# Economic Update

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Consumer sector

# Kuwait: Consumer sector to sputter as Covid-19 crisis weighs on spending, jobs

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### Highlights

- **Consumer spending will take a major hit in 1H20 from virus-containment measures in place since mid-March.**
- **A steep rise in consumer staple purchases is likely to be offset by a sharp drop in consumer discretionary sales.**
- **The recovery in the leisure sector is likely to lag behind that of other sectors deemed more essential.**
- **Recovery in consumer spending will be contingent on when the lockdown is lifted and how safe consumers feel about their jobs and incomes.**

Consumer spending is likely to take a major hit in 1H20 from strict virus-containment measures in place since Mid-March (including a full 24-hour lockdown through most of May). Consumers are likely to have delayed the purchases of discretionary items or big-ticket items amid job insecurities, leading to an involuntary increase in savings. That said, consumers have instead prioritized and stocked up on consumer staples against a backdrop of restricted travel and fear of food shortages.

### Consumer spending focused on essentials

Data is likely to point to a steep rise in consumer staples driven by a front-load of purchases amid travel restrictions and fear of food shortages towards the end of Q1 and during Q2 (especially during Ramadan – typically a period during which food-related purchases rise). But this is likely to be offset by a sharp drop in consumer discretionary sales due to the full and/or partial closure of department stores, malls, restaurants, coffee shops, cinemas, hairdressers and car repair shops. While some retail stores are online or gradually going online, they may still see a sharp drop in sales amid increased income insecurities, and as employees are either let go, furloughed or endure pay cuts while still having to pay rents and utility costs.

### A long path to recovery for the leisure sector

Consumer-related sectors are likely to witness different paces of recovery, depending on how essential the sectors are and/or to what extent crowds can be controlled and strict social distancing imposed. As such, while retail stores, car repair services, hairdressers, are likely to recover more quickly, in-house services at restaurants and cafes are likely to recover more slowly. Recreational venues such as museums, cinemas and concert halls may remain shut until the end of Q3. Gyms are also likely to see a lagged recovery especially as many substituted with at-home equivalents during the lockdown. International travel is likely to remain muted in the near-to-medium term amid health fears and potential hikes in airfares, especially given that the forced quarantines are still likely to be in place for overseas arrivals in many countries.

### Government unveils a series of stimulus measures

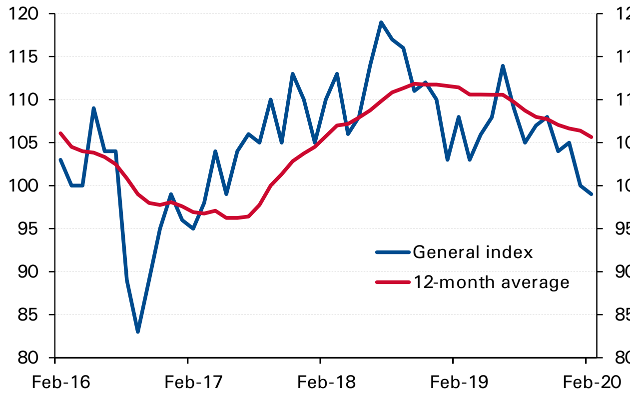
To help mitigate the effects of the pandemic on business confidence and job security, the authorities delivered a series of stimulus measures. These included a cumulative 125 bps cut in interest rates, a deferral of debt repayments for six months, three-year subsidized loans to help cover payroll and essentials, reductions in various government fees and changes in bank regulations to encourage lending. Housing rents for some tenants have also been temporarily waived or reduced. Additionally, there is a proposal to double the private sector wage subsidy for citizens for six months. While these measures may help restore some confidence and limit the impact on consumer purchasing power, they are unlikely to be enough to prevent notably weaker consumer spending in the near term.

### Confidence was subdued even before the virus hit

Consumer confidence was trending lower even before the virus hit, amid lower oil prices and weaker sentiment among expats largely due to ongoing Kuwaitization efforts. According to Ara's consumer confidence index, confidence slipped to an over three-year low of 99 in February from 100 in January, on the back of drops in the 'future economic situation' (96 from 103) and durable goods (92 from 107) subcomponents. (Chart 1.)

**Chart 1: Consumer confidence index**

(index)



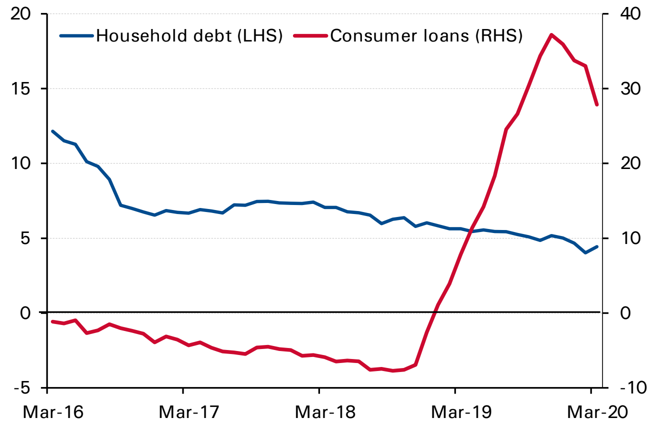

Source: Ara research and consultancy

## Resilience in consumer lending offers some support

Meanwhile, continued strong levels of lending offer some reprieve to the spending outlook. Facilitated by a lower interest rate environment and the Central Bank of Kuwait's (CBK) relaxation of consumer loan limits (to KD25,000 from KD15,000 previously) in December 2018, growth in loans for consumption purposes (i.e. excluding housing loans) remained high at 28% y/y in March, though was off its highs. (Chart 2.)

**Chart 2: Consumer loans & household debt**

(% y/y)




Source: Central Bank of Kuwait (CBK)

Despite the continued sharp rises in consumer credit so far this year, growth in overall household debt (i.e. including housing loans) remains in check, holding below 5% y/y during the same period.

## Weaker expat employment to weigh on spending

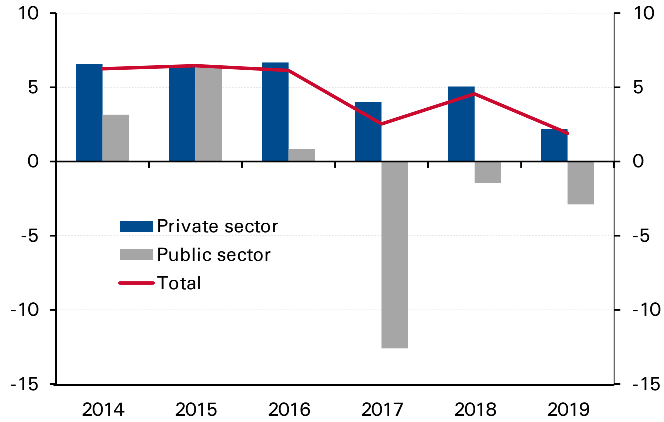
A likely contraction in the jobs market as well as pay cuts are set to weigh on consumer spending. According to a recent COVID-19 business impact survey carried out by Bensirri, a local PR company, 45% of their respondents have reportedly suspended or shutdown their business. Another 26% are either on the brink of collapse after seeing their revenue fall by northwards of 80%.

Expatriate workers are likely to bear the brunt of the slump in business activity. Indeed, as of mid-April, 250,000 expat workers were reportedly let go. This is in addition to the +25,000 expats that have been or will be deported for violating Kuwait's residency laws.

According to official PACI data, expat employment growth (excluding domestic workers) was soft even before the virus outbreak, slowing from 4.6% in 2018 to just 1.9% in 2019, led by a sharp decline in hiring activity in the public sector (-2.9%). (Chart 3.) Public sector hiring is likely to take a further hit if a proposed law is passed that will stop all hiring of expats in the public sector and replace current expat workers with Kuwaitis within a year. As of December 2019, there were 120,000 expat workers in the public sector (versus 345,000 Kuwaitis).

**Chart 3: Expatriate employment (excl. domestic workers)**

(year-end; % y/y)




Source: Public Authority for Civil Information (PACI)

Meanwhile, employment growth among the Kuwaiti segment – the majority of who work in the public sector – is likely to be less affected than the expatriate market, offering the consumer spending outlook some support. Employment growth among Kuwaitis was 2.4% at the end of 2019, and while down from the 3.7% seen in 2018, was still reasonable, mainly thanks to an improvement in public sector hiring.

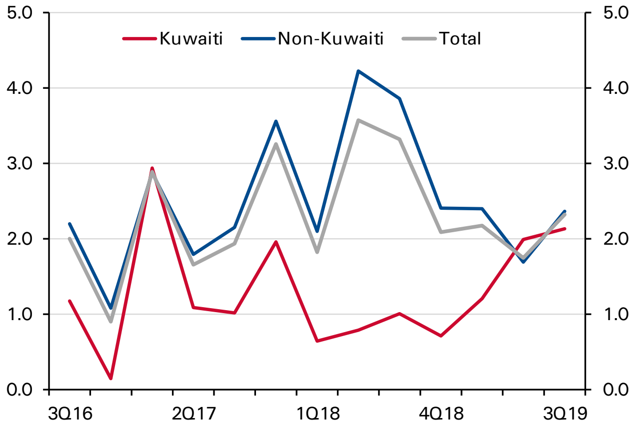
Additionally, average wage growth among Kuwaiti employees continued to edge higher in 3Q19 rising to 2.1% y/y from 2.0% in 2Q19. (Chart 4.)

## Spending prospects hinge on jobs outlook, health concerns

When businesses reopen and restrictions on movement are eased potentially in Q3, demand may only witness a moderate bounce, with consumers remaining cautious and avoiding unnecessary travel and shopping. As such, the nature of the post COVID-19 recovery in spending will be contingent on how safe consumers feel safe about their jobs and health. The lockdown is also likely to lead to long-lasting changes in consumer behavior, as the stay-at-home rhetoric has increasingly forced people to shop online.

### Chart 4: Average wages

(% y/y)




Source: Labor Market Information System / NBK

What may offer the outlook some support is the hope that the people who were able to retain their jobs are likely to have accumulated more savings and thus more income during the quarantine period, thanks in part to government support. Based upon some broad assumptions, the deferral of debt repayments by six months, for instance, could (temporarily) free up +KD1 billion in incomes, equivalent to more than 5% of estimated household spending last year. Furthermore, the proposal to double the private sector wage subsidy for citizens for six months, would be worth KD200-220 million, or around 1-2% of estimated spending last year. This could help spending to rebound more quickly, possibly facilitated too by sales promotions.

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