Inflation remained low in 4Q18, despite modest pick-up in December

**Highlights**

- Inflation picked up slightly in 4Q18 but remained very soft, ending the quarter at 0.4% y/y.
- Housing services (mostly rents) continued to fall but the pace of deflation slowed to -1.1% from -1.5% in September.
- Core inflation also picked up slightly to 1.7% amid higher prices for transport and education.
- Inflation averaged a 16-year low of 0.6% in 2018, but could reach 2.0% in 2019 as downward housing pressures fade.

**Inflation rose through 4Q18, but remains low**

Inflation remained low in 4Q18, ending the quarter at 0.4% y/y, up only slightly from 0.3% in September and having hit a 15-year low of just 0.1% in November. (Chart 1.) Our measure of core inflation, which excludes food and housing, also edged up to 1.7% from 1.5% at the end of Q3. The pick-up in headline inflation in Q4 was due to higher prices for transport and education, but also a slower pace of deflation in housing services and clothing.

Inflation averaged just 0.6% overall in 2018, down from 1.5% in 2017 and its lowest since 2002, weighed mostly by weak price pressures in food and housing. Core inflation also fell, to 1.9% from 3.3% in 2017 as prior fuel subsidy cuts roll out of the annual comparison.

**Housing services deflation moderates**

Housing deflation slowed to -1.1% in December from -1.5% in September, supported by slower year-on-year deflation in rents although rent prices have been essentially unchanged for the past nine months. (Chart 2.) Looking forward, it is likely that there will be a modest pickup in housing services inflation starting in March due to a base effect, following a fall in rents in March 2018. Moreover, with the apartment market now showing signs of recovery, it is possible that rents may start to rise in the near-to-medium term.

**Chart 2: Inflation in housing services**

Source: Central Statistical Bureau

---

T: (965) 2259 5500, F: (965) 2224 6973, econ@nbk.com, © 2019 NBK

www.nbk.com
Inflation in most categories picks up slightly in 4Q18

Food and beverage prices – a component worth 17% of the CPI basket – fell back into deflation at -0.1% y/y in December from 0.4% in September. (Chart 3.) Food inflation averaged just 0.1% in 2018 overall, helped by falls in international food prices. But inflation in most other categories picked up through the quarter, the largest shifts coming in education (to 2.4% from 1.0%) and transport (2.2% from 1.0%); deflation in the clothing segment also eased (-0.6% from -1.4%). (Chart 4.) The most notable component that went the other way was the miscellaneous category, where inflation fell (to 0.4% from 1.7%) through the quarter helped by smaller price rises in the personal care segment.

Food inflation averaged just 0.1% in 2018 overall, helped by falls in international food prices. But inflation in most other categories picked up through the quarter, the largest shifts coming in education (to 2.4% from 1.0%) and transport (2.2% from 1.0%); deflation in the clothing segment also eased (-0.6% from -1.4%). (Chart 4.) The most notable component that went the other way was the miscellaneous category, where inflation fell (to 0.4% from 1.7%) through the quarter helped by smaller price rises in the personal care segment. Inflation is expected to rise in 2019

Inflation is expected to pick-up in 2019, but will remain within manageable limits at an average of 2.0%. Inflation has been kept low in the recent past by a combination of falling housing costs, weak food price pressures, the relative strength of the Kuwaiti dinar (due to the peg to the currency basket dominated by the US dollar, which strengthened last year), and only modest rates of economic growth.

Looking forward, the headline rate will be lifted by an expected easing in deflation in the housing sector, which has continued to move into recovery mode with prices for both houses and apartments now rising year-on-year. However elsewhere, price pressures should be well contained. International food prices have shown no discernable pick up over recent months so we do not expect a strong inflationary impulse from this area. Meanwhile, core inflation is seen little changed at 2.2% in 2019 given ongoing strength in the US dollar (and by extension the dinar), and moderate non-oil growth. We also do not expect any significant subsidy cut measures over the coming fiscal year and the implementation of VAT is unlikely before 2021 at the earliest.

Deflation in services eases

It is also notable that deflation in the services category persists, though slowed to -0.9% in December from -1.4% in September. (Chart 5.) Service sector items tend to be less tradable across borders than goods, so can reflect conditions in the domestic economy more so than external factors or the exchange rate. Deflation in services is present even once excluding the impact of price falls in the housing segment, which is an important services component. (Chart 5.) The price of services fell overall in 2018, by 0.7% y/y, while the prices of goods – durable, semi-durable and non-durables – rose.
### Table: Consumer price inflation

<table>
<thead>
<tr>
<th>CPI component</th>
<th>% y/y annual average</th>
<th>%m/m</th>
<th>% y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>2018</td>
<td>Oct</td>
</tr>
<tr>
<td>Food &amp; beverages</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Tobacco &amp; cigarettes</td>
<td>1.2</td>
<td>11.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Clothing &amp; footwear</td>
<td>1.4</td>
<td>-0.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>Housing services</td>
<td>-0.4</td>
<td>-1.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Furnishings &amp; household maintenance</td>
<td>3.4</td>
<td>2.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Healthcare</td>
<td>0.3</td>
<td>1.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Transportation</td>
<td>10.2</td>
<td>1.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Communication</td>
<td>-0.7</td>
<td>3.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Recreation &amp; culture</td>
<td>3.2</td>
<td>4.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Education</td>
<td>2.8</td>
<td>1.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Restaurants &amp; hotels</td>
<td>3.1</td>
<td>1.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Other goods &amp; services</td>
<td>1.7</td>
<td>3.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>*CPI ex food and housing</td>
<td>3.3</td>
<td>1.9</td>
<td>0.2</td>
</tr>
<tr>
<td>General index</td>
<td>1.5</td>
<td>0.6</td>
<td>0.2</td>
</tr>
</tbody>
</table>

*Source: Central Statistical Bureau*
Head Office
Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Tel: +965 2243 2451
www.nbk.com

International Network
Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2816
Seef Area 425, P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrian Head Office
600 Top Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O. Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashid Bin Saeed
38th Floor, Arraya II Building, Block 6
Shuhada’a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6994 / 5

Universal Arab Emirates
National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Kingdom
National Bank of Kuwait (International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait (International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait (International) Plc
Paris Branch
90 Avenue des Champs-Élysées
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44 01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5458

China
National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Asia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

© Copyright Notice. The Economic Update is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK. While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. GCC Research Note is distributed on a complimentary and discretionary basis to NBK clients and associates. This report and other NBK research can be found in the “Reports” section of the National Bank of Kuwait’s web site. Please visit our web site, www.nbk.com, for other bank publications. For further information please contact: NBK Economic Research, Tel: (965) 2259 5500, Fax: (965) 2224 6973, Email: econ@nbk.com

T. (965) 2259 5500, F. (965) 2224 6973, econ@nbk.com, © 2019 NBK
www.nbk.com