

Kuwait: Consumer spending outlook contingent on labor market recovery

Highlights

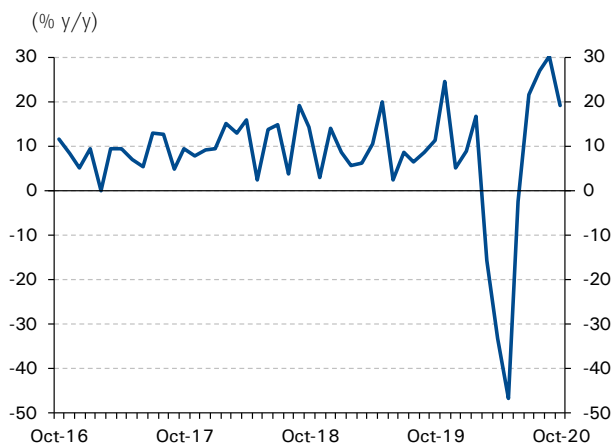
- Consumer spending growth started to decelerate in October, as the initial boost from reopening subsidies.
- The ongoing weakness in the jobs market is likely to weigh on consumer spending outlook in the near term.
- Sustainable growth in consumer spending in the coming year will be contingent on economic growth and consumers' sentiment about their incomes and jobs.

As the gradual lifting of the lockdown got underway, consumer spending recorded a significant comeback in 3Q20 after months of declines, supported mainly by pent-up demand for consumption. However, consumer spending growth started to decelerate in October as the initial boost from reopening subsidies in a context of high uncertainty about economic recovery and the labor market.

Consumer spending starts to decelerate

Following three successive months of acceleration, Consumer spending decelerated from 30.1% year-on-year (y/y) in September to 19.1% y/y in October (chart 1), according to the latest Knet monthly report. On a more detailed level, Point-of-sale (POS) transactions increased by 7.7% y/y, down from 13.8% y/y in September, while the growth in online spending remained solid at 114% though down from 157% a month ago. The sharp rise in online spending reflects a continued shift in consumer behavior that accelerated during the lockdown. Indeed, the amount of online transactions surged to KD 0.62 billion in October, accounting for about 30% of total spending versus 17% a year ago.

▶ Chart 1: Knet IPOS, POS, ATM & Kpay transactions

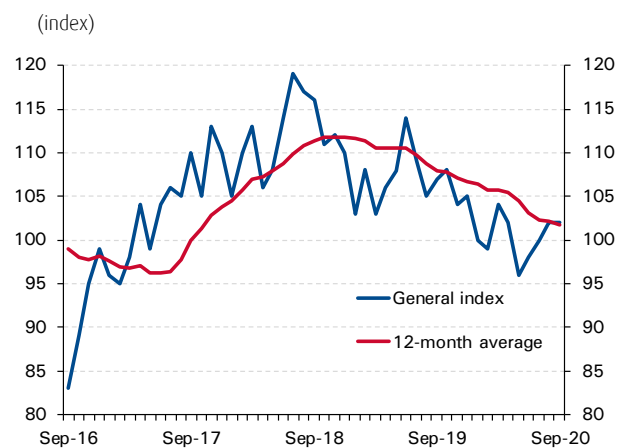


Source: Knet

Consumer confidence is improving as lockdown eases

The latest trend in consumer confidence is commensurate with the recent recovery in consumer spending, amid gradual lifting of the coronavirus restrictions. Ara's consumer confidence index remained steady at 102 in September, higher than June's reading (98), but still down three points year-to-date. Most of its subcomponents, including current employment and durable goods, improved in tandem with the reopening of the economy. (Chart 2.)

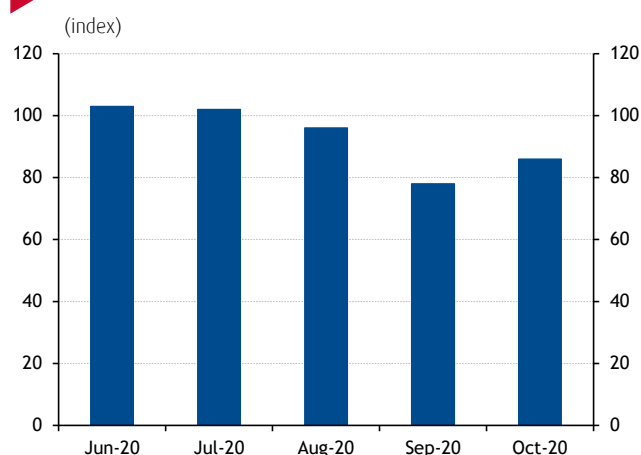
▶ Chart 2: ARA Consumer confidence index



Source: Ara research and consultancy

In October, the NBK consumer confidence index, which reflects Kuwaitis sentiments about the current financial and business conditions in Kuwait, gained 8 pts after the big drop of 18 pts recorded in September, but remained lower than June to August levels. (Chart 3.) However, the confidence score of the private sector employees remains lower than the other groups of respondents, signaling high uncertainty among businesses amid weaker economic recovery.

▶ **Chart 3: NBK Consumer confidence index**

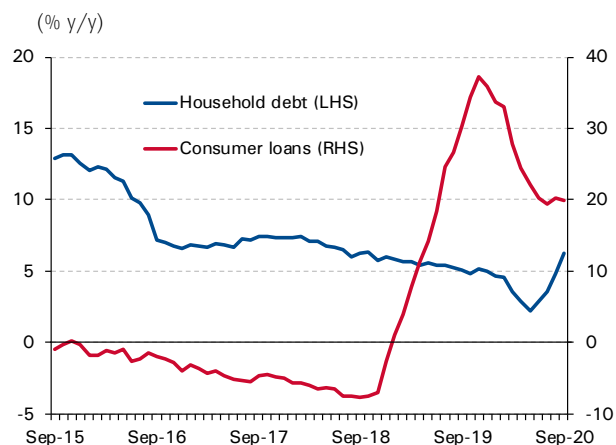


Source: NBK

Consumer lending moderates further in Q2

After its downward trend since December 2019, personal consumer loan growth stabilized around a steady 20% in 3Q20, as the reopening of parts of the economy was met with pent-up demand and the deferral of loans repayment. This strong growth in loans for consumption purposes has supported the rebound in consumer spending. However, consumer credit is expected to decelerate again, as installments resumed in October and the boost from the pent-up demand is fading.

▶ **Chart 4: Consumer loans & household debt**



Source: Central Bank of Kuwait (CBK)

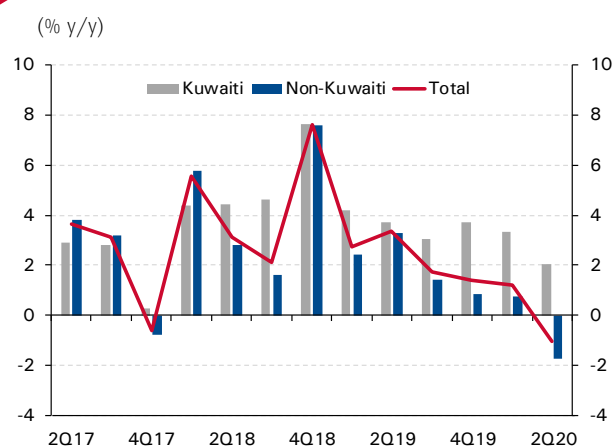
Meanwhile, after being subdued in the first half of the year, household debt (i.e. including housing loans) staged a solid rebound, growing by 4.7% q/q (highest growth rate in around eight years) pushing up its y/y expansion to 6.2% in September.

Labor market is likely to face further headwinds

The ongoing weakness in the jobs market is likely to weigh on consumer spending outlook in the near-to-medium term. In fact, according to the Labor Market Information System (LMIS), the overall employment declined by around 1% y/y in 2Q20 after an increase of 1.2% y/y in 1Q20, reflecting an improvement in

Kuwaitis hiring by 2% y/y and a contraction in non-Kuwaitis hiring by 1.7% y/y. (Chart 5.)

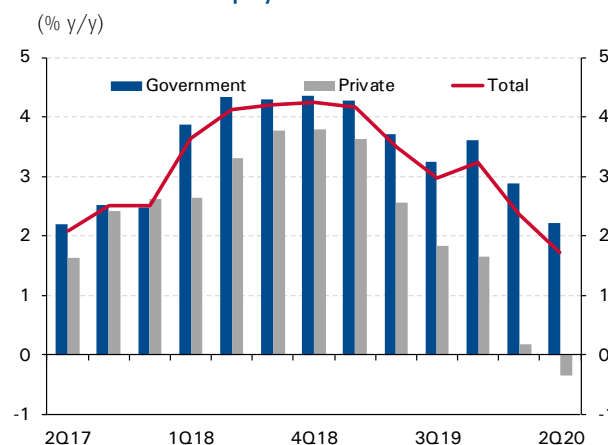
▶ **Chart 5: Kuwait labor Market**



Source: Labor Market Information System

As per employment among Kuwaitis, the recently released data by the Public Institution for Social Security (PIFSS) showed a deceleration in employment growth for the second consecutive quarter to 1.7% y/y in 2Q20 from 2.4% y/y in 1Q20, on the back of the lockdown measures implemented starting mid-March to contain COVID-19. Growth in hiring activity in the public sector slowed from 2.9% y/y in 1Q20 to an over three-year low of 2.2% in 2Q20, while the private sector recorded a drop of 0.4% y/y. (Chart 6.)

▶ **Chart 6: Kuwaiti employment**



Source: Public Institution for Social Security

While employment growth in Kuwait already started to decelerate since the start of 2019, the downward trend has been amplified by the Covid-19 pandemic and lockdown measures, especially for expatriates' workers in the private sector. Indeed, more expat workers are expected to leave in the coming quarters, on the back of proposed changes to the residency law, aimed at clamping down on the number of expats in the country, and as companies are forced to shed workers amid a weaker economic environment. In fact, if the recent decision to suspend the renewal of residency for migrant workers above 60 years old

and without a university degree goes through, it was reported that more than 70,000 expatriates could leave Kuwait next year.

Rebound in spending depends on labor market recovery

Looking forward, sustainable growth in consumer spending will be contingent on the scale and longevity of the pandemic as well as on how consumers feel about their incomes and job security. While it is expected to see a further momentum in consumer spending over the near-term as more activities are recovering and more parts of the economy reopen, a further weakening in the labor market and a potential drop in expat numbers, are likely to weigh on consumer spending in the period ahead.

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