

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

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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.

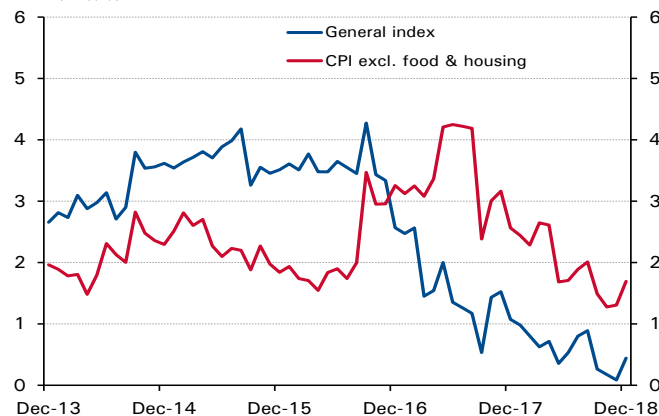
Inflation rose through 4Q18, but remains low

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.

▶ **Chart 1: Consumer Price Inflation**

(% y/y)



Source: Central Statistical Bureau / NBK

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**

(% y/y)



Source: Central Statistical Bureau

Inflation in most categories picks up slightly in 4Q18

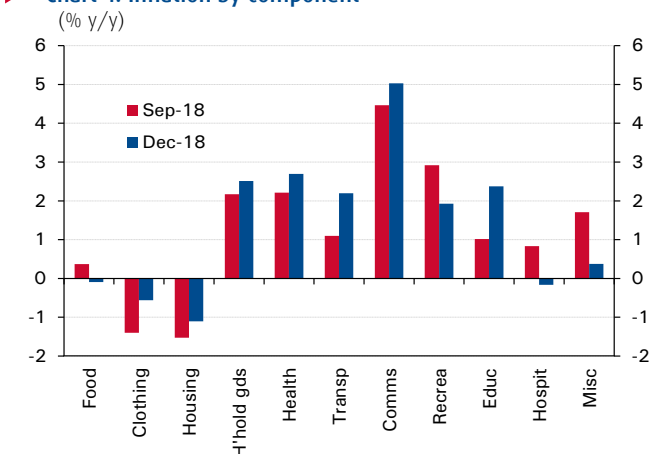
Food and beverage prices – a component worth 17% of the CPI basket – fell back into deflation at -0.1% y/y in December from 0.4% in September. (Chart 3.) Food inflation averaged just 0.1% in 2018 overall, helped by falls in international food prices. But inflation in most other categories picked up through 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.

▶ **Chart 3: Food and beverages inflation**



Source: Central Statistical Bureau

▶ **Chart 4: Inflation by component***



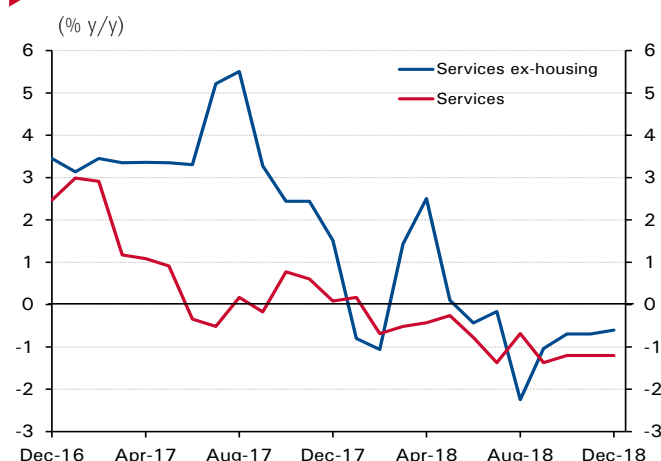
Source: Central Statistical Bureau *Chart excludes cigarettes & tobacco component

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.

▶ **Chart 5: Inflation in services**



Source: Central Statistical Bureau / NBK

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.

► **Table: Consumer price inflation**

CPI component	% y/y annual average		%m/m			% y/y		
	2017	2018	Oct	Nov	Dec	Oct	Nov	Dec
Food & beverages	0.1	0.1	0.4	-0.6	0.5	0.3	-0.4	-0.1
Tobacco & cigarettes	1.2	11.5	0.0	0.0	0.0	13.5	13.5	13.4
Clothing & footwear	1.4	-0.5	-0.1	0.3	0.2	-1.6	-1.3	-0.6
Housing services	-0.4	-1.1	0.1	0.0	0.0	-1.4	-1.4	-1.1
Furnishings & household maintenance	3.4	2.0	0.2	0.3	0.3	2.2	2.3	2.5
Healthcare	0.3	1.9	0.0	0.0	0.3	2.1	2.1	2.7
Transportation	10.2	1.3	0.0	0.0	0.9	1.1	1.0	2.2
Communication	-0.7	3.7	0.6	0.5	0.1	4.2	4.7	5.0
Recreation & culture	3.2	4.1	0.0	0.0	0.0	2.3	1.7	1.9
Education	2.8	1.4	0.0	0.0	1.3	1.0	1.0	2.4
Restaurants & hotels	3.1	1.7	0.0	0.0	-0.1	0.8	0.8	-0.2
Other goods & services	1.7	3.5	-0.1	-0.1	0.0	0.7	0.4	0.4
*CPI ex food and housing	3.3	1.9	0.2	0.0	0.4	1.3	1.3	1.7
General index	1.5	0.6	0.2	-0.1	0.3	0.2	0.1	0.4

Source: Central Statistical Bureau

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