

Kuwait: Inflation eases in Q2, expected to remain soft on weak economic conditions

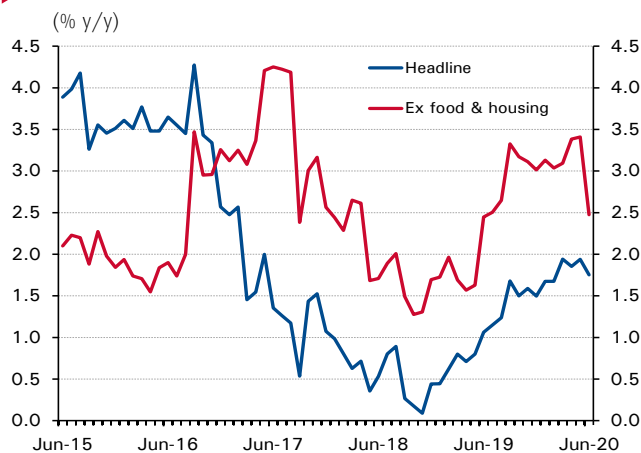
Highlights

- Inflation slowed to 1.8% in June, down from 1.9% in May and at the end of 1Q20.
- A slowdown in inflation in most core components more than offset a pick-up in food and housing costs.
- 'Core' inflation slowed to 2.5%, led by an ease in inflation in the transportation, leisure and hospitality segments.
- Headline inflation to remain subdued in the quarters ahead amid a weak economic climate.

Inflation eases in 2Q20

Consumer price inflation eased to 1.8% y/y in June from 1.9% in May (but ticked up slightly by 0.3% both m/m and q/q). (Chart 1.) The ease in inflation was led by a slowdown in inflation in most core components including transportation, leisure and hospitality, which more than offset a jump in food inflation and a pick-up in housing inflation. Indeed, 'core' inflation, which excludes both food and housing, slowed to 2.5% in June – an almost one-year low – from 3.4% in May and 3.1% at the end of 1Q20. It is again worth noting, however, that according to the Central Statistical Bureau (CSB), statistical sampling was difficult in June, given the Covid-19 pandemic-induced lockdown and business closures that were still in place, affecting the quality of the data.

▶ Chart 1: Consumer price inflation



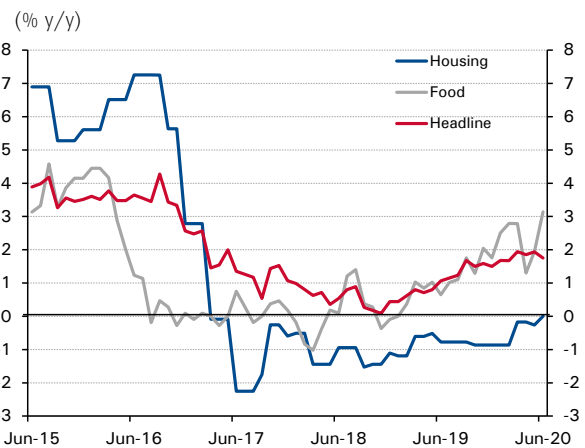
Source: Central Statistical Bureau / NBK

Food prices up, housing costs snap deflationary trend

Food price inflation jumped to 3.1% y/y in June – an over four-year high – from 1.9% y/y in May and 2.8% in March, led by

sharp cost increases in fresh produce, which resulted from shortages due to supply-side disruptions caused by the coronavirus pandemic. International food price inflation remained comparatively lower at the end of Q2, at 0.7% y/y, which suggests that the jump in local food price inflation was domestically driven and likely to be short-lived – with mobility restrictions easing in the coming quarters. (Chart 2.)

▶ Chart 2: Inflation in food and housing services



Source: Central Statistical Bureau

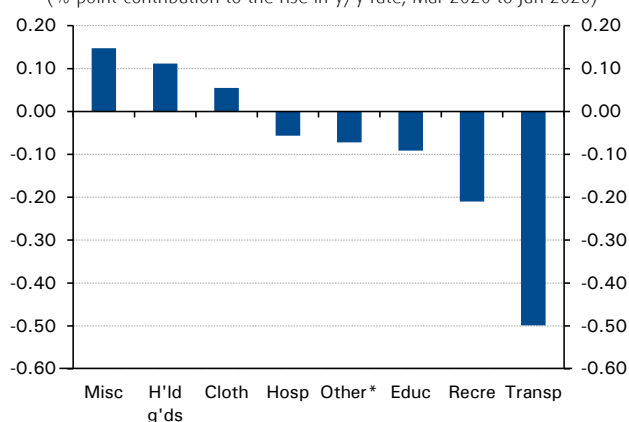
Meanwhile, housing costs appear to have snapped their deflationary trend after coming in flat in June. However, while the rate of decline in housing rents appears to have bottomed out after seeing years of weakness due to oversupply in the apartments, the segment is likely to face a fresh wave of declines in the quarters ahead on the back of weaker economic growth and a fall in housing demand as the number of expats potentially drop.

Inflation in core components loses momentum in 2Q20

Core inflation slowed in June, as most core components witnessed an ease in inflation, including transportation (down 3.3% pts q/q to 0.2% y/y) - led by a decline in air fares - recreation (down 2.7% pts q/q to 0.4% y/y) and hospitality (down 0.8% pts q/q to 0.5% y/y). The slowdown in these components was almost entirely driven by mobility restrictions and strict social distancing measures; it is therefore likely to gradually pick up in the medium term as these measures are eased. Consumer spending in Kuwait did indeed pick up in July on the back of pent-up demand.

Chart 3: Contribution to core inflation

(% point contribution to the rise in y/y rate, Mar 2020 to Jun 2020)



Source: Central Statistical Bureau / NBK *Other=cig&tob, health communications

Inflation to remain subdued in 2020 on weak economic conditions

We expect inflation to remain subdued in 2020, given the economic fallout from the pandemic. Notwithstanding the lingering effects of cost increases in foods and durables resulting from supply-chain disruptions, downside risks predominate in the outlook. This is especially in relation to the housing segment, where rents are under pressure due to departing expatriates, and in terms of weaker consumer demand and confidence more broadly due to the financial impact of the pandemic and the continuing uncertainty. That said, core inflation is likely to regain some of its momentum in the quarters ahead as restrictions on mobility and social-distancing measures are eased and as consumer spending recovers somewhat.

Table: Consumer price inflation

CPI component	% y/y annual average		%m/m			% y/y		
	2018	2019	Apr 2020	May 2020	June 2020	Apr 2020	May 2020	June 2020
Food & beverages	0.1	1.1	-1.6	1.3	1.3	1.3	1.9	3.1
Tobacco & cigarettes	11.5	3.7	1.9	0.1	0.0	3.1	3.3	3.3
Clothing & footwear	-0.5	1.3	0.7	0.3	0.5	3.5	3.4	3.2
Housing services	-1.1	-0.8	0.0	0.0	0.0	-0.2	-0.3	0.0
Furnishings & household maintenance	2.0	2.6	0.4	0.2	0.3	3.1	3.1	3.4
Healthcare	1.9	2.7	0.1	0.1	0.2	1.9	2.3	1.5
Transportation	1.3	3.4	0.0	0.0	0.2	3.6	3.7	0.2
Communication	3.7	5.1	0.3	0.0	0.4	5.4	4.1	3.3
Recreation & culture	4.1	2.8	0.2	0.1	-0.1	3.2	3.3	0.4
Education	1.4	2.7	0.0	0.0	0.0	2.8	2.8	1.7
Restaurants & hotels	1.7	0.7	0.0	0.0	0.0	1.3	1.3	0.5
Other goods & services	3.5	0.8	0.6	0.7	0.6	4.7	5.4	5.3
General index	0.6	1.1	-0.1	0.3	0.3	1.9	1.9	1.8
* ex food and housing	1.9	2.4	0.3	0.1	0.3	3.4	3.4	2.5

Source: Central Statistical Bureau

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