

Consumer sector

Kuwait: Moderate growth in the consumer sector despite some slowing

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The consumer sector remained resilient, though some indicators are showing softness. Employment, especially among Kuwaitis, was supportive and consumer spending data continued to show decent growth. While household borrowing grew at a healthy clip, the pace showed signs of slowing notable during the first half of 2016. Consumer confidence held its own, but has clearly eased from a year ago.

Employment growth among Kuwaiti nationals remained relatively healthy. The number of Kuwaiti civilian job entrants averaged around 4,100 a quarter over the four quarters ending in 1Q16. This represents a marked increase from around 3,000 job entrants two years before. Of those, government sector hiring has been particularly strong; new government jobs nearly doubled to 2,700 a quarter during the same period. New private sector jobs retreated slightly, but continued to hold up relatively well, accounting for about a third of new civilian jobs.

The clampdown on “phantom” employment in the private sector continued to show up in the data. Private employment declined by 4.3% y/y in June 2016, as the sector shed more than 4,000 jobs during a 12-month period. This is likely related to efforts by the authorities to go after so-called “phantom” jobs or employees, who attempt to benefit from the generous government allowances paid to private sector workers without being genuinely employed.

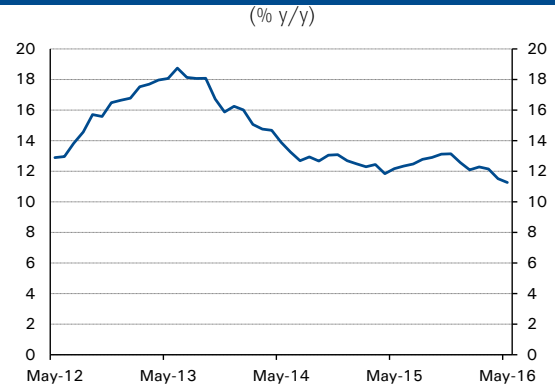
The steady state of employment has lent support to consumer spending. Credit and debit card point-of-sale spending rose by 4.3% y/y in 2Q16 (Chart 2). Even total spending including ATM withdrawals continued to show a modest pace of growth of 5.4% y/y during the second quarter. The softer growth in the second quarter (Chart2.) is very likely exaggerated thanks to a strong performance in the comparable quarter last year (i.e. basis effect).

After several years of strong but moderating growth, household loans appear to have slowed notably in recent months. Growth in personal facilities excluding credit for the purchase of securities slipped to 11.3% year-on-year (y/y) in May 2016 (Chart 1). The average monthly net gain in such loans dropped to KD 62 million in the most recent six months, compared to an average of KD 104 million during 2015.

In 2016, consumer confidence has weakened noticeably over last year though it has been improving in 2Q16. The overall ARA consumer confidence index stood at 104 in July 2016, after recording its lowest reading in nearly six years at the end of 2015 (Chart 3). Nonetheless, the index was still down by 8.8% y/y compared to a year ago in July. Most of that decline has been due to weakness in the current employment and durable goods components.

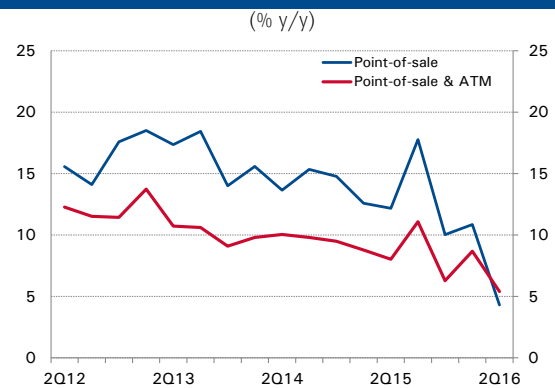
The consumer sector has long been a robust and reliable source of growth in Kuwait. This is expected to remain so in 2016 and 2017, though we do see growth in the sector moderating somewhat. The sector is supported by steady growth in employment and salaries, particularly in the government sector and among Kuwaiti households. Cuts in

Chart 1: Household debt growth



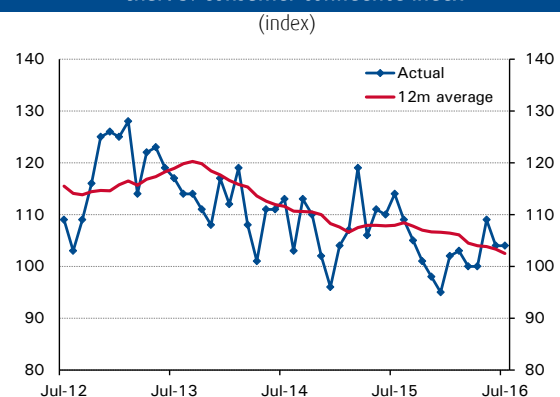
Source: Central Bank of Kuwait

Chart 2: Card transactions



Source: Central Bank of Kuwait

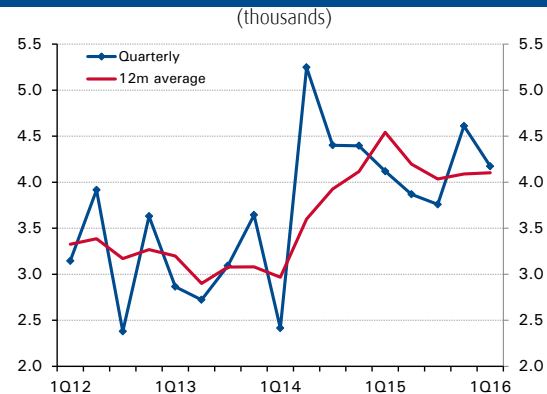
Chart 3: Consumer confidence index



Source: ARA Research & Consultancy

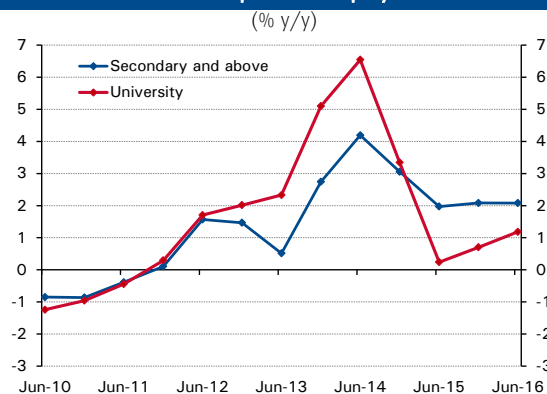
government wages and salaries are unlikely and subsidy reforms are expected to be very gradual and thus to have a relatively limited impact.

Chart 4: Kuwaiti civilian job entrants



Source: Public Authority for Civil Information, NBK estimates

Chart 5: Expatriate employment



Source: Public Authority for Civil Information

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