Consumer spending growth to pick up in 2Q19 after moderating in 1Q19

Highlights

- Consumer spending growth moderated further in 1Q19, continuing the trend that began mid-last year. But there are signs of a revival with the NBK consumer index picking up in April.
- The recent surge in consumer loan growth is grounds for optimism, and follows an easing in official loan limits in December and speculation of a debt write-off for Kuwaiti nationals.
- The labor market picture is mixed, with employment growth picking up over the past year but wage growth remaining broadly flat. The number of expat dependents has fallen amid increases in fees and broader pressure to limit expat numbers.
- We expect the pick-up in loan growth together with a largely favorable macro backdrop including decent jobs growth and low inflation to support consumer spending at a reasonable level this year.

Consumer spending growth continued to moderate in 1Q19 amid an easing in consumer confidence, modest wage growth and pressure on expatriate numbers. While some of these factors will persist this year, we look for other factors – including low inflation, solid employment growth, an expansionary government budget and easing central bank consumer lending regulations – to help maintain spending growth at a reasonable level.

Consumer spending growth eased further in 1Q19

Key indicators of consumer activity eased in 1Q19. Growth in official point-of-sale (POS) transactions and ATM withdrawals slowed to 4% y/y in 1Q19 from 6% in 4Q18, continuing the softening trend that started in the middle of last year. (Chart 1.) Growth in the NBK consumer spending index (CSI) has followed a similar path, averaging just 1.4% in Q1. Encouragingly however, monthly CSI figures for April show a pick-up in growth to 1.9% y/y reflecting a strong month-on-month increase. This could be a sign that the spending slowdown has bottomed out, perhaps as a result of the recent sharp rise in consumer borrowing. (See below.)

The easing in spending in Q1 was mirrored by a fall in consumer confidence. Ara’s consumer confidence index fell to 103 in 1Q19, well below the 12-month average. (Chart 2.) While lower oil prices and news headlines of a softening global economy may have been a factor, index weakness was led by the ‘current employment’ subcomponent (possibly linked to news of plans to cut expat numbers), while the ‘purchase of durable goods’ component was also weak.

Strong rise in consumer lending points to better outlook

A key cause for optimism on the spending outlook is the recent rise in lending. Consumer loan growth climbed to a five-year high of 7.8% y/y from 3.9% in February. (Chart 3.) After years of softness, consumer lending has risen strongly in each month since December, coinciding with the loosening of consumer loan limits (to KD25 000 from KD15 000 previously) by the Central Bank of Kuwait. The pickup in consumer borrowing will most likely show up in higher spending in the coming months due to lag effects.
Labor market presents a more mixed picture

The improving jobs picture is also offering some support to consumers. Employment growth recovered in 2018 (end-year), rising to 4.2% y/y from a multi-year low of 2.4% in 2017, on improvements in hiring of both Kuwaitis and expats. (Chart 4.) Strong hiring by the public sector saw jobs growth for Kuwaiti nationals reach a high 3.7% in 2018, and expat hiring rose by a two-year high of 4.3%. However the composition of expat jobs growth may be less favorable than the headline figures suggest: much of it is stemming from the construction sector, where Kuwaitization targets are low and there is a high share of low-skilled laborers. If gains are largely in low-paid jobs, any boost to consumer spending might be limited.

Continued softness in wage growth is also likely to weigh on spending. Growth in the average wage for Kuwaitis enrolled in state pension plans improved slightly but remained weak at 0.2% y/y in 4Q18 from -0.6% in Q3. Indeed after accounting for inflation, real wage growth was flat in 4Q18, having declined for most of the past two years. However soft wage growth may be partly due to a rising number of new entrants, who typically earn relatively low wages and may therefore be pulling the average wage lower.

Finally, while employment growth for expatriates is broadly favorable, overall population trends are less so thanks to a drop in the number of non-working expats, i.e. dependents. The overall expat population grew 2.8% in 2018, less than the growth in employment, due to a 1.3% decline in the number of dependents. The drop comes amid increases in certain charges such as health insurance and school fees, previous subsidy cuts, and also some political pressure to limit expat numbers. A drop in dependents would add further downward pressure on consumption.
Head Office
Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Tel: +965 2242 2011
Fax: +965 2259 5804
E-mail: econ@nbk.com
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www.nbk.com

International Network
Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 228d
Seef Area 428, P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
6B Lopy Tower
Block 246, Road 4262
Building 1441
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Labul Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, UAE
Tel: +971 4 3161600
Fax: +971 4 3888588
National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashid Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
Jeddah Branch
Al Shubba District,
Al Mulmam Tower, Jeddah
P.O.Box 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAKP
Amman Branch
Sharaf Abdul Hamid Sharaf St
P.O. Box 947197, Shomali,
Amman 11194, Jordan
Tel: +962 6 580 0480
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait (Lebanon) S.A.L.
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Bad El-Saah
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Ireland
Credit Bank of Ira
Street 9, Building 187
Saddar Street, District 112
P.O. Box 3420, Baghdad, Iraq
Tel: +961 1 7182198/7191944
Fax: +961 1 718806/7171673
Fax: +961 1 7710156

Egypt
National Bank of Kuwait - Egypt
Pial 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26313978
Fax: +20 2 26313978

United States of America
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait (International) Plc
Head Office
13 George Street
London W1J 3Q
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101
National Bank of Kuwait (International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait (International) Plc
Paris Branch
90 Avenue des Champs-Élysées
75008 Paris
France
Tel: +33 1 5697 8600
Fax: +33 1 5697 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Asia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

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