

Kuwait: Consumer spending likely to maintain positive momentum in 2020

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Highlights

- Consumer spending recorded a solid increase of almost 10% y/y in 2019; positive momentum should continue in 2020.
- Spending has been supported by healthy employment and wage growth and a stable macroeconomic climate.
- The strong pick-up in consumer spending continues to move in parallel with increases in consumer loan growth.

Consumer spending growth is expected to maintain its positive momentum going into 2020, thanks to solid employment growth among Kuwaitis and a lower interest rate environment. However, downside risks stemming from softer oil prices and slower growth in government spending are likely to continue to weigh on the spending outlook going forward.

Consumer spending growth trended upwards in 2019...

Key consumer-related indicators, including Knet data on point-of-sale (POS) transactions, online payments and ATM withdrawals, showed a solid increase of 9.8% y/y (3-month moving average) in 2019, lower than the 11.6% recorded in 2018, but still higher than 2017 and 2016's figures of 8.1% and 5.8%, respectively. We expect growth in Knet transactions to remain strong, led by continued gains in online spending. (Chart 1.)

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

(3-month moving average, mma, % y/y)



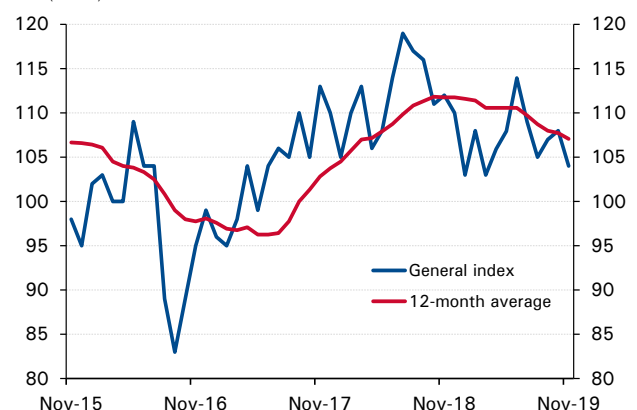
Source: Knet / NBK

...but consumer confidence appears slightly subdued

The latest trend in consumer confidence appears at odds with the recent strength in consumer spending, reflecting the softer oil price environment and weaker sentiments among expats to some extent. According to Ara's consumer confidence index, consumer confidence trended lower in 2019, averaging around 104 (as of November), lower than the 112 average recorded in 2018. (Chart 2.) The fall can be attributed to ongoing weakness in the 'current employment' and 'durable goods' subcomponents, as expat employment prospects have softened amid ongoing Kuwaitization efforts.

▶ Chart 2: Consumer confidence index

(index)



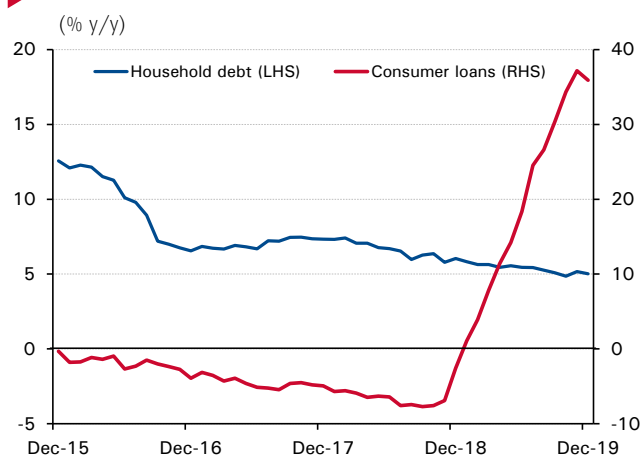
Source: Ara research and consultancy

Strong consumer lending lifts spending outlook

Healthy increases in consumer lending have improved the outlook for spending. Facilitated by a lower interest rate environment and the Central Bank of Kuwait's (CBK) relaxation of consumer loan limits (to KD25,000 from KD15,000 previously) in December 2018, consumer loan (excluding housing loans

which account for almost 87% of total household credit) growth has since accelerated, reaching a near record high of 36% y/y in December 2019. (Chart 3.)

Chart 3: Consumer loans & household debt



Source: Central Bank of Kuwait (CBK)

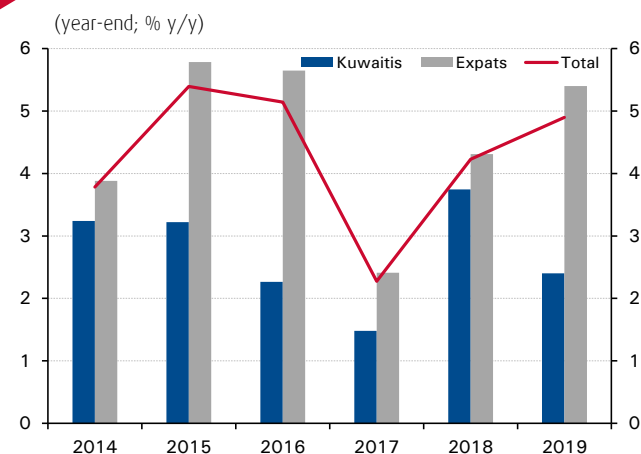
Despite the sharp rise in consumer credit, however, growth in overall household debt eased in 2019, averaging 5.4% y/y, down from the 6.6% average recorded in 2018.

Labor market trends supportive of spending

Decent growth in jobs is likely to remain supportive of consumer spending. As of end-2019, employment growth among Kuwaitis was 2.4% y/y, which, though down from 3.7% in 2018, was still reasonable. This was mainly supported by public sector hiring.

According to official PACI data, growth in expatriate jobs, in contrast, recovered to 5.4% in 2019 from 4.3% in 2018, driven by a pick-up in domestic workers (+15%). Excluding domestic workers, the sharp rise of which is unclear yet, expat employment growth slowed from 4.6% in 2018 to just 1.9% in 2019, led by a sharper decline in hiring activity in the public sector (-2.9%). (Chart 4.)

Chart 4: Employment growth in Kuwait

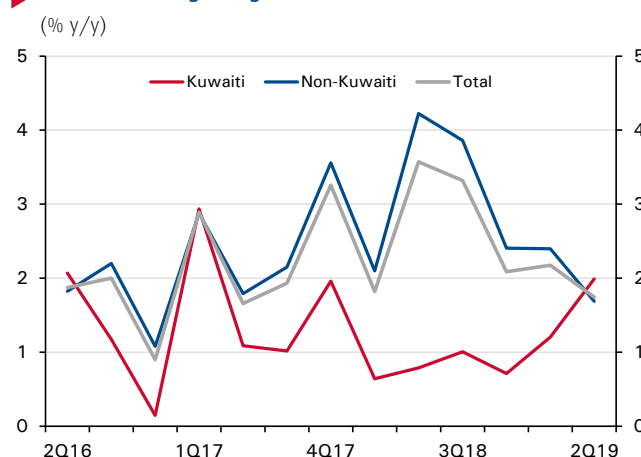


Source: Public Authority for Civil Information (PACI)

Separately, average wage growth among Kuwaiti employees appears to be on the mend, rising by a healthier 2.0% y/y in 2Q19, versus 1.2% in 1Q19 and the 0.8% recorded in 2018. In fact, wage growth among Kuwaiti employees (+1.7%) surpassed that of expatriates for the first time in three years.

This was likely driven by Kuwaitization efforts among higher skilled workers in both the public and private sectors. Given that Kuwaitization targets for low-skilled, lower paid jobs remain low in comparison, we may expect to see more of this downward bias on expat wage growth going forward. (Chart 5.)

Chart 5: Average wages



Source: Labor Market Information System / NBK

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