is expected to ease slightly to around 1.5% in 2021.

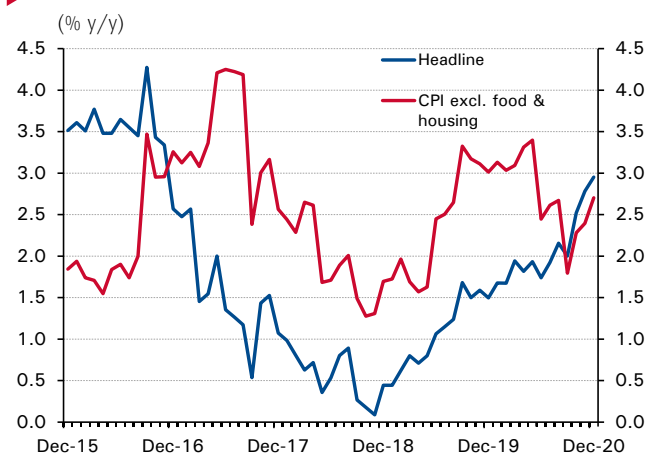
Inflation rises in 4Q20, ends at 3-year high

Consumer price inflation edged up in 4Q20, stoked by rising food prices, to end the year at 3.0% y/y (+1.1% q/q), the highest level in more than three years. (Chart 1.) For the year as a whole, inflation came in at 2.1% (avg.) in 2020, almost double 2019's rate of 1.1%, but in line with our expectations.

The pick-up in inflation was largely due to the food component of the consumer price index (16.7% by weight), with prices rising by 4.9% from 1.1% in 2019, a trend that was likely driven by ongoing supply-side disruptions brought about by the coronavirus pandemic. In contrast, the housing services component of the basket, the largest by weight (33.1%), has remained flat since June 2019.

Core inflation, which excludes food and housing, also rose in 2020 to 2.7% (from 2.4% in 2019), on the back of general increases in household items and transportation, for example. .

▶ Chart 1: Consumer price inflation

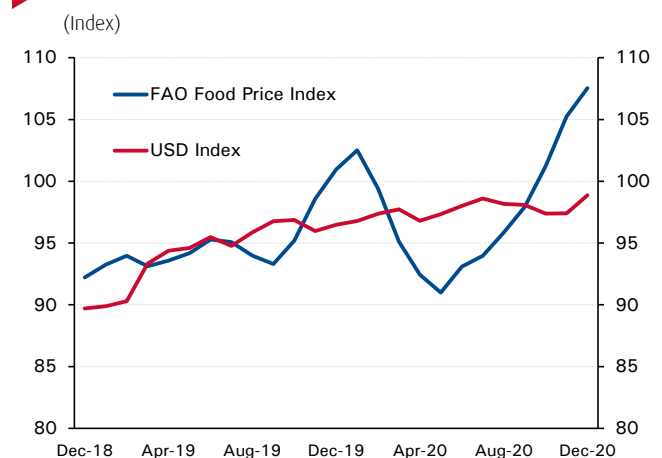


Source: Central Statistical Bureau (CSB)/NBK

Food prices spike, but housing costs continue to fall

Food price inflation came in at a multi-year high of 9.8% y/y in December (+7.0% q/q). Increases were across the board, but meat and poultry, fruit and vegetables witnessed significant price pressures. The rise in food costs could be a result of a combination of higher international food prices, partially linked to a fall in the US dollar, prolonged supply chain issues and price rises by local retailers as they pass on higher purchase prices (higher than warranted by the increase in food/logistical costs perhaps as they need to replenish their stocks at higher prices) to consumers. (Chart 2.) Domestic demand was buoyant in part of 2020, both in terms of being pent-up, following weeks of lockdown in the second quarter of last year, and sustained, with international travel restrictions forcing more people to spend in the country rather than overseas for most of the year.

▶ Chart 2: FAO Food Price Index

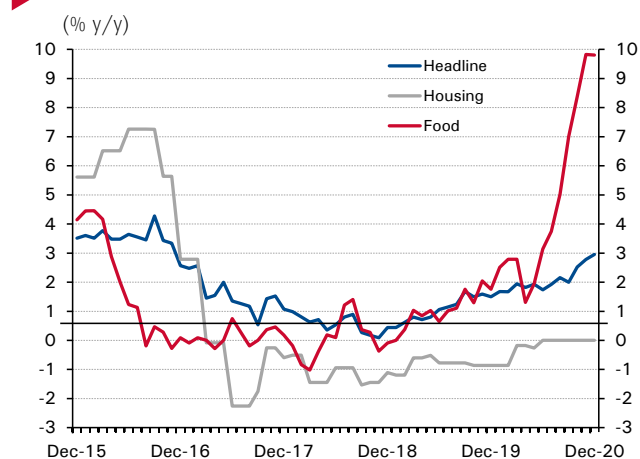


Source: FAO, Refinitiv

In contrast, housing costs remained flat at 0.0% y/y in December. Prices in this segment are typically reported every three months, but it is difficult to draw firm conclusions from this

component as the index value has remained at 115 since June 2019. It did not vary, for example, during the height of the pandemic, when rents were under pressure due to expat departures and/or due to tenant's demands for lower rents amid lower income. There is, of course, the possibility that these dynamics will feed through into the CPI survey at a later stage. (Chart 3.)

Chart 3: Inflation in food and housing services

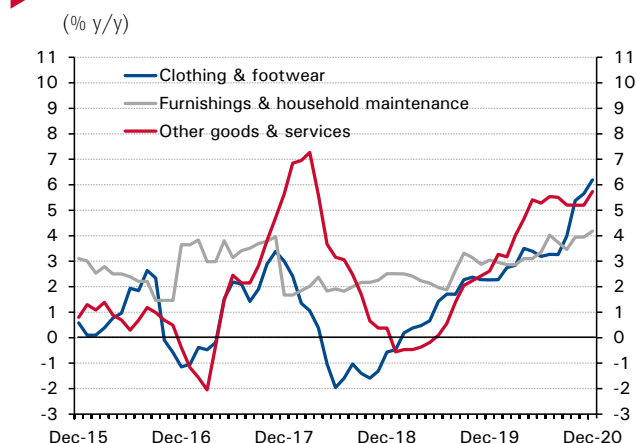


Source: CSB

Inflation in core components mixed in Q4

Core inflation stood at 2.7% y/y in December, higher than the 1.8% recorded at the end of the previous quarter. While inflation in most core components was accelerating, inflation in education (-15.2%) and restaurants and hotels (-0.1%) fell. The decline in education costs reflects the Ministry of Education's decision to cut school fees by up to 25% for private schools, in tandem with tuition moving online for the 2020/2021 academic year. Increases at the end of 4Q were strongest in the recreation, clothing and miscellaneous goods and services sub-categories. The increase in recreation (+7.2% y/y), was mainly due to a considerable rise in the costs of information processing equipment (personal laptops/computers), led by the continued shift to computer-based learning and remote working. Clothing prices were up 6.2%, while miscellaneous goods and services costs rose 5.7% on the back of a continued rise in jewelry as gold prices have been elevated during the economic fallout of the pandemic. (Chart 4.)

Chart 4: Inflation in other sectors

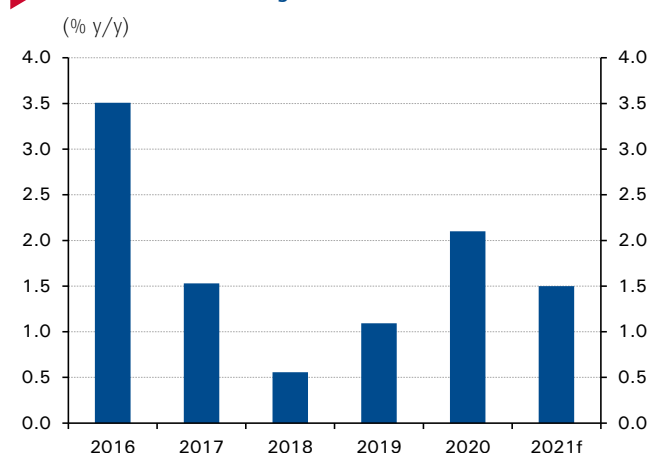


Source: CSB

Inflation to ease slightly in 2021, but remain in check

Looking ahead, inflation is forecast to moderate to around 1.5% in 2021. Supply chain disruptions should ease, and so should travel restrictions, thereby tempering some of the impulses emanating from improving economic activity. The departure of expatriates may also exert negative pressure on rents. (Chart 5.)

Chart 5: Annual average inflation rate



Source: CSB/NBK

► **Table: Consumer price inflation**

CPI component	% y/y annual average		%m/m			% y/y		
	2019	2020	Oct	Nov	Dec	Oct	Nov	Dec
Food & beverages	1.1	4.9	1.2	1.4	0.2	8.4	9.8	9.8
Tobacco & cigarettes	3.7	2.6	0.0	0.0	0.0	3.2	2.5	2.4
Clothing & footwear	1.3	3.8	1.3	0.4	0.7	5.4	5.6	6.2
Housing services	-0.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Furnishings & household maintenance	2.6	3.5	0.5	0.0	0.6	4.0	4.0	4.2
Healthcare	2.7	1.7	0.1	0.0	0.9	1.1	1.1	1.7
Transportation	3.4	2.7	0.0	0.0	0.4	3.3	3.4	3.3
Communication	5.1	4.0	1.0	0.3	1.4	4.0	4.2	5.3
Recreation & culture	2.8	3.8	1.0	0.1	0.7	6.4	6.4	7.2
Education	2.7	-3.5	0.0	0.0	0.0	15.1	15.1	15.5
Restaurants & hotels	0.7	0.6	0.0	0.0	0.0	-0.1	-0.1	0.0
Other goods & services	0.8	4.8	0.1	0.1	0.7	5.2	5.2	5.7
General index	1.1	2.1	0.5	0.3	0.3	2.5	2.8	3.0
* ex food and housing	2.4	2.7	0.5	0.1	0.6	2.3	2.4	2.7

Source: Central Statistical Bureau

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