Inflation jumps in wake of fuel price hike

NBK ECONOMIC UPDATE

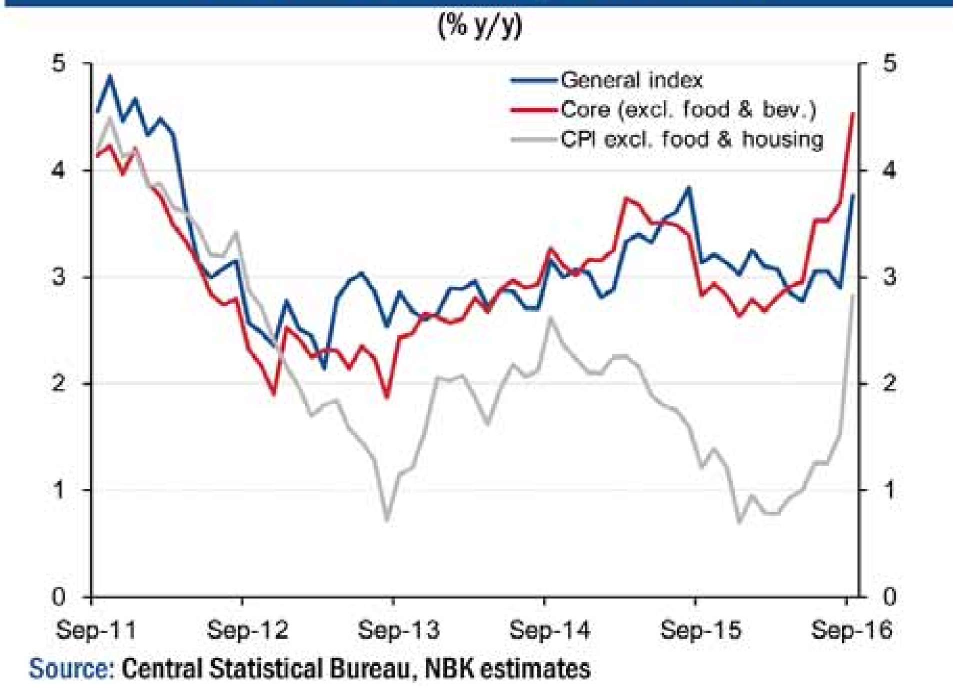
KUWAIT: Inflation in consumer prices jumped in September on the back of the fuel price hike during the month. Headline inflation rose to 3.8 percent year-on-year (y/y) from 2.9 percent in August. Excluding the increase in fuel prices, the rate of inflation remained relatively steady at around 3.0 percent y/y. For the month CPI jumped 1 percent, it would have been flat to down without the rise in fuel prices. Food inflation continued to be soft thanks to declining international food prices. Inflation in housing services, mostly housing rents, stabilized in September after trending upwards for almost a year, in tandem with weakness in the real estate market. We expect headline inflation to log in an annual average inflation rate of 3.4 percent in 2016, just marginally higher than the 3.3 percent reading in 2015.

Inflation in local food prices remained weak in September as global food prices declined further, coming in at a mere 0.8 percent y/y during the month. According to the Commodity Research Bureau, international prices of commodity foods fell for the third straight month in September, declining by 6.7 percent y/y. Inflation in non-durable goods witnessed a spike in September on the back of the hike in fuel prices. The segment had been trending lower since the beginning of 2016 in-line with softer food price growth. We expect non-durable goods inflation to subside once again as the effect of the one-off hike on fuel costs fades.

Inflation in housing services saw its weakest month-on-month increase in over three years in 3Q16, amid a cooling real estate market. After trending upwards for almost a year, housing inflation, which is comprised primarily of housing rents and is updated quarterly, steadied, at a still high, 7.4 percent y/y in September. However, the monthly (and quarterly) increase was up by a mere 0.1 percent, reflecting a softer housing market. We expect the momentum in housing inflation to continue to ease in the near-to-medium term.

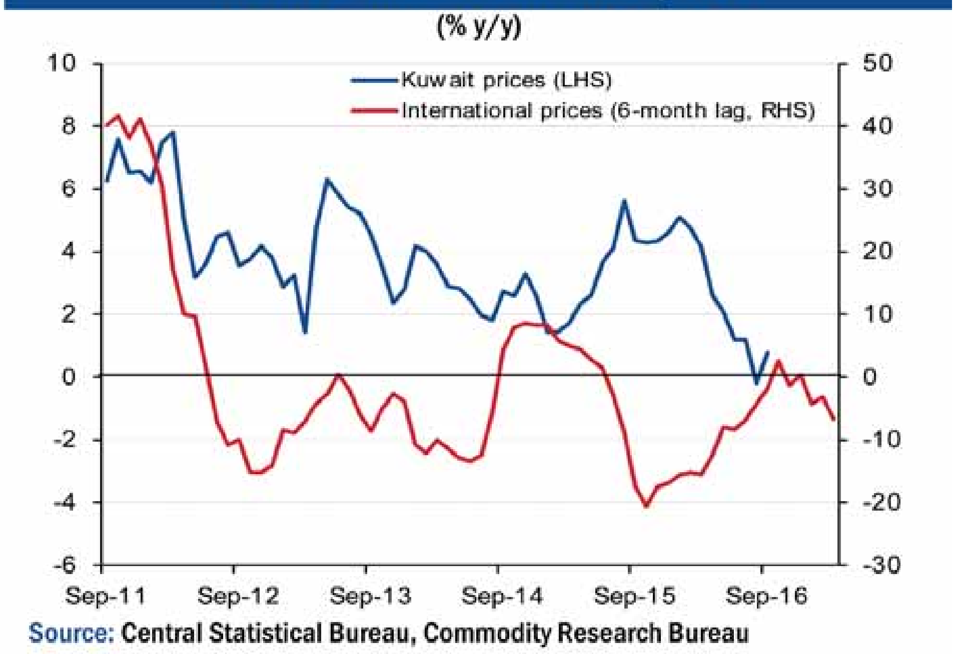
Inflation in both furnishings & household maintenance and clothing & footwear slowed in September. Inflation in the furnishings & household segment eased from 3.0 percent y/y in August to 2.1 percent y/y in September. Clothing & footwear inflation slowed from 1.3 percent y/y to 0.8 percent y/y during the same period as the upward pressures stemming from the summer holiday season and preparations for the new academic year subsided.

Chart 1: Consumer price inflation



Source: Central Statistical Bureau, NBK estimates

Chart 2: Inflation in food prices



Source: Central Statistical Bureau, Commodity Research Bureau

Inflation in the 'other goods & services' category stabilized in September. Inflation in this segment, which is mostly comprised of imported goods, such as personal care products and jewelry, steadied at 1.8 percent y/y in September, perhaps on the back of stabilization in gold prices during the same month. Inflation in the transportation sector surged in September both due to direct and spillover effects of the fuel price hike during the same month.

After slowing since at least 2009 due to softer growth in both car prices and airfares, inflation in transportation costs rebounded, jumping to 10.6 percent y/y from a decline of 1.9 percent y/y in August. The jump came on the back of a 52 percent y/y surge in fuel & lubricant prices, which in turn pushed the costs of transport services (taxi fares in particular) and operation of personal transport equipment higher. We may continue to see some upward inflationary pressures in this segment in the short to medium-term as we see more transport services readjust their prices to reflect the fuel price increases.

Wholesale price inflation accelerated in the third quarter of 2016 after inflation in both the mining & quarrying and manufacturing (oil related) sectors gathered momentum. Wholesale price inflation accelerated from 1.3 percent y/y in 2Q16 to 2.8 percent y/y in 3Q16, as inflation in the mining & quarrying and manufacturing segments gained traction following the fuel price hike. Price growth in the manufacturing segment (primarily oil related) rose from 1.4 percent y/y in 2Q16 to 3.1 percent y/y in 3Q16, mostly due to higher inflation in the local manufacturing sector, which rebounded and jumped to 4.6 percent y/y during the same period.

Inflation in the wholesale price index may continue to see some upward pressures from the manufacturing sector in the near to medium-term. However, the ongoing weakness in the agriculture, livestock & fishing prices may help cap some of that upward inflationary pressure. This could help keep any significant inflationary gains in the consumer price index at bay over the medium term.

Bigger 2017 oil surplus as output jumps

LONDON: OPEC reported an increase in its oil production in October to a record high led by members hoping to be exempt from the producer group's attempt to curb supply, weighing on prices and pointing to a larger global surplus next year. The Organization of the Petroleum Exporting Countries pumped 33.64 million barrels per day (bpd) last month, according to figures OPEC collects from secondary sources, up 240,000 bpd from September, OPEC said in a monthly report.

The OPEC figures point to a bigger surplus than those of the International Energy Agency and underline OPEC's challenge in restraining supplies. Oil fell below $45 a barrel after the report was released, having reached a 2016 high near $54 after OPEC's deal was announced in September. OPEC made little mention of the surprise election of Donald Trump as the next US president, beyond noting that currency markets had seen "significant" volatility. It left unchanged its 2017 forecasts for US and world economic growth.

"More data over the coming months will provide further insight to allow a more detailed review of the US economic situation, particularly after the most recent elections," OPEC said in the report. To speed up a rebalancing of the market, OPEC agreed at a meeting in Algeria on Sept 28 to cut supply to between 32.50 million bpd and 33.0 million bpd. The group hopes to finalise further details at a meeting on Nov. 30.

The latest figures could complicate OPEC talks on how to share out the cuts. OPEC experts meet to discuss this on Nov 25 and on Nov 28 will meet officials from non-OPEC countries, OPEC Secretary General Mohammed Barkindo said on Monday. According to OPEC's report, October's supply boost mostly came from Libya, Nigeria and Iraq - members that have sought to be exempt from cuts due to conflict. Iran, seeking an exemption as output was held back by Western sanctions, also pumped more.

OPEC uses two sets of figures to monitor its output - figures provided by each country, and secondary sources which include industry media. This is a legacy of old disputes over how much countries were really pumping. Iran told OPEC it produced 3.92 million bpd in October, while the secondary sources put output at 3.69 million bpd. From Iran's point of view, joining the OPEC supply cut deal from the higher figure would be more favourable.

OPEC issued a revised report on Friday to add Iraq's figure. Baghdad, which has questioned the accuracy of the secondary-source numbers, told OPEC its October output was steady at 4.77 million bpd - 210,000 million bpd more than the secondary sources estimate. That aside, OPEC's report is the latest to show output is hitting new peaks. The October figure is the highest since at least 2008, according to a Reuters review of past OPEC reports.

In the report, OPEC trimmed its forecast of non-OPEC supply this year, although supply growth in 2017 is put at 230,000 bpd, little changed from last month. With demand for OPEC crude in 2017 expected to average 32.69 million bpd, the report indicates there will now be an average surplus of 950,000 bpd if OPEC keeps output steady. Last month's report pointed to an 800,000 bpd surplus. The 2017 surplus implied by the IEA in its latest report on Thursday is closer to 500,000 bpd. — Reuters