

Consumer price inflation

# Kuwait: Inflation steadies at 1.3% in July, a multi-year low

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**Inflation in consumer prices was largely steady in July, as inflation in most components came in unchanged from June.** At 1.3% year-on-year (y/y), inflation remains at multi-year lows, mainly due to deflationary housing rent and weak food inflation. (Chart 1.) Revised consumer price index (CPI) statistics last month pointed to significantly lower housing inflation in recent months, which in turn dragged the overall inflation rate noticeably lower. Inflation excluding housing rent and food costs has remained higher at 4.2% y/y predominantly due to the direct and indirect effects of the fuel price hikes introduced in September of 2016. If transportation costs are also excluded, inflation appears to be somewhat milder at 2.3% y/y.

**Inflation is now likely to average below 2% in 2017, down from 3.5% in 2016.** While hikes in electricity and water tariffs on the apartment sector, which took effect in August, are expected to apply some upward pressures on inflation, these pressures will likely be partly offset by the deflationary rates in housing rent and weak food inflation.

**Prices in housing services remained in deflationary territory in July.** Inflation in housing services - which is mostly comprised of housing rents and is updated quarterly - has been trending lower since the second half of 2016, in line with softer activity in the housing market. According to the new inflation series, costs in this segment declined by -2.3% y/y in 2Q17 (Chart 2).

**Local food price inflation remained soft despite a rebound in inflation in global food prices.** Local food prices were flat at 0.3% y/y in July. (Chart 3.) In contrast, according to the Commodity Research Bureau, international prices of commodity foods rose by an almost three-year high of 4.4% y/y. If the strong rebound in international food prices holds, we may see local food price inflation begin to gather some momentum.

**Inflation in the retail sector remained firm thanks in part to improvements in consumer demand as well as a weaker dinar.** (Chart 4.) Inflation in clothing & footwear and "other goods & services" held fairly steady at a relatively solid 2.1% y/y and 2.2% y/y, respectively in July. Both segments witnessed relatively strong upward revisions following the CPI statistics revamp last month, reflecting some of the improvements in consumer demand as well as a weaker dinar. The weaker dollar has led to a depreciation in the dinar's trade weighted index, which is currently down -2.5% year-to-date. Given that a bulk of the goods in the retail sector is imported, the weaker currency has led to an increase in costs in the sector.

**Inflation in services excluding housing has been largely steady so far in 2017.** In July it still remained at a relatively elevated 3.3% y/y. (Chart 5.) Inflation in this component has been propped up mainly by higher transportation costs, as transport services continue to readjust their fees to account for the higher fuel charges that were introduced in September of 2016. In July, inflation in transportation services came in at 15.5% y/y.

Chart 1: Inflation in consumer prices

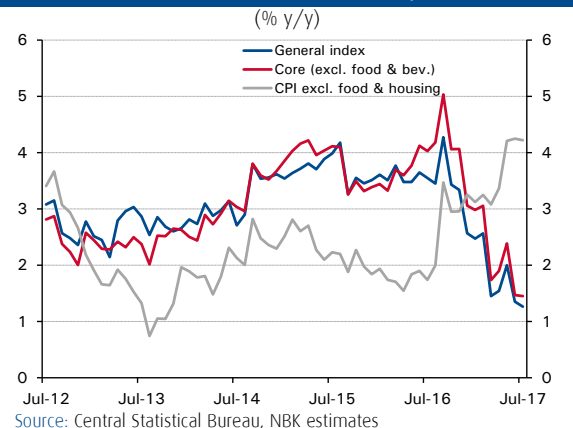


Chart 2: Inflation in housing services

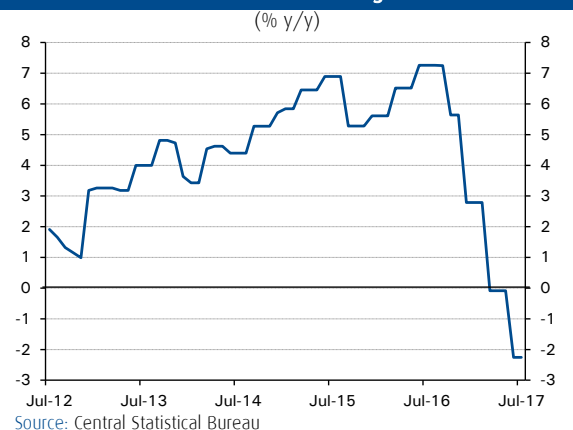
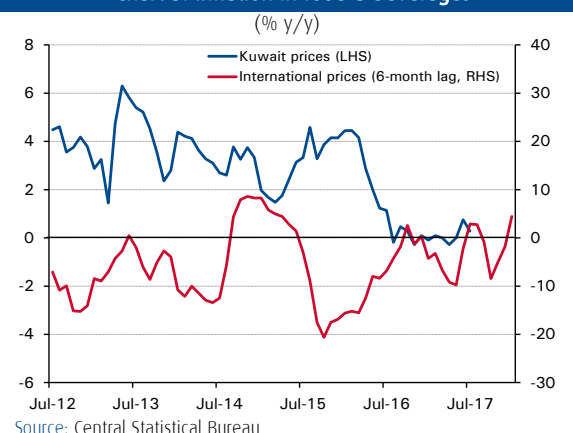


Chart 3: Inflation in food & beverages



(Chart 6.)

**Table: Consumer price inflation**

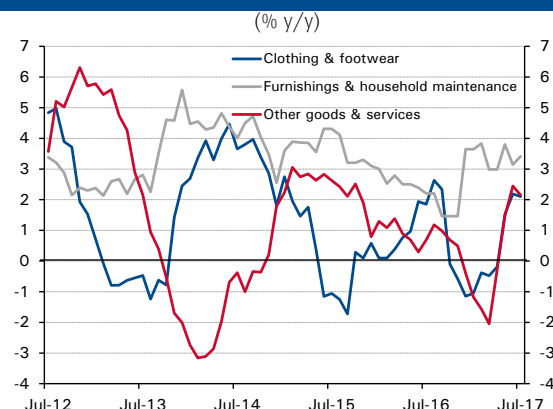
(% change)	Year-on-year		Annual average	
	Jun-17	Jul-17	2015	2016
Food & beverages	0.8	0.3	3.0	1.7
Tobacco & cigarettes	1.8	1.7	5.6	0.3
Clothing & footwear	2.2	2.1	0.3	0.8
Housing services*	-2.3	-2.3	6.1	6.1
Furnishings & household maintenance	3.1	3.4	3.7	2.3
Healthcare	-0.4	-0.7	1.7	1.2
Transportation	15.9	15.5	0.9	4.1
Communication	-1.5	-1.1	0.6	2.0
Recreation & culture	3.2	3.4	-0.3	-1.8
Education	3.6	3.6	4.8	3.6
Restaurants & hotels	2.6	2.6	6.3	6.9
Other goods & services	2.4	2.2	2.4	0.8
<b>Core**</b>	<b>1.5</b>	<b>1.5</b>	<b>3.8</b>	<b>3.9</b>
Durable goods	4.8	4.5	2.4	2.5
Semi-durable goods	2.0	1.9	1.4	1.1
Non-durable goods	2.7	2.7	0.0	0.4
Services	-0.3	-0.5	5.4	4.9
Services ex-housing	2.5	2.1	3.9	2.4
<b>General index</b>	<b>1.4</b>	<b>1.3</b>	<b>3.7</b>	<b>3.5</b>

Source: Central Statistical Bureau, NBK estimates

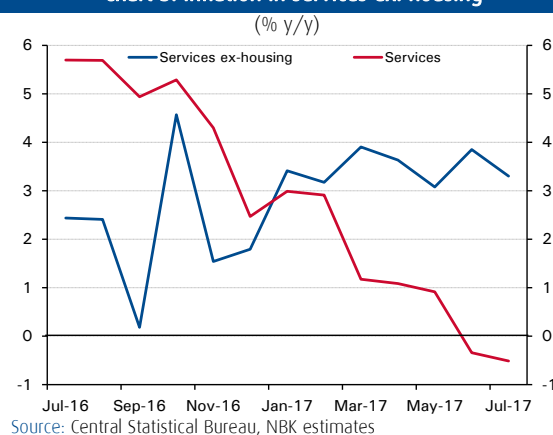
\* Updated once every quarter

\*\* Excludes food and beverages; estimated by NBK

**Chart 4: Inflation in other sectors**



**Chart 5: Inflation in services ex. housing**



**Chart 6: Inflation in transportation**



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