

Kuwait: Inflation eased further to just 0.5% at the end of Q2

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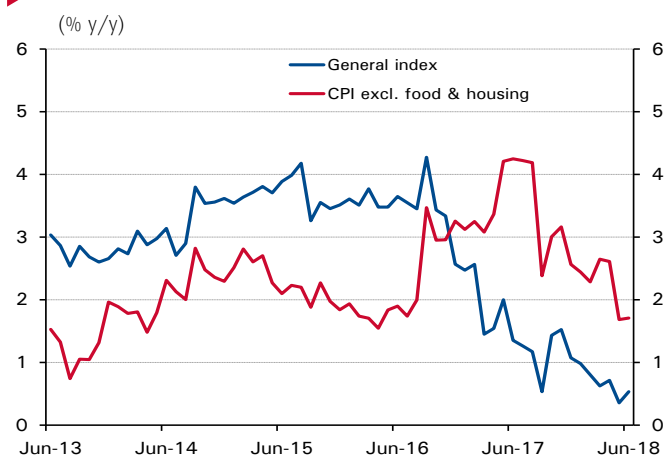
Highlights

- Inflation eased in Q2, finishing the quarter at 0.5% y/y in June compared to 0.6% in March.
- Low inflation is partly due to ongoing weakness in the housing sector, which has put downward pressure on rents.
- Moderate economic growth is also a possible limiting factor on inflation.
- Inflation is expected to average a very modest 1.0% in 2018.

Inflation continues to ease in the second quarter

Inflation continued to ease in the second quarter, registering 0.5% y/y in June, a slight drop from the 0.6% recorded in March. Inflation has been trending lower since late 2016, when it reached a peak of 3.8%. (Chart 1.) The main drivers are the ongoing weakness in the housing sector in addition to low food and beverage inflation; excluding these factors, inflation stood at 1.7% in June, though still lower than in March. Modest economic growth, delays in project execution and soft corporate credit growth are other contributing factors— along with base effects after some solid rises in mid-2017. Inflation is likely to rise later this year, but is forecast to average just 1% for 2018 as a whole.

▶ Chart 1: Consumer Price Inflation



Source: Central Statistical Bureau / NBK

Housing inflation continues to be negative in 2Q18

Inflation in housing services remained negative at -0.9% in June, though moderated compared to May (-1.4% y/y). (Chart 2). Lingering oversupply and weakening demand has maintained downward pressure on rents, in addition to easing inflation in utilities and maintenance prices as the effects of utility subsidy cuts from 2017 fade.

▶ Chart 2: Inflation in housing services



Source: Central Statistical Bureau

Inflation in goods was soft in 2Q18

Food and beverage inflation saw a modest rebound through the second quarter but remained very low, at 0.1% y/y in June from -1.0% in March. (Chart 3.) Elsewhere goods price inflation moved generally lower through the quarter, despite signs of continued recovery in the consumer sector. We note a decrease in the prices of cars and furnishings in June, in

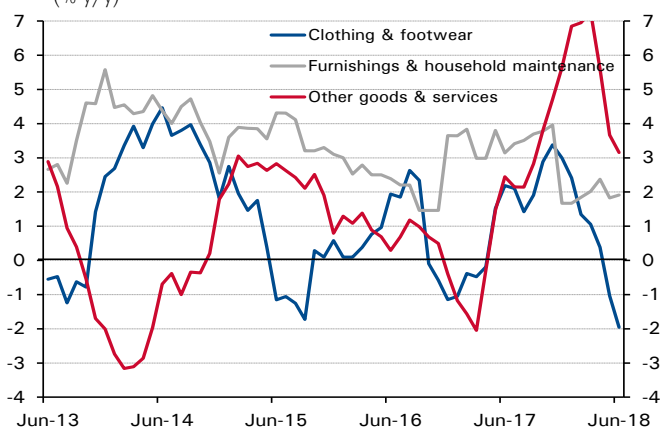
addition to softer price increases in clothing/footwear and household appliances (electronics). (Chart 4.) This may have been driven by retailers adopting more aggressive pricing strategies, looking to reduce stock overhangs. Additional downwards pressure on prices is likely stemming from the appreciation of the Kuwaiti dinar, in line with a stronger US dollar, which helps to reduce import price pressures.

Chart 3: Food and beverages inflation
(% y/y)



Source: Central Statistical Bureau

Chart 4: Inflation in selected goods
(% y/y)

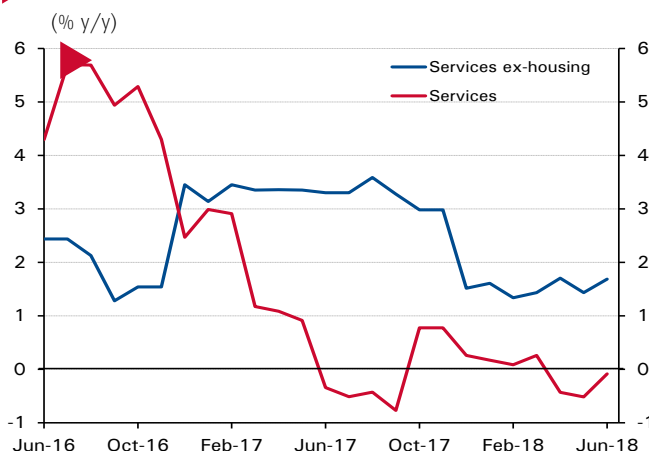


Source: Central Statistical Bureau

Inflation in services eased in 2Q18

Inflation in services turned negative in 2Q18, ending the quarter at -0.1% in June compared to 0.3% in March. (Chart 5.) The decline was driven primarily by ongoing weakness in housing services (see above), which has a weight of 33% in the overall CPI basket. By contrast, there was a rise in inflation in non-housing services including communication, education, and healthcare.

Chart 5: Inflation in services



Source: Central Statistical Bureau / NBK

Price pressures to remain subdued this year

We believe inflation will remain subdued in 2018, averaging 1.0%, and despite signs of a solid recovery in the consumer sector shown in POS and consumer confidence data. Inflation is being kept low by a combination of continued softness in housing rents, base effects as price increases last year fall out of the annual rate and also the absence of VAT. An excise tax may be imposed on certain goods such as tobacco and energy/soft drinks, but is unlikely to be implemented in 2018.. Continued moderate economic growth and rising interest rates are also bearing down on inflation.

► **Table: Consumer price inflation**

CPI component	%y/y average		% Month-on-month 2018						% Year-on-year 2018					
	2016	2017	Jan	Feb	Mar	Apr	May	Jun	Jan	Feb	Mar	Apr	May	Jun
Food & beverages	1.7	0.1	-0.6	-0.6	-0.6	0.0	0.5	0.5	-0.2	-0.8	-1.0	-0.4	0.2	0.1
Tobacco & cigarettes	0.3	1.2	0.0	1.6	3.3	7.3	0.5	0.1	2.2	3.8	7.3	14.8	14.5	13.6
Clothing & footwear	0.8	1.4	-0.3	-0.7	-0.2	0.0	0.2	-0.1	2.4	1.3	1.1	0.4	-1.0	-2.0
Housing services	6.1	-0.4	0.1	0.0	-1.3	0.0	0.0	0.0	-0.5	-0.5	-1.4	-1.4	-1.4	-0.9
Furnishings & household maintenance	2.3	3.4	0.1	0.2	0.3	0.3	0.3	0.3	1.7	1.8	2.0	2.4	1.8	1.9
Healthcare	1.2	0.3	-0.2	0.0	0.9	0.4	0.2	1.0	-0.2	-0.3	0.9	1.4	2.3	2.9
Transportation	4.1	10.2	0.1	0.1	0.2	0.1	0.1	0.8	1.7	1.5	1.0	1.0	1.1	1.3
Communication	2.0	-0.7	-0.2	-0.1	0.5	0.9	0.0	1.1	1.1	1.0	2.4	3.7	3.1	4.2
Recreation & culture	-1.8	3.2	0.1	-0.2	0.6	0.1	0.2	0.9	5.4	5.6	6.0	5.8	5.0	4.7
Education	3.6	2.8	0.0	0.0	0.6	0.0	0.0	0.5	0.9	0.9	1.5	1.4	1.4	1.7
Restaurants & hotels	6.9	3.1	0.0	0.0	0.0	0.0	0.0	-0.1	3.1	3.3	3.2	3.5	1.6	1.3
Other goods & services	0.8	1.7	0.8	0.1	0.0	-0.1	-0.2	0.5	6.9	7.0	7.3	5.6	3.7	3.2
*CPI ex food and housing	2.3	3.4	-0.1	0.0	0.4	0.2	0.0	0.4	2.4	2.3	2.6	2.6	1.7	1.7
General index	3.5	1.5	-0.1	-0.1	-0.4	0.1	0.1	0.3	1.0	0.8	0.6	0.7	0.4	0.5

Source: Central Statistical Bureau, NBK estimates

* Estimated by NBK

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