Consumer spending growth seen steady in 2H19

Highlights

- Consumer spending growth maintained its upward trend, with the NBK consumer index improving so far in Q3.
- Spending has been supported by robust consumer loan growth following CBK’s easing of consumer loan limits in December.
- Labor market signals are mixed with employment growth solid but wage growth remaining soft.
- While we do not expect major shifts in consumer spending in the remainder of the year, it will remain supported by a steady macroeconomic environment and loan growth.

Consumer spending growth saw a better-than-anticipated pick-up so far in Q3, consistent with strong loan growth, a steady macroeconomic climate, healthy employment growth and as oil prices hovered around $60/bbl. We expect these factors to persist this year and offset the softness in wage growth, ultimately keeping consumer spending at encouraging levels.

**Consumer spending growth maintains upward momentum**

The NBK consumer spending index (CSI) has thus far (as of August) expanded by 3.3% y/y in 3Q19 – above the 1.9% and 1.4% averages recorded in Q2 and Q1, respectively. (Chart 1.) The improvement in spending is consistent with the notable increase in consumer lending seen in the first half of this year.

> **Chart 1: NBK consumer spending index & card transactions**

(%) y/y

Source: Central Bank of Kuwait / NBK  *As of August 2019

The improvement in consumer spending is confirmed by some of the key consumer-related indicators. The CBK’s data on point-of-sale (POS) transactions and ATM withdrawals shows an increase of around 4% y/y in 2Q19, a sign that the slowdown that started in early 2018 may be bottoming out.

**The rise in consumer lending sustains spending outlook**

The outlook on spending has improved not least because of the sharp increases in consumer lending of late. Consumer loan growth accelerated to an over five-year high of 5.42% y/y in July from 18.4% y/y in June. (Chart 2.)

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

(%) y/y

Source: Central Bank of Kuwait

After years of softness, consumer lending has picked up sharply now for six straight months, mainly driven by the loosening of consumer loan limits (to KD25,000 from KD15,000 previously) by the Central Bank of Kuwait. We expect the healthy increase in consumer borrowing to continue to support spending levels in the coming months.
Despite the leap in consumer credit, growth in overall household debt – which includes loans for house purchase – has continued to gradually ease, standing at 5.4% y/y in June versus 5.8% at the start of the year. Consumer loans account for less than 10% of all total household loans, so the latest strength does not imply a large impact on the total household debt burden, or a reduction in spending potential.

**Labor market sending mixed signals**

The ongoing improvement in the jobs market is also a positive for the consumer spending outlook. Employment growth among Kuwaitis held steady at a decent 4.2% y/y in 1Q19, unchanged from the previous quarter. (Chart 3.) Overall employment growth for Kuwaitis remains supported by relatively strong hiring by both the public sector (+4.3% y/y) and private sector (+3.6%), reflecting ongoing Kuwaitization efforts. Latest data as of end-year 2018 showed expat hiring also holding firm, rising by a two-year high of 4.3%.

![Chart 3: Kuwaiti employment](chart3)

**Chart 3: Kuwaiti employment** (% y/y)

By contrast however, wage growth remains weak and is likely to continue to weigh on spending, although overall average wages recovered slightly in Q1 at 1.4% y/y from 1.0% y/y in 4Q18. The pick-up was led by an improvement in average wages among Kuwaitis from 0.7% y/y in 4Q18 to 1.2% y/y in 1Q19. In contrast, average wage growth among non-Kuwaitis was unchanged at 2.4% y/y during the same period. (Chart 4.)

While employment growth for Kuwaitis as well as expatriates are broadly favorable, overall population trends are less so due to the drop in the number of non-working expats, i.e. dependents. Latest data (December 2018) showed a 1.3% decline in the number of dependents amid increases in certain charges such as health insurance and school fees, previous subsidy cuts, and also some political pressure to limit expat numbers. The decline in dependents may add some downward pressure on consumption given their high propensity to consume.

![Chart 4: Average wages](chart4)

**Chart 4: Average wages** (% y/y)

**Source:** Public Institution of Social Security

**Source:** Labor Market Information System