

## Consumer price inflation

# Kuwait: Inflation revised down to 1.4% in June as rents see deflation

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**Revised CPI statistics reveal significantly lower inflation in recent months.** Inflation came in at 1.4% year-on-year (y/y) in June following a revamp of the CPI. Radically lower housing inflation was a large reason behind the drop, with the sector now seen in deflationary territory. Other sectors saw smaller revisions in their pace of inflation over the last few months. Inflation data for the three years through 2016 were revised upward, though only slightly. Inflation is now likely to average below 2% in 2017, down from 3.5% in 2016. From a policy perspective, these new figures render the inflation outlook more benign and leave additional room for flexibility on both the fiscal and monetary fronts.

**The revisions are part of a broader revamp of the consumer price index (CPI), which was also rebased to 2013 prices.** The revamp, which happens every few years, included some changes in the sectoral weights and the basket of products surveyed every month. The most notable change was a rise in the weight for housing services, which was increased by four percentage points to 33%. The weight for the education sector was also increased. Meanwhile, weights for food & beverages, clothing & footwear, and other segments were reduced.

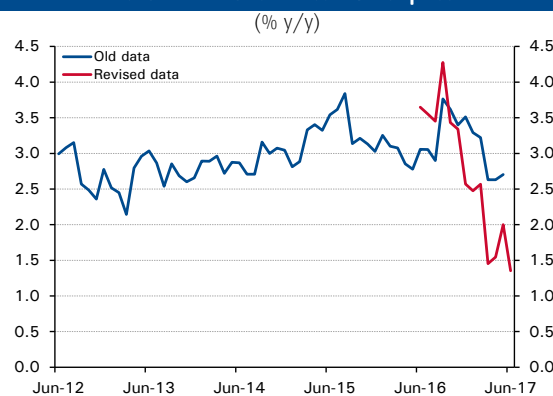
**Prices in housing services are now seen in deflation, having slowed notably over the past twelve months, according to the revised CPI data.** Housing inflation, which is dominated by growth in housing rents, slowed to -2.3% y/y in June (Chart 2). Before the latest revisions, the pace of inflation in this sector stood at 4.3% y/y for the most recent data in March 2017; this was revised to a small 0.1% y/y decline. Inflation in this sector is now seen to have slowed considerably from 7.3% y/y at its peak a year ago, in line with the softness that has been visible in the housing market generally over the last few years.

**Inflation in food prices ticked up following months of softness.** Local food prices were up 0.8% y/y in June, the most rapid increase in nearly a year (Chart 3). This comes at a time when international food prices remain in decline, though they have shown some signs of steadying. The Commodity Research Bureau foodstuffs index was down 1.9% y/y in June. The latest inflation figure may have been pushed up due to seasonal factors, particularly since June coincided with Ramadan this year.

**There was a noticeable upward revision in inflation in the transportation sector and a slight acceleration in June.** Transportation prices, which jumped when fuel prices were raised in September 2016, saw inflation accelerate to 16% y/y in June. However, there have been no further hikes in fuel rates. Inflation in the sector slowed to an annualized 7% in June.

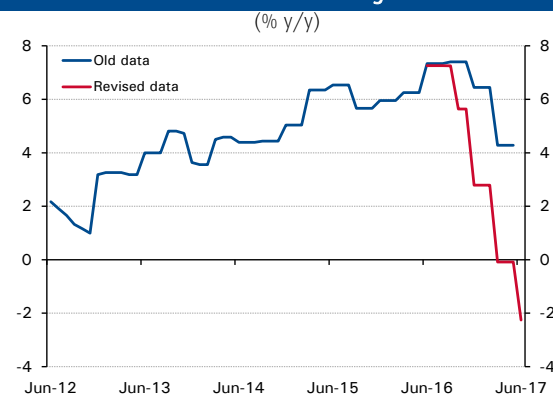
**Clothing & footwear and recreation services have also seen upward revisions and a rising trend in inflation in recent months.** Inflation in clothing & footwear rose to 2.2% y/y in June, after a period of deflation in late 2016 and early 2017. Prices during the last three months through June rose at an annualized pace of over 13%. A similar trend was also seen in the recreation sector, where inflation rose to 3.2% y/y and price

Chart 1: Inflation in consumer prices



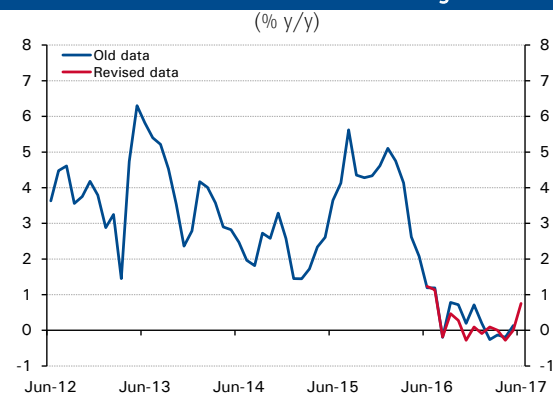
Source: Central Statistical Bureau

Chart 2: Inflation in housing services



Source: Central Statistical Bureau

Chart 3: Inflation in food &amp; beverages



Source: Central Statistical Bureau

growth topped an annualized 10% over the last three months through June.

**Inflation is expected to see some limited upward pressure in the coming months from hikes in utility tariffs.** The utility price hikes, which have hit commercial rentals and are scheduled to hit the “apartment buildings” sector in September, could push inflation up to around 2% in 2017. At this point, no further pressures are expected in 2018 especially with our expectations that the promised value-added tax (VAT) would likely not be implemented before 2019.

**Table: Consumer price inflation**

(% change)

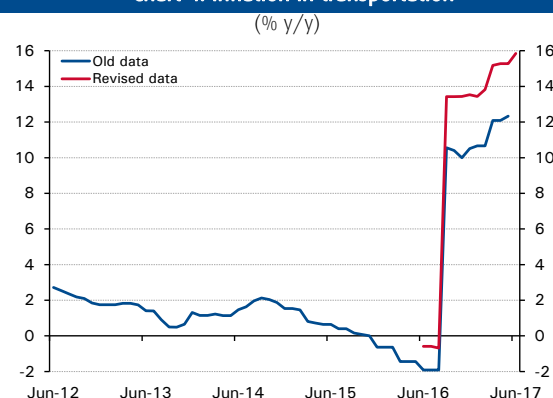
	Year-on-year		Annual average	
	May-17	Jun-17	2015	2016
Food & beverages	0.0	0.8	3.0	1.7
Tobacco & cigarettes	0.9	1.8	5.6	0.3
Clothing & footwear	1.5	2.2	0.3	0.8
Housing services <sup>*</sup>	-0.1	-2.3	6.1	6.1
Furnishings & household maintenance	3.8	3.1	3.7	2.3
Healthcare	-0.3	-0.4	1.7	1.2
Transportation	15.3	15.9	0.9	4.1
Communication	-1.5	-1.5	0.6	2.0
Recreation & culture	1.9	3.2	-0.3	-1.8
Education	3.4	3.6	4.8	3.6
Restaurants & hotels	4.5	2.6	6.3	6.9
Other goods & services	1.5	2.4	2.4	0.8
<b>Core**</b>	<b>2.4</b>	<b>1.5</b>	<b>3.8</b>	<b>3.9</b>
Durable goods	4.1	4.8	2.4	2.5
Semi-durable goods	1.7	2.0	1.4	1.1
Non-durable goods	2.3	2.7	0.0	0.4
Services	1.0	-0.5	5.4	4.9
Services ex-housing	3.5	3.3	3.9	2.4
<b>General index</b>	<b>2.0</b>	<b>1.4</b>	<b>3.7</b>	<b>3.5</b>

Source: Central Statistical Bureau, NBK estimates

<sup>\*</sup> Updated once every quarter

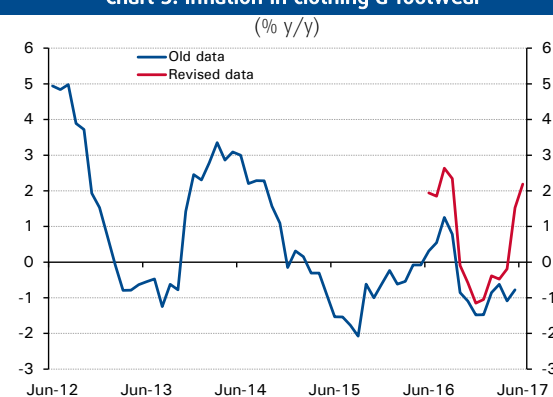
\*\* Excludes food and beverages; estimated by NBK

**Chart 4: Inflation in transportation**



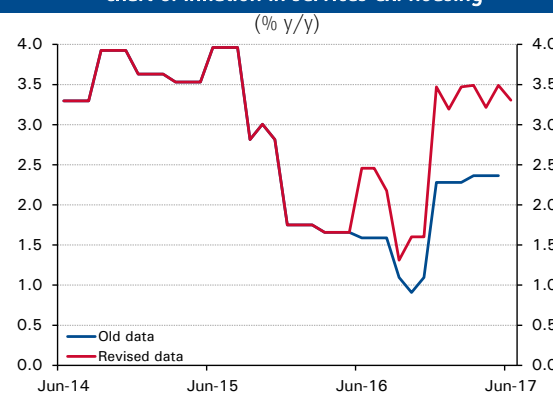
Source: Central Statistical Bureau

**Chart 5: Inflation in clothing & footwear**



Source: Central Statistical Bureau

**Chart 6: Inflation in services ex. housing**



Source: Central Statistical Bureau, NBK estimates

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