

Economic Update

NBK Economic Research Department | 21 November 2022



Inflation

Kuwait: Inflation eased in 3Q22 amid fading pent-up demand and supply chain effects

Summary

Inflation eased for a fifth consecutive month in September to 3.2% as the post-pandemic trend of pent-up consumer demand abates and as global food, commodity and supply chain pressures continue to ease. We expect inflation to average 3.9% this year before slowing to 2.7% in 2023 as local economic conditions normalize and as the global macro-economic environment softens.

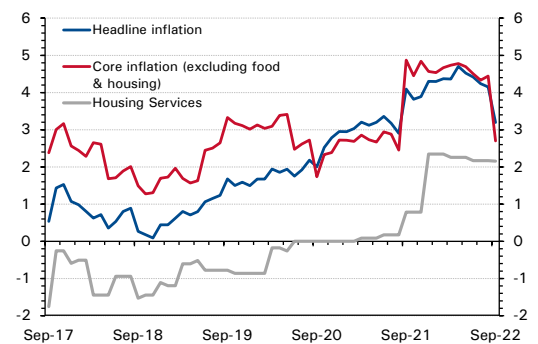
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- Consumer price inflation stood at 3.2% y/y in September, easing from 4.4% in June. This was the fifth consecutive month of deceleration since April's peak of 4.7% y/y. (Chart 1.) September's inflation reading also represented a significant slowdown compared to the previous month, mostly due to a combination of fading base effects in some sub-sectors (notably education), markedly lower international food prices, unwinding of supply chain bottlenecks and as the post-pandemic boost in consumer demand abates. Inflation pass-through in Kuwait has also been mitigated by certain food price controls and fuel subsidies as well as by the Kuwaiti dinar's peg to a basket of currencies dominated by the US dollar, which has strengthened considerably in 2022, making imports less pricey in local currency terms.
- In Kuwait, although at a considerably slower rate than in the past, price increases in the food and beverages category (+6.5% y/y) continue to drive the headline rate. (Chart 2.) Within food and beverages the main sub-components keeping prices elevated are fish and seafood (+24% y/y), fruit (+5.7%) and vegetables (+4.7%). That said, the overall deceleration in the rate of Kuwait's food prices is in line with the Food and Agriculture Organization's (FAO) Food Price Index (FFPI), which has been in retreat since March and which by September was up only 5.3% y/y. (Chart 3.) The prices of most components, such as meat, dairy and vegetable oils fell again in September. The recent release of data for October shows the FFPI largely unchanged (+2.0% y/y), which could signal further moderation in Kuwait's food price inflation in coming months.
- Meanwhile, inflation in housing services, the largest category in the CPI with a 33% weighting, stood at 2.2% y/y in September. The monthly gain of 0.6% was largely on the back of a small rise in rents (+0.7% m/m)—the first increase in nine months—and in "Service of Maintenance and Repair" (+0.4% m/m), which tends to reflect construction and raw material costs.

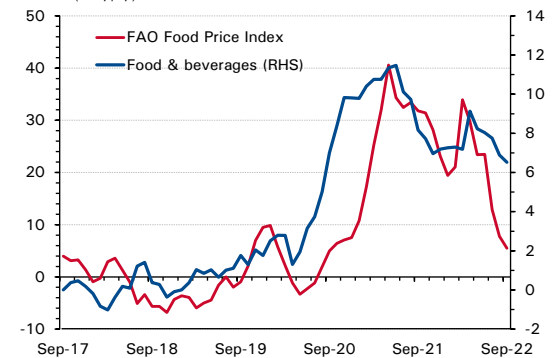
- Core inflation, which excludes food and housing, eased to 2.7% y/y in September from 4.5% in June. This is largely reflective of sharp price rises in the education category from September 2021 (when schools raised tuition fees in line with the return to on-site schooling) falling out of the annual comparison. Excluding clothing (+5.4% y/y), price increases in most other core components were moderate. (Chart 4.)
- Looking ahead, we expect inflation to trend slightly lower, largely on the basis of the factors discussed above but also amid tighter monetary policy as the Central Bank of Kuwait continues to follow the US Federal Reserve in raising interest rates. Inflation should average around 3.9% in 2022 (up from 3.4% in 2021) before decelerating to around 2.7% in 2023 based on the normalization of local non-oil economic activity and the likelihood of a softer global macroeconomic environment.

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



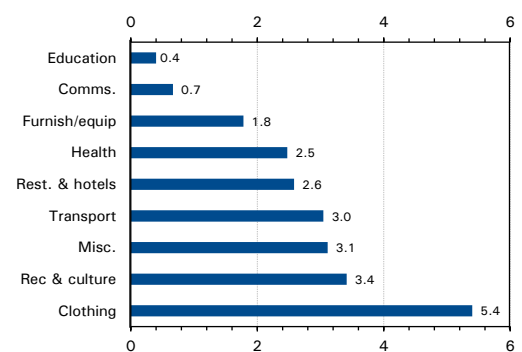
Source: Central Statistical Bureau (CSB), NBK

▶ **Chart 2: Food price inflation and FAO Index**
(% y/y)



Source: CSB, FAO

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



Source: CSB

► **Table: Consumer price inflation**

CPI components	% y/y annual		% m/m				% y/y			
	2020	2021	Jun-22	Jul-22	Aug-22	Sep-22	Jun-22	Jul-22	Aug-22	Sep-22
Food & beverages	4.9	9.5	1.2	0.3	0.1	0.4	8.0	7.8	6.9	6.5
Tobacco & cigarettes	2.6	0.6	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Clothing & footwear	3.8	6.0	0.5	0.2	0.4	0.2	6.1	5.6	5.7	5.4
Housing services	-0.2	0.5	0.0	0.0	0.0	0.6	2.2	2.2	2.2	2.2
Furnishings & household maintenance	3.5	3.5	0.2	0.1	0.2	0.1	2.2	1.9	1.9	1.8
Healthcare	1.7	2.2	0.7	0.0	0.0	0.6	2.1	2.1	1.9	2.5
Transportation	2.7	4.4	0.3	0.5	0.0	0.4	3.8	4.3	4.3	3.0
Communication	4.0	4.5	0.0	0.0	0.0	0.2	2.3	2.0	2.0	0.7
Recreation & culture	3.8	6.3	0.3	0.1	0.1	0.3	3.8	3.5	3.6	3.4
Education	-3.5	-5.3	0.1	0.0	0.0	0.2	19.0	19.0	19.0	0.4
Restaurants & hotels	0.6	0.8	0.6	0.0	0.0	0.2	2.7	2.7	2.7	2.6
Services & miscellaneous goods	4.9	4.2	0.2	-0.1	0.1	0.2	3.2	2.9	3.0	3.1
General index	2.1	3.4	0.4	0.1	0.1	0.4	4.4	4.2	4.1	3.2
'Core' index (excl. food and housing)	2.7	3.4	0.4	0.1	0.1	0.3	4.5	4.3	4.4	2.7

Source: Central Statistical Bureau

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