

# Economic Update

NBK Economic Research Department | 11 August 2022

## Inflation



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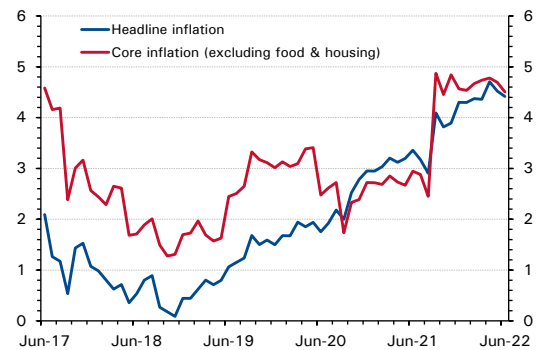
## Kuwait: Inflation unchanged at 4.4% at end of second quarter, but scope to ease in H2

### Summary

Inflation stood at 4.4% y/y in June, unchanged from the end of 1Q22, but down slightly from April and May. Although still elevated by historical standards, we believe there is scope for inflation to slow in 2H22 as some global pressures ease, monetary policy is tightened further and as big price increases last year fall out of the annual comparison. Upside risks to inflation include a fall in the US dollar, which could push up import prices in Kuwait, or a pick-up in housing rents, which have been stagnant this year. Downside risks include lower food international prices, an easing in global supply chain pressures and slower domestic economic growth if oil prices were to fall.

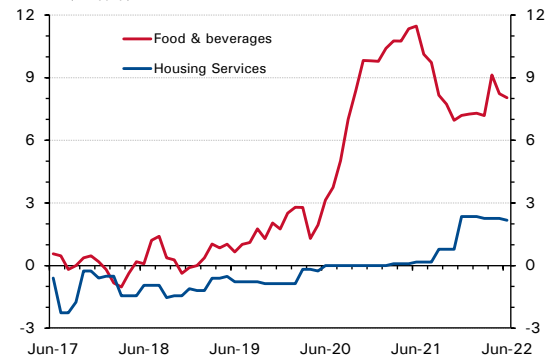
- Kuwait's Consumer Price Index rose 4.4% y/y in June, unchanged from the end of 1Q22 but softening versus April and May. (Chart 1.) Inflation remains elevated by the standards of earlier years, thanks partly to global factors including high food prices and supply chain bottlenecks. However we expect inflation to trend lower over 2H22 as some of these global pressures ease, monetary policy is tightened further both domestically and internationally, and as some big price increases from 2H21 fall out of the annual comparison.
- The food component of the CPI continues to be a key inflation driver, accelerating to 8.0% y/y in June from 7.2% in March, though again, easing during Q2. (Chart 2.) The prices of most food sub-categories increased, but at slower rates than in Q1 (excluding fish & seafood). Looking ahead there is helpful news on the international front, with global food prices, according to the FAO, falling at the fastest m/m pace in July since October 2008 at -8.7%, driven in part by a weaker outlook for the global economy. (Chart 3.) This should help slow rises in domestic food prices going forward.
- Meanwhile, the housing services index (mostly rents), which historically changes at the end of each quarter, showed no change for the second successive quarter, cutting the y/y rate slightly to 2.2%. We had previously identified this component as pivotal for overall inflation prospects in 2022, given its large 33% weight in the CPI basket and its clear strengthening in 2H21. Data so far however suggest that this momentum has not been sustained in 2022, so contributing less to inflation than had been expected.
- Core inflation, which excludes food and housing, remained historically high but slowed slightly to 4.5% y/y in June from 4.7% in March. We note that inflation in most of the nine core components is in the moderate 2-4% range, with price rises in only two segments – clothing and education – running much higher. (Chart 4.) The latter is attributable to the reversal last September of big cuts in school fees during the pandemic, and should therefore come down sharply later this year, assuming those rises are not repeated.
- We also believe that the appreciation of the Kuwaiti dinar, in line with a stronger US dollar, is helping to contain general price pressures through its effect in lowering import prices. So far in 2022 for example, the dinar has risen by 4% versus the Chinese yuan, 10% versus the euro, and 16% against the Japanese yen. The stronger dollar is the result of tighter actual and expected US monetary policy this year and some safe haven flows to the dollar given worries about the slowdown in the global economy.
- Overall, inflation averaged 4.5% in 1H22, which is its highest in several years. However it remains well below current rates in major overseas markets

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



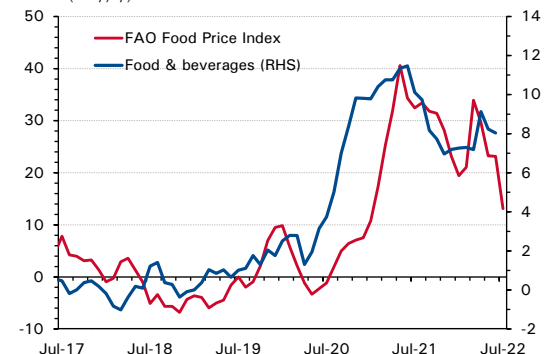
Source: Central Statistical Bureau (CSB), NBK

▶ **Chart 2: Inflation in food and housing services**  
(% y/y)



Source: CSB

▶ **Chart 3: Food inflation and FAO Index**  
(% y/y)



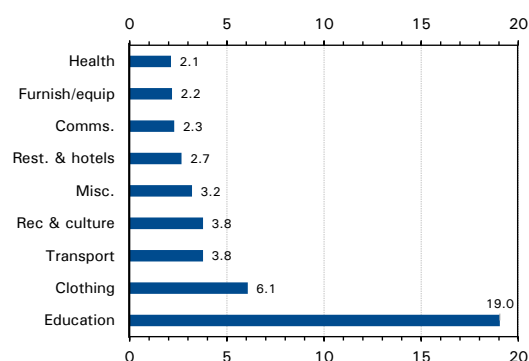
Source: CSB, FAO

including the US (8.5%) and Eurozone (8.9%), helped especially by price controls and subsidies in the areas of fuel and energy. As mentioned above, our base case is for inflation to ease over 2H22, averaging 4.3% for 2022 as a whole versus 3.4% in 2021, and potentially ending the year close to 3%.

- Upside risks to this outlook include a fall in the US dollar from recent highs (and by extension a lower Kuwaiti dinar), pushing up the price of Kuwaiti imports, and a pick-up in domestic housing rents, which as stated above have been stagnant so far this year. Also, persistently high oil prices could lead to faster than expected economic growth in Kuwait, with stronger demand translating into higher costs for firms and consumers.
- On the downside, global food and commodity prices could fall further and more rapidly than anticipated as global growth weakens, cutting domestic food prices. Lower oil prices would also affect the growth outlook for the Kuwaiti economy, probably reducing inflationary pressures. Finally, a weaker world economy would unwind some pressures on global supply chains, reducing inflationary pressures from this source as well.

► Chart 4: Inflation in 'core' components

(% y/y, June)



Source: CSB

► Table: Consumer price inflation

CPI components	% y/y annual		% m/m				% y/y			
	2020	2021	Mar'22	Apr'22	May'22	June'22	Mar'22	Apr'22	May'22	Jun'22
Food & beverages	4.9	9.5	0.3	0.2	1.0	1.2	7.2	9.1	8.2	8.0
Tobacco & cigarettes	2.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clothing & footwear	3.8	6.0	0.8	0.2	0.2	0.5	6.1	6.2	6.3	6.1
Housing services	-0.2	0.5	0.0	0.0	0.0	0.0	2.3	2.3	2.3	2.2
Furnishings & household maintenance	3.5	3.5	0.1	0.2	0.1	0.2	2.2	2.3	2.3	2.2
Healthcare	1.7	2.2	0.2	0.1	0.1	0.7	1.8	1.8	1.8	2.1
Transportation	2.7	4.4	0.6	0.0	0.1	0.3	4.8	4.8	4.9	3.8
Communication	4.0	4.5	0.0	0.2	0.1	0.0	2.4	2.4	2.3	2.3
Recreation & culture	3.8	6.3	0.3	0.4	0.2	0.3	3.7	3.9	3.9	3.8
Education	-3.5	-5.3	0.0	0.0	0.0	0.1	19.0	19.0	19.0	19.0
Restaurants & hotels	0.6	0.8	0.6	0.0	0.0	0.6	2.9	2.8	2.8	2.7
Services & miscellaneous goods	4.9	4.2	0.4	0.7	0.1	0.2	3.6	3.7	3.2	3.2
<b>General index</b>	<b>2.1</b>	<b>3.4</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>	<b>4.4</b>	<b>4.7</b>	<b>4.5</b>	<b>4.4</b>
<b>'Core' index (excl. food and housing)</b>	<b>2.7</b>	<b>3.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.0</b>	<b>0.4</b>	<b>4.7</b>	<b>4.8</b>	<b>4.7</b>	<b>4.5</b>

Source: Central Statistical Bureau

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