

Consumer price inflation

Kuwait: Inflation at 3.5% in June; upward price pressures appear to ease

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Inflation in consumer prices rose to 3.5% year-on-year (y/y) in June, though there were indications that pressures have eased in the last three months. Housing inflation continued to rise in June to 6.5% y/y, though pressure appears to be waning in Q2. Price pressures also came from food inflation, which increased for the fourth consecutive month on a y/y basis; however, continued weakness in international food prices suggests food inflation can be expected to ease in the coming months. The stronger dinar (against the yen and the euro) is also projected to limit any significant inflationary pressures. We see average annual inflation in 2015 staying near 3.5%, as core CPI (ex-food) also steadies near 3.5%.

Inflation in food prices has been the largest source of overall inflation in the last three months, but remains relatively subdued.

Food price inflation rose to 3.6% y/y in June, its most rapid pace in over a year. Stronger demand attributed to the Holy Month of Ramadan may have played a factor in pushing prices higher. Still, this trend is not expected to be maintained in the coming months, especially with international food prices declining and with the strong dinar. Indeed, international commodity food prices are down by over 15% y/y according to the Commodity Research Bureau. At the same time, the dinar's trade-weighted exchange rate rose by around 4%.

Housing rent inflation remained a key source of inflation, though its contribution has diminished in Q2. While rent inflation rose to its highest pace in over six years in June to 6.5% y/y, upward price pressures in the last three months have diminished significantly. Prices rose by an annualized 3.2% during the three months through June, the slowest pace in nearly a year. The sector may be benefiting from a healthy cooling off in the real estate market following a strong 2014.

Other sources of inflation over the last three months included furnishings & household maintenance as well as restaurants & hotels. Inflation in furnishings & household maintenance edged up in June to 4.2% y/y after a few months of easing. Meanwhile, price inflation in the restaurants & hotels sector continued to accelerate, rising to a new multi-year high of 6.9% y/y. This comes two years after the sector had seen a period of stagnating prices.

There was virtually no inflation coming from the recreation & culture and clothing & footwear sectors in the last three months. In fact, prices have been falling slightly in both sectors. Prices in recreation & culture have declined by 0.5% y/y while prices of clothing & footwear are down by 1.5% y/y.

We can expect inflationary pressures to continue to moderate in the coming months with international food prices dropping and a cooling real estate market limiting growth in housing rents. Indeed, annualized price growth during the three months through June declined to 2.6% for the general CPI index, the slowest pace since August 2014. A stronger dinar will also help keep price inflation in check in the coming months. We expect CPI inflation will average 3.5% this year.

Chart 1: Consumer price inflation

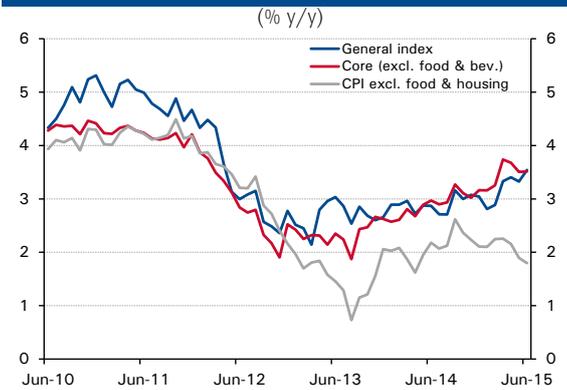


Chart 2: Inflation in food prices

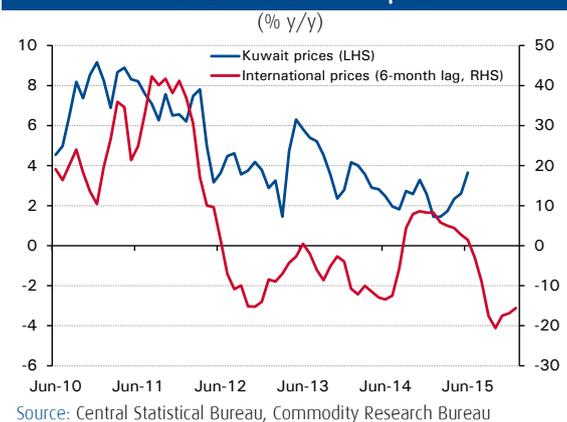


Chart 3: Inflation in housing services

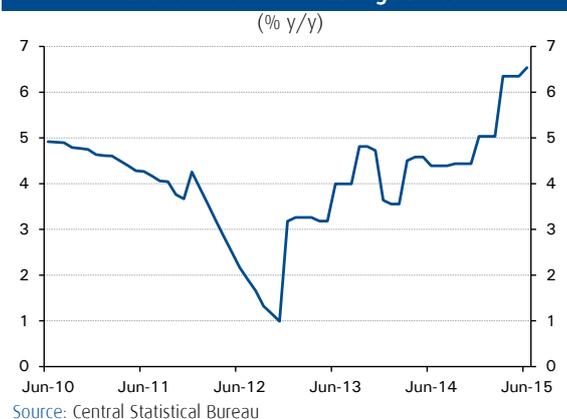
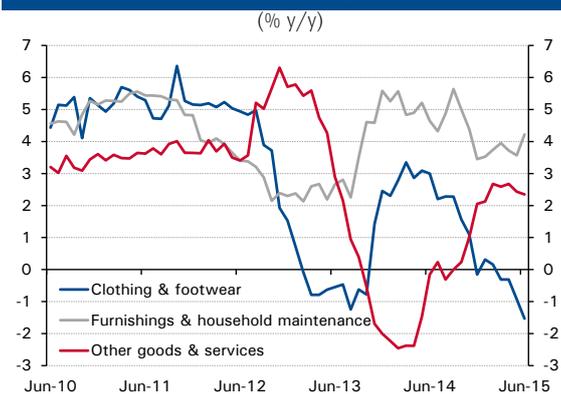


Table 1: Consumer price inflation

CPI basket (%)	Month-on-month		Year-on-year		Annual average	
	May-15	Jun-15	May-15	Jun-15	2013	2014
Food & beverages	0.3	0.7	2.6	3.6	4.0	2.9
Tobacco & cigarettes	0.1	0.1	12.1	6.0	7.1	7.8
Clothing & footwear	0.0	-0.4	-0.9	-1.5	-0.1	2.2
Housing services	0.0	0.8	6.3	6.5	3.8	4.4
Furnishings & household	0.0	0.7	3.6	4.2	3.2	4.8
Healthcare	0.1	0.1	2.0	2.1	1.2	-0.6
Transportation	0.0	0.2	0.6	0.6	1.3	1.5
Communication	0.0	0.0	0.3	0.3	0.0	-0.8
Recreation & culture	-0.5	-0.2	-0.3	-0.5	1.9	0.9
Education	0.0	0.0	5.2	4.4	0.8	4.7
Restaurants & hotels	0.0	2.0	5.1	6.9	0.5	3.1
Other goods & services	0.1	0.2	2.4	2.3	2.3	-0.7
Core*	0.0	0.4	3.5	3.5	2.3	2.9
General index	0.1	0.4	3.3	3.5	2.7	2.9

Source: Central Statistical Bureau

* Excludes food and beverages

Chart 4: Inflation in other sectors


Source: Central Statistical Bureau

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