

GCC Inflation Update

May-2024

GCC inflation trajectory continues to trend downwards in Q1-2024...

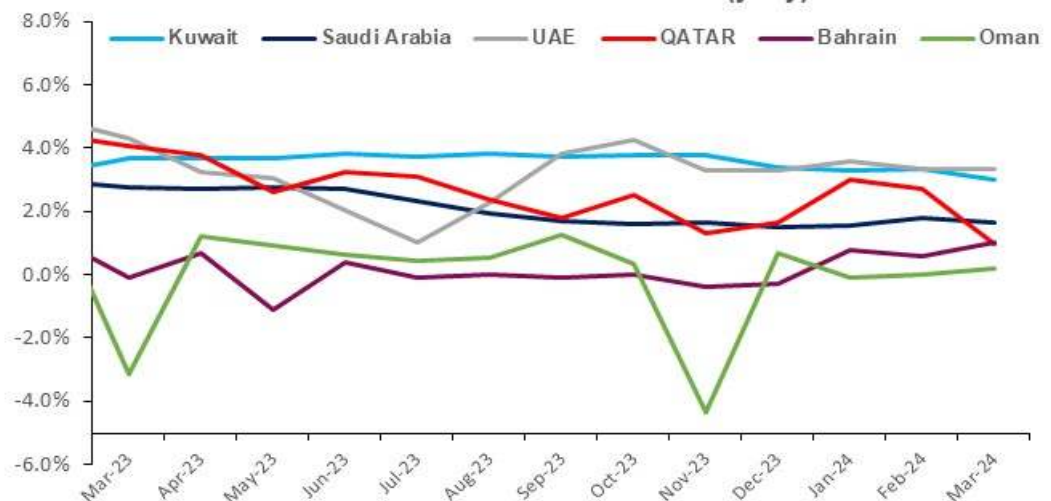
Inflation in the GCC countries stayed subdued during the first quarter of 2024 as global inflationary pressures fluctuated during the period because of the impact of the opposing forces of resilient global economy and ongoing geopolitical tensions. Falling inflation coupled with recovering global economy has allowed central banks around the world to halt rate increases.

Moreover, as globally coordinated monetary tightening measures appear to have ended, expectations of rate cuts rose during the early months of the year. So far, these expected rate cuts have not materialized due to lack of further progress on inflation. On the contrary, US inflation increased more than expected in March-2024 (3.5% y-o-y) mainly due to price increases in petrol and housing costs, dampening hopes of interest rates cut from the Federal Reserve. The US Fed decided against the widely expected rate cuts keeping its benchmark short-term borrowing rate the same (5.25% - 5.5%). On the other hand, according to Euro Monitor International, a strong US Dollar is worsening economic conditions exacerbating inflationary pressures in some emerging and developing countries. For many raw material importing countries, the strong US Dollar is pushing import costs higher, increasing overall cost of goods and services as well as becoming a drag on economic growth.

Moreover, global inflationary pressures are facing renewed upward pressures due to the continuing and worsening geopolitical tensions such as the Russia-Ukraine conflict and the war on Gaza. The ongoing geopolitical tensions in the Middle East, including the disruption of global shipping lines in the Red Sea, represent a key upside risk to global and regional inflation as well as a downward drag to global economic growth. One key impact that the Red Sea disruption might have on regional and global inflation is that delayed oil shipments may lead to elevated oil prices due to tighter global supply. Moreover, the increase in oil prices during the last two months of this year has added to the risk of new growth of consumer prices which might drive growth in global and regional inflation as higher energy prices would drive higher prices for other key commodities.

Among the six GCC countries, Oman reported the lowest average y-o-y growth in inflation during March-2024 at 0.2% as compared to -3.1% growth in March-2023. Comparatively, Dubai witnessed the largest inflation increase in the GCC during March-2024 reporting a growth of +3.3% y-o-y surge during the month as compared to +4.3% in March-2023. Kuwait reported 3.0% inflation growth during March-2024 while the remaining three countries of the GCC reported monthly inflation growth of less than 2% during the month (Saudi Arabia at +1.7%, Bahrain at 1.0% and Qatar at 1.1%).

GCC Countries Inflation Trend (y-o-y)



Sources : Bloomberg, Kamco Invest Research, IMF

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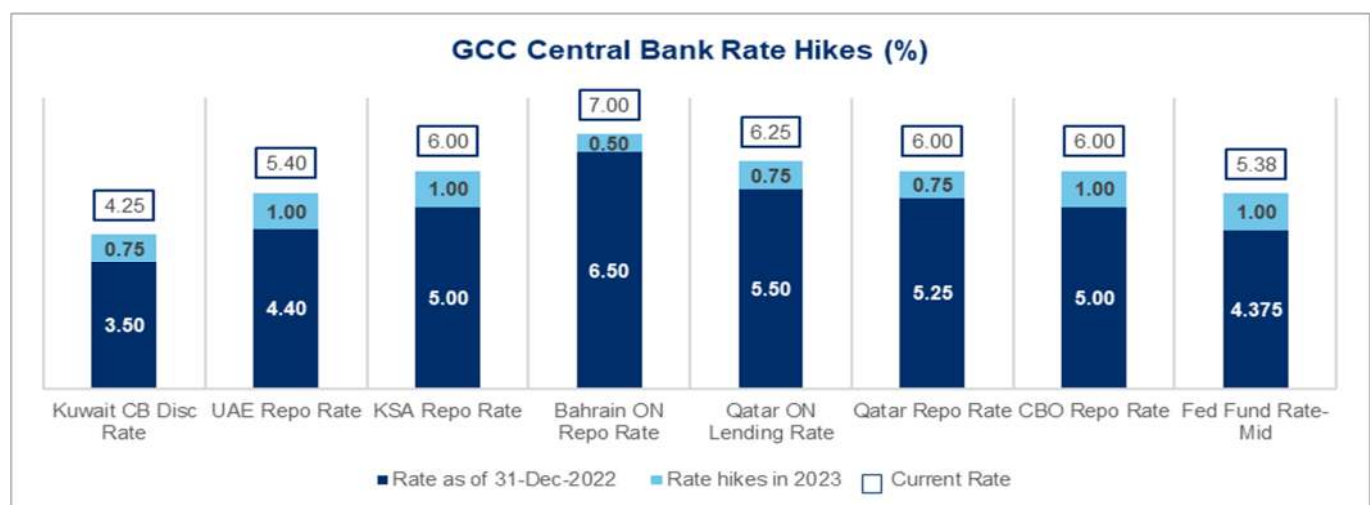
On the MENA front, the IMF expects inflation in the MENA region to stay unchanged at 11.2% in 2024 (vs 11.2% actual in 2023) and drop to 8.6% by 2025. Similarly, the IMF forecasts inflation in the GCC region to stay the same at 2.2% in 2023 and 2024 before recording a marginal decline to 2.1% in 2025.

Global Food Prices

The Food Price Index (FAO) witnessed a marginal growth of 0.3% m-o-m in April-2024 to reach 119.1 points as compared to its revised March-2024 level. Growth in the price index of meat and marginal increases in the price indices of vegetable oil and cereals offset declines in the indices of sugar and dairy products. The FAO Meat Price Index edged up 1.6% m-o-m in April-2024 to average 116.3 points. The FAO Meat Price Index recorded its third consecutive monthly growth driven by regular import purchases from the MENA countries coupled with ongoing challenges of production due to avian influenza outbreaks in some meat exporting countries like the US. Recently, Colombia became the first country that restricted US beef imports due to bird flu in dairy cattle. Comparatively, the FAO Cereal Price Index averaged 111.2 points during April-2024 recording 0.3% m-o-m growth from March-2024 but 18.3% y-o-y decline from its April-2023 mark. The FAO Cereal Price Index recorded three consecutive monthly declines during 2024. However, according to (FAO) average global wheat export prices normalized during April-2024 stabilized by an upward price pressure from concerns of unfavorable crop conditions that are expected to impact on 2024 harvests in parts of the EU, Russia, and the US. Comparatively, prices of Maize exports witnessed growth during April-2024 driven by growing import demand because of logistical disruptions and infrastructure damages in Ukraine and drop in production forecast for Brazil.

GCC Rate Hikes and Inflation

The expectation that global benchmark rates were to be revised did not materialize due to inflation's slower pace of decline. The US Federal Reserve has held benchmark rates at a 23-year high due to persistent inflation and stubborn cost of living increases. The Fed underlined that Inflation has eased substantially over the past year despite a strong US labor market but is still too high to warrant rate cuts in the near future.



Sources : Bloomberg, Kamco Invest Research

The US inflation rate increased by 3.5% in March-2024 as compared to 3.2% in February-2024. Economists are now expecting only one or two rate cut this year, according to apnews.com. Comparatively, the European Central Bank is expected to execute its first rate cut in June-2024 after keeping benchmark rates unchanged for the fifth time in a row in April-2024. Inflation in the Euro area recorded 2.4% growth y-o-y during April-2024, unchanged from March-2024.

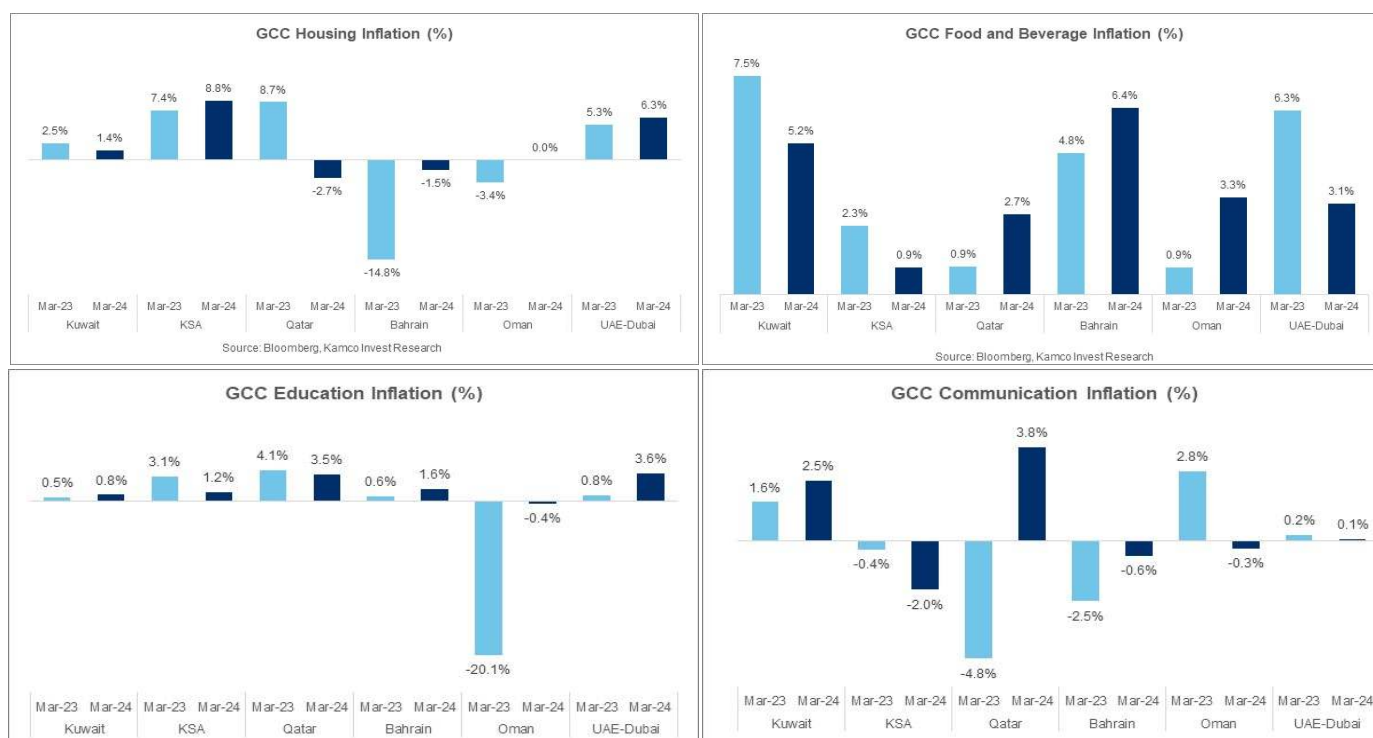
The GCC central banks which have their currencies pegged to the Dollar except for Kuwait (which has its currency pegged to a basket of currencies including the Dollar), have also kept their respective interest rates unchanged, keeping in line with the Fed rate decisions during this period. GCC central banks kept interest rates steady for the sixth time after the US Fed kept its benchmark rate unchanged in May-2024.

Kuwait

The Kuwaiti Consumer Price Index's latest inflation reading for March-2024 showed a y-o-y increase of 3.0% according to official government data. The increase was mainly led by a 6.4% growth in the Clothing & Footwear index followed by the Food & Beverages price index which registered 5.2% y-o-y growth.

In terms of m-o-m performance, Kuwait's (CPI) recorded a 0.4% m-o-m growth during March-2024 due to mixed movement of price increases in some major groups partially balanced by price decreases in other major groups.

Inflation in the Housing Services group, the largest weighted group, witnessed a y-o-y increase of 1.4% in March-2024 as compared to 2.5% in March-2023. Kuwait's Education group prices were stable and only recorded a marginal uptick of 0.8% y-o-y during March-2024. Similarly, prices in the Transport Index, which has an index weight of 7.5%, registered 0.9% y-o-y growth due to the rise in prices of transport services. The index for Furnishing Equipment Household, which has an index weight of 11.4%, recorded 3.9% y-o-y growth in March-2024 driven by an increase in prices of furniture, upholstery, carpets and other floor and home textiles. In terms of monthly price movements, prices of the Foods and Beverage group recorded an uptick of 0.9% due to an increase in prices of cereals, bread, meat, and poultry as well as fish and seafood. Similarly, prices of the Health group witnessed a 1.0% m-o-m growth during March-2024 because of an increase in prices of outpatient services as well as general hospital services.



Sources : Bloomberg, Kamco Invest Research

Saudi Arabia

The average annual Consumer Price Index in Saudi Arabia recorded 1.6% growth in March-2024 as compared to March-2023. The CPI uptick was mainly driven by an 8.8% growth in prices in the Housing, Water, Electricity, and Other Fuels groups, and 0.9% increase in prices of Food and Beverages group. On the other hand, prices of the Transportation Index declined by 1.8% during March-2024 while prices of Personal Goods and Services fell by 1.1 during the similar period.

Saudi Arabia's rental prices growth was the main driver of inflation in March-2024 as compared to March-2023. In context, actual housing rents in the Kingdom increased by 10.5% in March-2024 mainly driven by the growth in villa rents by 9.7%. The uptick in housing and villa rent had a significant impact on the annual inflation rate for March-2024 mainly due to the significant (21%) weight of the group. Similarly, prices of the Recreation and Culture recorded 0.7% increase during March-2024 as a result of 5.1% rise in holiday tourism prices. Moreover, the Education Index increased by 1.2% during March-2024 due to a 4.3% growth in the Kingdom's secondary education fees. In terms of y-o-y decliners during March-2024, prices in the Furnishing and Home Equipment sector declined by 3.2%, due to a 5.3% decline in furniture, carpet, and flooring prices. Similarly, prices in the Clothing and Footwear Index decreased by 4.0%, influenced by a 6.6% drop in ready-made clothing prices. Transportation prices also decreased by 1.8%, affected by a 3.0% decrease in vehicle purchase prices.

In terms of m-o-m inflation performance, the Kingdom's Consumer Price Index registered a slight decline of 0.1% compared to February-2024. The monthly marginal inflation decline was driven by a 0.7% decline in the Food and Beverages Group as a result of a 0.6% decrease in meat and poultry prices.

UAE

The Dubai Consumer Price index recorded a 3.3% y-o-y growth in March-2024 as compared to 3.4% y-o-y growth in February-2024. Dubai's CPI drop was attributed to lower prices in specific subgroups including Food & Beverages, Tobacco, and Transportation sectors. Dubai's Consumer Price Index increased to 110.8 points during March-2024 as compared to 110.5 points in February-2024. The index growth was mainly due to the growth in prices of key expenditure sectors and services, including the Insurance and Financial Services sector which witnessed 8.7% y-o-y increase and the Housing, Water, Electricity, Gas, and Fuel sector which recorded by 6.3% y-o-y uptick. Overall, only 2 out of Dubai's 13 CPI subgroups

Consumer Price Index	Average	Actual			Projections	
Y-o-y percent change	2000–20	2021	2022	2023	2024e	2025e
Bahrain	1.6%	-0.6%	3.6%	0.1%	1.4%	1.8%
Kuwait	---	3.4%	4.0%	3.6%	3.2%	2.7%
Oman	2.0%	1.7%	2.5%	0.9%	1.3%	1.5%
Qatar	3.2%	2.3%	5.0%	3.1%	2.6%	2.4%
Saudi Arabia	1.9%	3.1%	2.5%	2.3%	2.3%	2.0%
United Arab Emirates	2.9%	-0.1%	4.8%	1.6%	2.1%	2.0%
GCC	2.2%	2.2%	3.3%	2.2%	2.2%	2.1%
Arab World	4.9%	9.0%	8.8%	11.2%	11.2%	8.6%

Sources : Bloomberg, IMF, Kamco Invest Research

recorded y-o-y decreases during the month. In terms of forecast, the IMF expects the Emirates inflation to remain on its downward course for 2024 and 2025 penciling estimates of 2.1% for 2024 and 2.0% for 2025.

Qatar

Qatar's inflation rate increased by 1.0% y-o-y during March-2024, recording its lowest monthly average increase since April-2021. Qatar's moderate inflation rate growth came after growth in six out of the eleven sub-indices of the CPI was partially offset by decline in the remaining five sub-indices, including the large-weighted Housing, Water, Electricity and Gas subgroup (-2.7%) and the Transport subgroup (-0.9%) during the month. The country's General Consumer Price Index reached 106.7 points in March-2024 witnessing a -1.4% m-o-m decline over February-2024.

The fall in Inflation during the month was also driven by significant price deflation for several sectors such as Housing, Water, Electricity and Gas (-2.7% vs -1.7) and Transport (-0.9% vs -0.6%), while it contracted at a slower pace for Clothing & Footwear sector (-3.6% vs -3.9%) and maintained the same pace of decline for the Health sector (-1.6%). In contrast, prices accelerated for miscellaneous goods & services (0.8% vs 0.6%) and education (3.5% vs 3.2%). On a monthly basis, consumer prices fell by 1.4% following a 0.3% decrease in the previous month led by the deflation of Food and Beverages (-4.7% vs -0.2%).

Bahrain

Bahrain's inflation rate recorded a y-o-y uptick of 1.0% during March-2024 as the general CPI closed the month at 101.2 points. In terms of m-o-m change, Bahrain's CPI witnessed a 0.2% decrease during the month. Bahrain had the second-lowest inflation rate among the GCC countries during March-2024. The y-o-y softening of Bahrain's inflation rate was mainly due to the contraction of six out of the eleven sub-indices in the general CPI. Bahrain's Furnishings, Household Equipment and Routine Maintenance of the House sub-index witnessed the largest contraction among other sub-indices witnessing a drop of -2.6% followed by the Health and Transport sub-indices which witnessed a y-o-y contraction of -2.5% and -2.2%, respectively, during March-2024.

Comparatively, the index for Food and nonalcoholic Beverages recorded a 6.4% y-o-y surge during March-2024 while the Restaurants index witnessed a robust 7.9% growth during the similar period. In terms of expectations, Bahrain has the IMF's second-lowest projected inflation rate among the GCC countries at 1.4% in 2024 preceded by Oman at 1.3% for 2024 and followed by the UAE and Saudi Arabia with 2.1% and 2.3% inflation forecast for 2024, respectively.

Oman

The Sultanate's consumer prices have seen deflationary pressures recently with y-o-y index decline twice within the last five months. The index reached its lowest level for the last twelve months during February-2024. Oman's marginal inflation growth was mainly supported growth in key CPI indices such as the Food and non-Alcoholic index which recorded 3.3% y-o-y uptick during the month as well as the Tobacco Index which witnessed 2.4% y-o-y growth during the similar period. In the food and non-alcoholic beverages group, the prices of fruits increased by 0.7%, milk, cheese, and eggs by 3.9%, sugar, jam, honey, and sweets by 1.7%, oils and fats by 2%, bread and cereals by 1.2%, food items by 3.6%, and vegetables by 16.2%, meat by 2.3% and fish by 2.8%. On the other hand, the Sultanate's CPI growth was pushed down by other key large, weighted indices. The prices of the Transportation Index decreased by -4.6%, the Restaurants and Hotels Index by 0.1%, furniture, fixtures and household equipment, and regular home maintenance by 0.3%.

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