

Consumer price inflation

Kuwait: Inflation stable at 3.5% in December; averaged 3.2% in 2016

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Inflation in consumer prices held steady in December as downward pressures from housing and food inflation offset inflationary gains in other components. Headline inflation came in at 3.5% year-on-year (y/y) in December, compared to the 3.4% reading in November, as inflationary pressures from the furnishings, transportation and restaurants segments were offset by the ongoing weakness in food inflation and a slowdown in housing inflation (Chart 1). Core inflation, which excludes food prices, steadied at a multi-year high of 4.2% y/y.

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The inflation rate also stabilized for the year in 2016 relative to the previous year after averaging 3.2%. Price growth held mostly steady around the 3% mark for most of 2016, with the exception of the final four months of the year; those months saw average inflation rise to 3.6% y/y thanks to the fuel price hike implemented at the start of September. Apart from higher fuel prices, inflation during that period remained relatively steady at around 3%, as inflation across most other components was mostly unchanged. Indeed, the higher fuel prices appeared to be largely offset by downward price pressures in housing, food and other imported goods.

In 2017, inflation is projected to face renewed upward pressures, as the government introduces higher electricity and water tariffs from May 2017. Upward pressures from the increase in utility prices, particularly during the second half of 2017, are expected to push average annual inflation to around 3.8-4.0% this year.

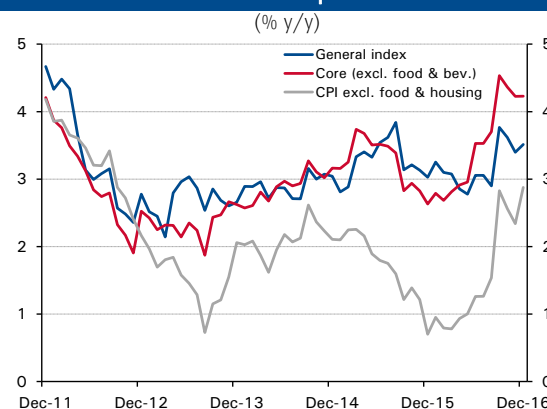
Inflation in local food prices remained subdued in December, coming in at a mere 0.7% y/y (Chart 2). Price growth in this segment decelerated during most of 2016 as it continued to be weighed down by declining global food prices. Local food inflation averaged 1.9% y/y in 2016, comparatively lower than the 3.4% y/y rate recorded in the preceding year. However, we may see inflation in this segment gain momentum in the near-to-medium term on the back of gains in global food price inflation. According to the Commodity Research Bureau, international prices of commodity foods remained in deflationary territory in December, but declined at a significantly lower pace of 2.3% y/y.

After trending upwards for almost a year, inflation in housing services eased in December, in tandem with some softness in the real estate market. Inflation in the housing component, which is mostly comprised of housing rents and is updated quarterly, eased from 7.4% y/y in 3Q16 to 6.4% y/y in 4Q16 (Chart 3). However, the 4Q16 increase remained surprisingly strong at 2.8% quarter-on-quarter (q/q). We expect the momentum in this segment to see some further easing in the near term on a year-on-year basis before gathering some pace in the second half of 2017 on the back of utility hikes starting in September 2017.

Inflation in the retail sector witnessed a mixed picture in December.

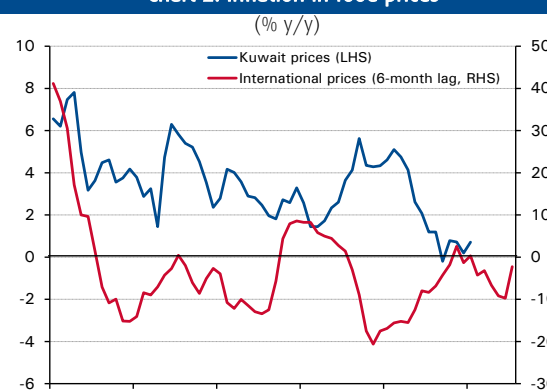
Whilst inflation in clothing & footwear and the other goods & services segments continued to face downward pressures, due to both softer consumer demand and a stronger dinar, inflation in the furnishings &

Chart 1: Consumer price inflation



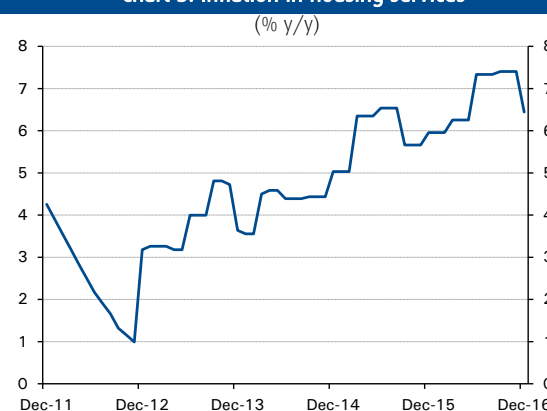
Source: Central Statistical Bureau, NBK estimates

Chart 2: Inflation in food prices



Source: Central Statistical Bureau, Commodity Research Bureau

Chart 3: Inflation in housing services



Source: Central Statistical Bureau

household maintenance segment surged in December (Chart 4). After trending lower for almost three years, inflation in the furnishings & household segment jumped from 2.1% y/y in November to 4.0% y/y in December following hikes in household maintenance fees. The rise in inflation in this segment was also reflected in accelerating inflation in services excluding housing.

While inflation in services ticked lower in December on the back of an ease in housing inflation, inflation in services excluding housing jumped on higher fees in the household maintenance segment. (Chart 6).

Inflation in services (which is mostly comprised of housing services) came in at a multi-month low of 4.8% y/y in December. After trending lower for the bulk of 2015 and 2016, inflation in services excluding housing rose from 1.1% y/y in November to 2.3% y/y in December, mainly due to higher household maintenance costs as well as further inflationary gains in the restaurants & hotels component (which was in part driven by the higher household maintenance fees).

Inflation in the transportation sector continues to hold steady. After surging to around 10% y/y in September, inflation in this segment has so far remained steady around that mark. The surge stemmed from the 50-60% hike in fuel prices that month which pushed transport service costs higher. We may see some upward pressures in this segment in the short to medium-term as transport services readjust their prices to factor in the fuel price increases. But any further upward pressures are likely to be offset or at least partly offset by the ongoing decline in car prices, which weigh more heavily on the transportation index. Car prices fell at a higher pace of 2.6% y/y in December compared to the previous month.

Wholesale price inflation continued to be led higher in 4Q16 by stronger upward pressures from all its components, in particular manufacturing (oil related) (Chart 7). Wholesale price inflation rose from 2.8% y/y in 3Q16 to 3.8% y/y in 4Q16 mainly due to inflationary gains in the manufacturing and mining & quarrying components, following the fuel price hike in September. Price growth in the manufacturing component (which is primarily oil related) accelerated from 3.1% y/y in 3Q16 to 4.0% y/y in 4Q16, mainly due to stronger local manufacturing inflation, which jumped from 4.6% y/y to an over one-year high of 6.5% y/y during the same period.

Inflation in the wholesale price index may continue to face some upward pressures from the manufacturing sector in the near-to-medium term. However, the continued weakness in price growth in the agriculture, livestock & fishing sector may continue to help limit some of those inflationary gains. This in turn should help keep inflation in consumer prices in check.

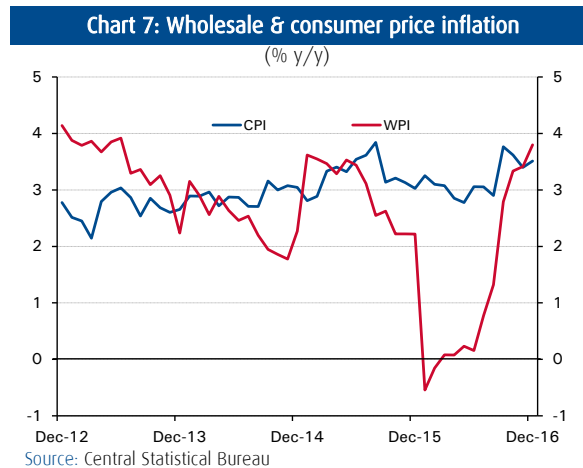
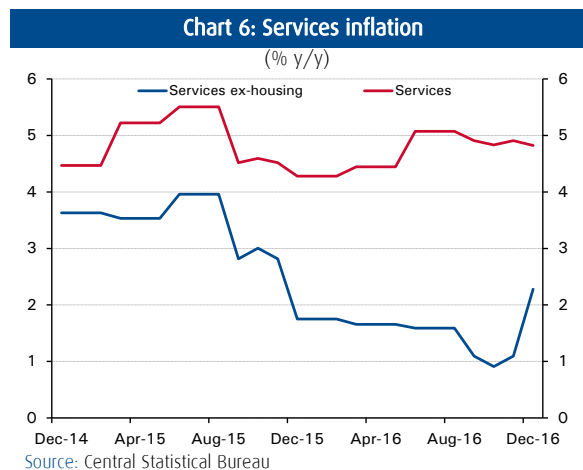
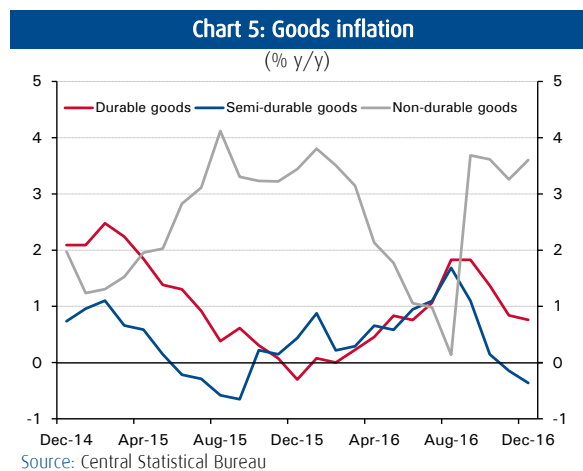
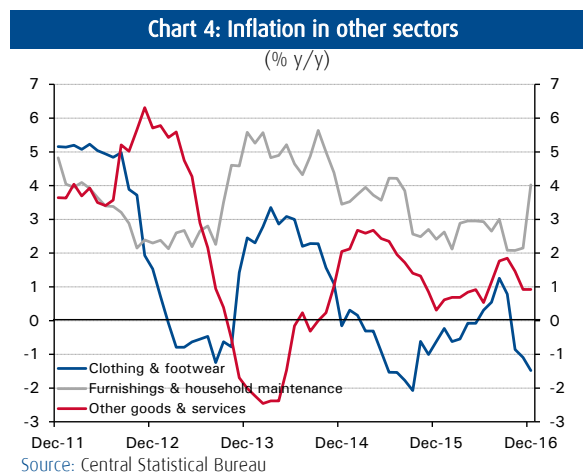


Table: Consumer price inflation

(% change)	Year-on-year		Annual average	
	Nov-16	Dec-16	2015	2016
Food & beverages	0.2	0.7	3.4	1.9
Tobacco & cigarettes	0.2	0.1	6.0	0.7
Clothing & footwear	-1.1	-1.5	-0.9	-0.2
Housing services [*]	7.4	6.4	6.0	6.8
Furnishings & household maintenance	2.1	4.0	3.4	2.7
Healthcare	1.9	1.9	1.7	1.7
Transportation	10.0	10.5	0.5	2.5
Communication	0.2	0.1	0.4	0.5
Recreation & culture	0.2	0.3	-0.2	-0.1
Education	2.7	1.2	4.4	3.1
Restaurants & hotels	2.9	3.4	5.7	3.1
Other goods & services	0.9	0.9	1.9	1.0
Core^{**}	4.2	4.2	3.2	3.5
Durable goods	0.8	0.8	1.1	0.8
Semi-durable goods	-0.1	-0.4	0.2	0.6
Non-durable goods	3.3	3.6	2.6	2.6
Services	4.9	4.8	4.9	4.7
Services ex-housing	1.1	2.3	3.3	1.6
General index	3.4	3.5	3.3	3.2

Source: Central Statistical Bureau, NBK estimates

^{*} Updated once every quarter

^{**} Excludes food and beverages; estimated by NBK

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