

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

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### 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.

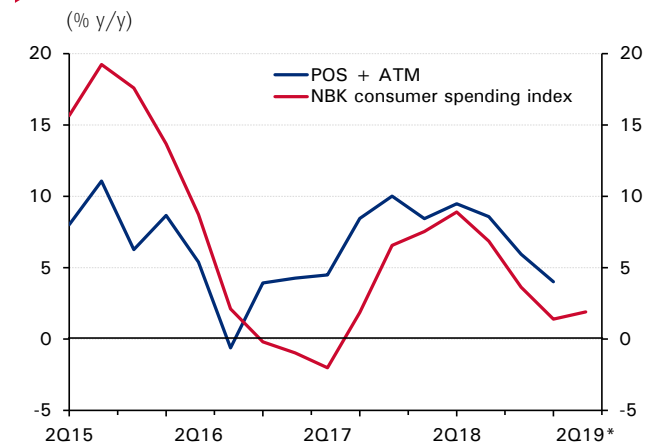
Consumer spending growth continued to moderate in 1Q19 amid an easing in consumer confidence, modest wage growth and pressure on expatriate numbers. While some of these factors will persist this year, we look for other factors – including low inflation, solid employment growth, an expansionary government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

▶ Chart 1: NBK consumer spending index & card transactions

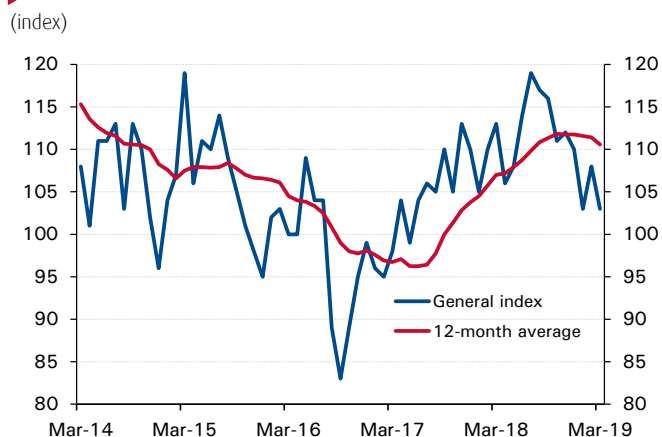


Source: Central Bank of Kuwait / NBK \*As of April 2019

### 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.

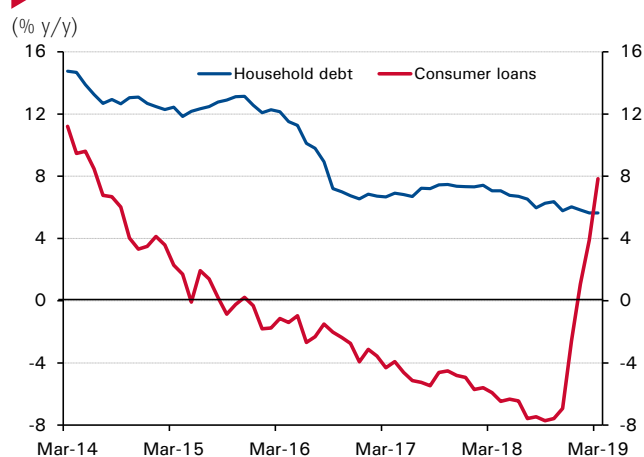
**Chart 2: Consumer confidence index**



Source: Ara research and consultancy

In spite of the surge in consumer credit, growth in household debt overall – which includes loans for house purchase – has continued to gradually ease, at 5.6% y/y in March. Consumer loans account for less than 10% of all household debt, so the latest strength does not imply a large impact on the total household debt burden, or a squeeze on spending potential.

**Chart 3: Consumer loans & household debt**

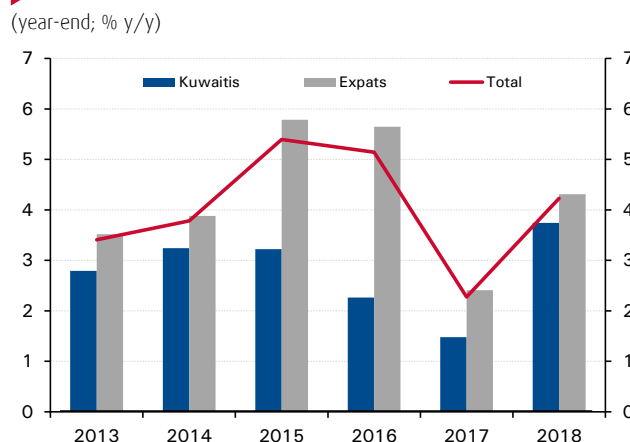


Source: Central Bank of Kuwait

### 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.

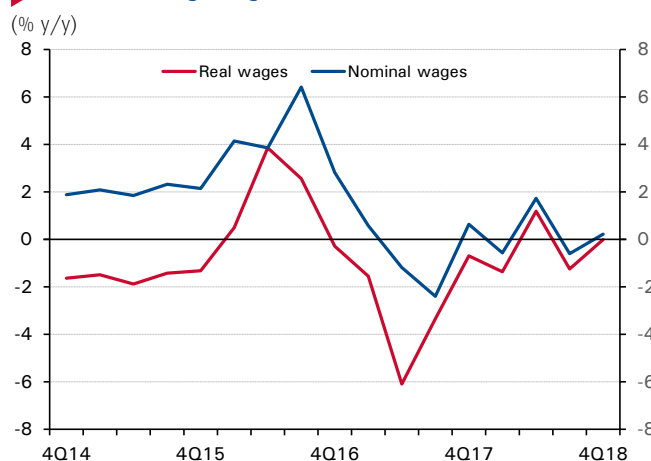
**Chart 4: Employment**



Source: Public Authority for Civil Information

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.

**Chart 5: Average wage of Kuwaitis**



Source: Public Institution for Social Security / NBK

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.

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