

Consumer price inflation

Kuwait: Inflation slowed to a multi-year low of 0.5% in September

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Consumer price inflation slipped to a multi-year low of 0.5% in September, as deflationary housing costs were compounded by the fading impact of last year's fuel price hikes. (Chart 1.) Inflation excluding housing rent and food costs, dipped from 4.2% y/y in August to 2.4% y/y in September, highlighting the impact of fuel price hikes imposed in September 2016. Meanwhile, there have been some upward inflationary pressures from retail goods and services excluding housing services.

The annual average inflation rate for 2017 is likely to ease to 1.5%, from the 3.5% annual average recorded in 2016. While there are some upward pressures from the retail goods segment and some services, these pressures are likely to be offset by continued softness in housing rent and food.

Housing inflation saw a slight uptick in 3Q17, likely on the back of hikes in electricity and water tariffs in the apartment sector. Costs in housing services – mostly comprised of housing rents and updated quarterly – remained in deflationary territory but fell at a slower pace of 1.8% y/y in 3Q17, versus the multi-year low of 2.3% recorded in the previous quarter. (Chart 2.) Indeed, on a quarterly basis, housing cost was up by 0.6%, its first rise in a year. However, housing inflation is still expected to remain fairly subdued in the forthcoming months, amid continued softness in housing rents.

Local food price inflation remained weak in tandem with softer inflation in global food prices. Inflation in local food prices came in flat in September as global food price inflation remained weak. (Chart 3.) According to the Commodity Research Bureau, inflation in international food prices slipped back into contraction. This weakness is likely to limit any significant increases in local food costs in at least the near-to-medium term.

Inflation in the retail sector saw some upward momentum in September, thanks to continued improvement in consumer demand and a weaker dinar. (Chart 4.) Inflation in the three major retail goods related components rose to or close to multi-month highs, thanks to healthier gains in consumer demand and a depreciation in the local currency. The weaker dollar has weighed on the dinar's trade-weighted index, which is currently down 3.3% year-to-date. Given that most retail goods are imported, the weaker currency has pushed up costs in the sector.

Inflation in services excluding housing services took a slight dip in September on the back of a downward correction in inflation in transportation costs. (Charts 5 and 6.) Despite the downward pressures from transportation prices, inflation in services excluding housing services remained supported by continued gains in inflation in the restaurants & hotels and the recreation & culture segments. Inflation in restaurants & hotels rose from 2.6% y/y in August to a multi-month high of 3.0% y/y in September, while inflation in recreation & culture accelerated from

Chart 1: Inflation in consumer prices

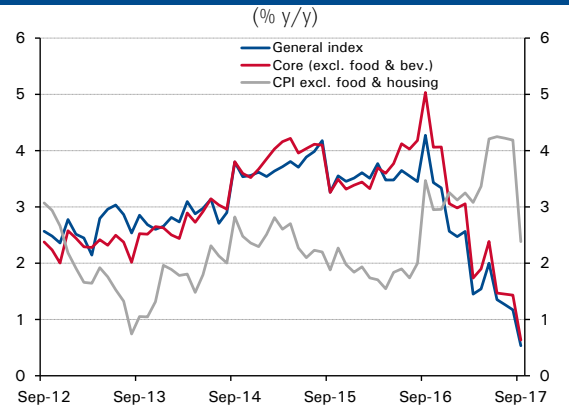


Chart 2: Inflation in housing services

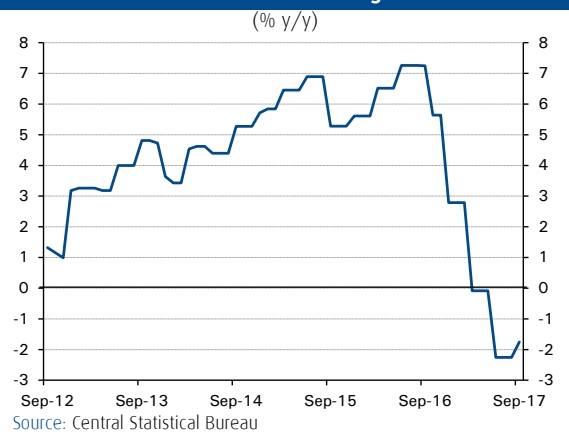
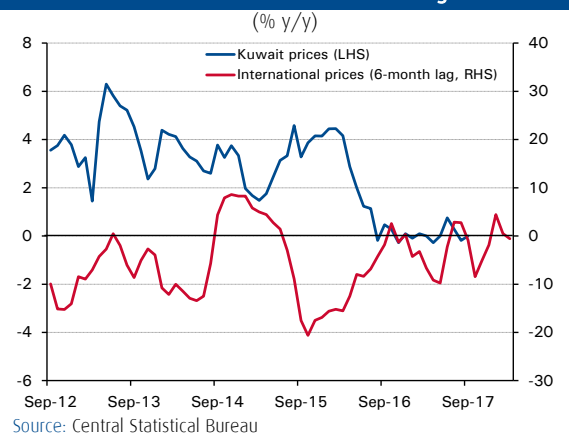


Chart 3: Inflation in food & beverages



4.2% y/y to a multi-year high of 5.4% y/y, during the same period.

Table: Consumer price inflation

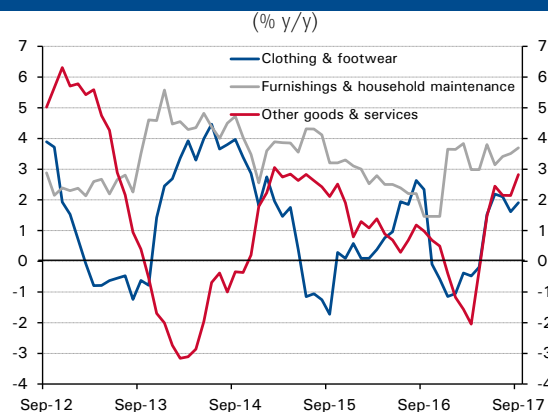
(% change)	Year-on-year		Annual average	
	Aug-17	Sep-17	2015	2016
Food & beverages	-0.2	0.0	3.0	1.7
Tobacco & cigarettes	2.1	2.1	5.6	0.3
Clothing & footwear	1.6	1.9	0.3	0.8
Housing services*	-2.3	-1.8	6.1	6.1
Furnishings & household maintenance	3.5	3.7	3.7	2.3
Healthcare	-0.7	0.4	1.7	1.2
Transportation	15.4	1.7	0.9	4.1
Communication	-1.3	-0.1	0.6	2.0
Recreation & culture	4.2	5.4	-0.3	-1.8
Education	3.6	1.9	4.8	3.6
Restaurants & hotels	2.6	3.0	6.3	6.9
Other goods & services	2.1	2.8	2.4	0.8
Core**	1.4	0.6	3.8	3.9
Durable goods	4.3	0.9	2.4	2.5
Semi-durable goods	1.4	1.8	1.4	1.1
Non-durable goods	2.5	3.6	0.0	0.4
Services	-0.4	-0.2	5.4	4.9
Services ex-housing	3.6	3.3	3.9	2.4
General index	1.2	0.5	3.7	3.5

Source: Central Statistical Bureau, NBK estimates

* Updated once every quarter

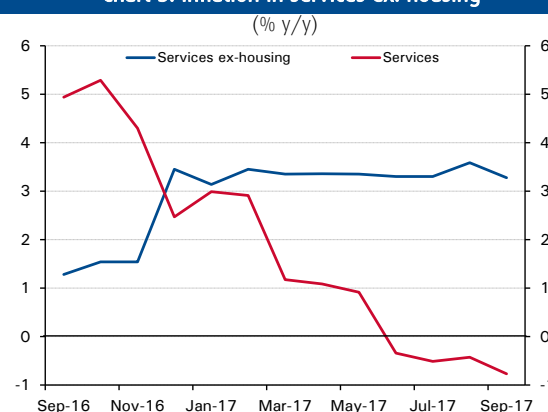
** Excludes food and beverages; estimated by NBK

Chart 4: Inflation in other sectors



Source: Central Statistical Bureau

Chart 5: Inflation in services ex. housing



Source: Central Statistical Bureau, NBK estimates

Chart 6: Inflation in transportation



Source: Central Statistical Bureau

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