

Economic Update

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Inflation



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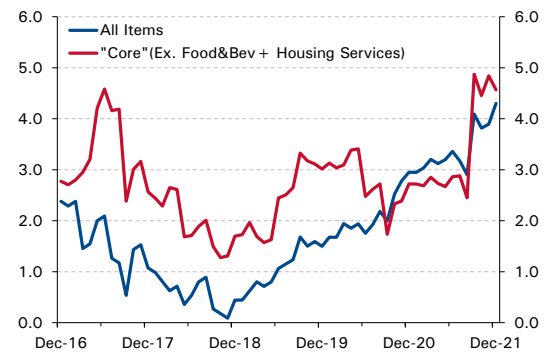
Kuwait: Inflation at 4.3% in December amid higher housing costs, global food price pressures

Summary

Consumer price inflation ticked up to 4.3% y/y in December, with an increase in housing rents offsetting moderating but still solid price pressures from food and 'core' categories versus September. Spiking inflation has also been a global phenomenon, driven by strong consumer demand, pandemic-linked supply shortages and higher food and energy costs. Kuwait's inflation rate averaged 3.4% in 2021 and could be broadly unchanged in 2022.

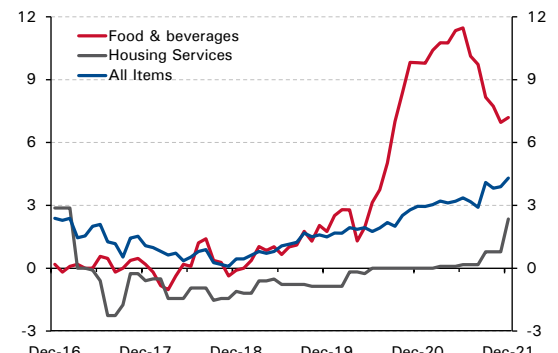
- Consumer price inflation increased sharply in December, rising to a multi-year high of 4.3% y/y from 4.1% in September, according to the Central Statistical Bureau (CSB). (Chart 1.) Inflation rose substantially through the year, with prices rising month-on-month (m/m) in eleven of the last twelve months due to a mix of rebounding demand, supply-side disruptions and higher international food costs. Inflation averaged 3.4% in 2021, a six-year high.
- Inflation has been a global phenomenon since the Covid-19 pandemic first emerged in 2020, and has been most acute in the western hemisphere where price gains are at multi-decade highs as in the US and UK. Months of mobility restrictions and subdued demand due to the pandemic caused significant disruption to supply chains, with labor and materials in short supply and unable to meet the acceleration in consumer demand and economic activity that emerged in the aftermath of the first pandemic peak in mid-2020. The surge in international commodity and energy prices especially has been a significant contributor to the high inflation recorded in industrialized countries.
- In Kuwait, inflation has been especially pronounced in the food and beverages category (17% of the CPI basket), peaking at 11.5% y/y in June 2021 before slowing to 7.2% in December. (Chart 2.) Most sub-indices saw price increases, but fruits (+18% y/y), fish (+14%) and meat (+8.8%) recorded the biggest gains. With much of Kuwait's food imported, price rises partly reflect pass-through of higher international food prices. A major benchmark of international food prices, the Food and Agriculture Organization's (FAO) Food Price Index, was up 25% y/y in December 2021, having been as high as 40% in May 2021. (Chart 3.) The strengthening of the US dollar – which is up around 7% on a trade-weighted basis since mid-2021 – may have contributed to the moderation of FAO food price inflation in 2H21 by lifting prices in foreign currency terms and trimming overseas demand. Looking ahead to 2022, expectations of dollar firmness amid US monetary policy tightening would tend to support further moderation in international food price inflation.
- Prices in the housing services category, the largest component in Kuwait's CPI basket with a weighting of 33%, also began to increase in 2021, after almost two years of minimal movement. By December, the index had risen 2.3% y/y on the back of rental increases, which were the most significant since March 2017. The cost of services and maintenance repairs also increased (+2.7% y/y), suggesting higher construction and raw materials costs.
- Core inflation, which excludes food and housing costs, reached 4.6% y/y in December (down slightly from 4.9% in September). (Chart 4.) The biggest increases were in the transport (+4.5%) and clothing (+5.6%) categories. Inflation in the 'Travel by Air' component, which had spiked to 25% y/y at

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



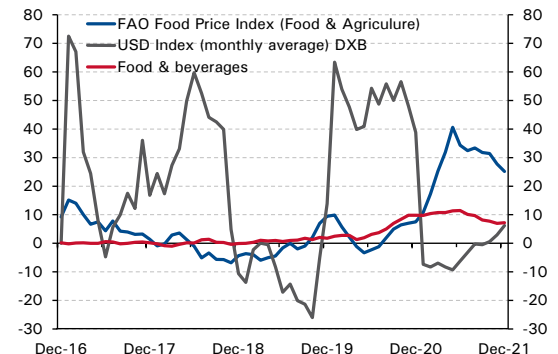
Source: Central Statistical Bureau (CSB), NBK

▶ **Chart 2: Inflation in Food and Housing Services**
(% y/y)



Source: CSB

▶ **Chart 3: FAO Food Price Index and USD index**
(% y/y)

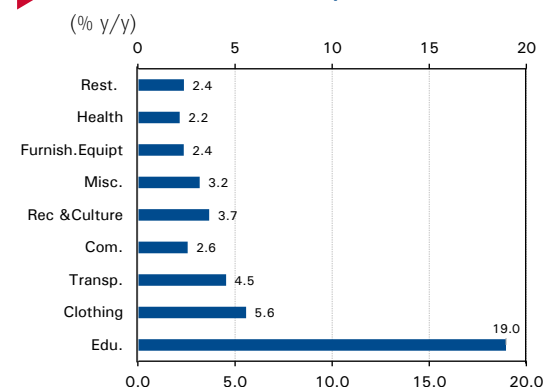


Source: FAO, Bloomberg, CSB

the end of 2021 on higher ticket costs following the partial removal of travel restrictions, eased to a still-elevated 16% by December. Meanwhile, costs in the education category closed out the year up 19% y/y, following the return to on-site schooling in the 2021/22 academic year and the hiking of fees to reflect that. (It is worth noting that in pandemic-affected 2020 the Ministry of Education mandated cuts in tuition fees of up to 25% as students moved online.) Core inflation averaged 3.4% in 2021 overall.

- Separately, the producer price index (PPI), which measures changes in the price of products bought and sold by producers, can be a leading indicator of pressures on consumer prices further down the line. In September, the PPI hit its highest level in almost three years, increasing by 65% y/y, according to the CSB. (Chart 5.) However, it is important to note that consumers in Kuwait are much more shielded from these changes than in many other countries due to price caps/controls in key areas such as fuel and energy: this will limit any pass-through of higher costs to consumers. Meanwhile, wholesale price inflation (which measures prices at the wholesale, pre-retail level) reached a three-year high in September, but remained very low at 1.8% y/y. Inflation in the price of imported goods reached 2.4%—the fastest rate since early 2017—while inflation in domestically produced items increased by 0.8%.
- Consumer price inflation averaged 3.4% in 2021, up from 2.1% in 2020, and exceeding earlier forecasts amid higher food costs and pandemic-linked volatility. Looking ahead to 2022, one potential inflationary impulse could be housing rents, based on the uptick in this component in 2H21 following an extended period of softness. Any increase could offset the expected deceleration in food price inflation—in line with the global trend—leaving the average headline rate broadly unchanged from 2021 levels at 3.5% (though slightly stronger than we had previously expected). Moreover, the economic backdrop is expected to continue improving in 2022, driven by output gains in both the oil and non-oil sectors. The latter should again be supported by robust, if moderating, consumer spending growth.

▶ Chart 4: Core inflation components



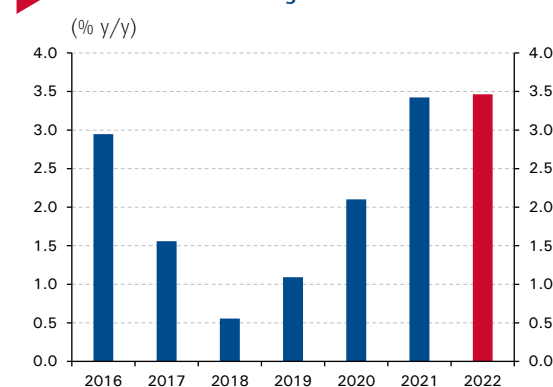
Source: CSB

▶ Chart 5: Producer Price Index



Source: CSB

▶ Chart 6: Annual Average



Source: CSB

▶ Table: Consumer price inflation

CPI components	% y/y annual average		% m/m			%y/y		
	2020	2021	Oct	Nov	Dec	Oct	Nov	Dec
Food & beverages	4.9	9.5	0.8	0.7	0.4	7.7	7.0	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	0.8	0.8	0.7	5.2	5.5	5.6
Housing services	-0.2	0.5	0.0	0.0	1.6	0.8	0.8	2.3
Furnishings & household maintenance	3.5	3.5	0.2	0.2	0.3	2.5	2.7	2.4
Healthcare	1.7	2.2	0.1	0.3	0.4	2.4	2.6	2.2
Transportation	2.7	4.4	0.1	0.1	0.7	4.2	4.3	4.5
Communication	4.0	4.5	0.1	0.1	0.0	4.2	4.0	2.6
Recreation & culture	3.8	6.3	0.3	0.2	0.5	3.7	3.9	3.7
Education	-3.5	-5.3	0.0	0.0	0.1	18.9	18.9	19.0
Restaurants & hotels	0.6	0.8	0.0	0.2	0.9	1.2	1.5	2.4
Services & miscellaneous goods	4.9	4.2	0.3	0.3	0.2	3.5	3.7	3.2
General index	2.1	3.4	0.2	0.3	0.7	3.8	3.9	4.3
'Core' index (excl. food and housing)	2.7	3.4	0.2	0.4	0.3	4.5	4.8	4.6

Source: Central Statistical Bureau

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