

Consumer sector

# Kuwait: Consumer sector normalizing in 2016, following years of robust growth

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The consumer sector has been normalizing since late 2015, with the marked softness in household debt and imports coinciding with a period of lower oil prices and fiscal consolidation. Although household income growth and employment remained robust, most consumer indicators revealed softness throughout 2016. Consumer confidence remained notably weak. Card spending, which has been volatile and hit negative territory at one point, was also weaker. Meanwhile, employment among Kuwaitis continues to provide support to the sector, thanks to steady government hiring.

Consumer spending moderated during 2016, despite temporarily seeing a more serious slowdown in the second and third quarters of 2016. Spending growth on credit and debit card point-of-sale as well as total spending including ATM withdrawals growth slid into negative territory for the first time on record in 3Q16 to recover during the last quarter of the year mainly due to seasonal factors, recording 9% and 4% y/y growth, respectively. (Chart 2).

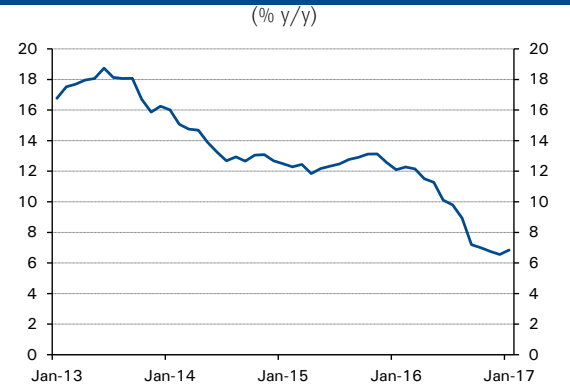
A slower consumer sector was felt in a cooling in imports of consumer goods in 2016. Consumer imports retracted by 9% y/y in 2016; a significant slowdown from the 7% y/y growth posted the previous year. Most of the impact has been felt in imports of motor vehicles, which recorded a 20% decline y/y in 2016. This is a reflection of a struggling auto market and, more generally, weak durable goods purchases as reflected in the ARA consumer confidence index.

Consumer confidence remained noticeably weak in recent months. The overall ARA consumer confidence index stood at 96 in February 2017, down 8% y/y. The index has been below the 100 point mark since August 2016 when the government announced plans to increase fuel prices. (Chart 3). Most of that decline is due to weakness in the durable goods, current income and current employment components, highlighting concerns over sustained low oil prices and the subsidy reforms being implemented.

Household borrowing is slowly recovering following a notable decline during the first eight months of 2016. Growth in personal facilities excluding credit for the purchase of securities slipped to 7.0% year-on-year (y/y) in January 2017 compared to 12.6% a year ago (Chart 1). The average monthly net gain in such loans dropped to KD 70.5 million in the most recent six months, compared to an average of KD 101 million during 2015.

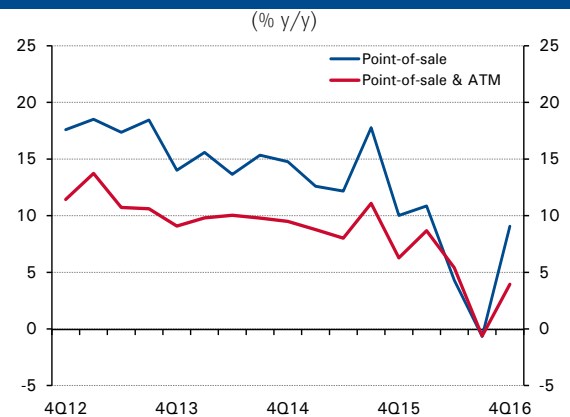
Public sector hiring in 2016 continues to support national employment growth. The number of Kuwaiti civilian job entrants averaged around 4,059 a quarter over the four quarters ending in 3Q16, supported by strong hiring during 4Q15 and 1Q16. This represents a marked increase from around 3,000 job entrants two years earlier. Of those, 68% is government sector hiring; new government jobs nearly doubled to 2,756 a quarter during the same period. New private sector jobs retreated slightly, but continued to hold up relatively well,

Chart 1: Household debt growth



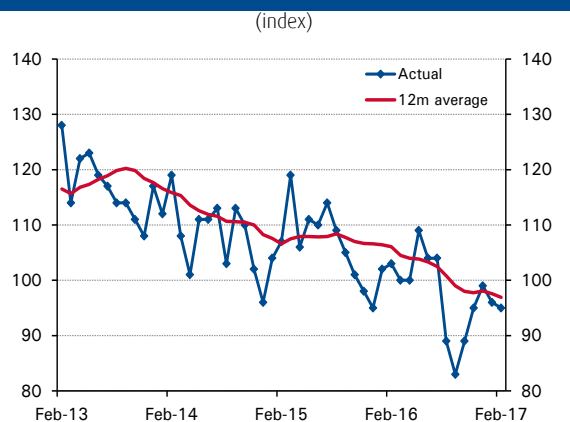
Source: Central Bank of Kuwait

Chart 2: Card transactions



Source: Central Bank of Kuwait

Chart 3: Consumer confidence index

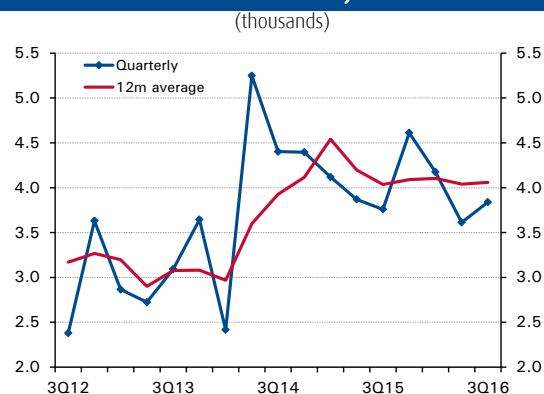


Source: ARA Research & Consultancy

accounting for about a third of new civilian jobs. The slowdown in private sector employment is attributed to the government’s continuous efforts to clamp down on “phantom employment”.

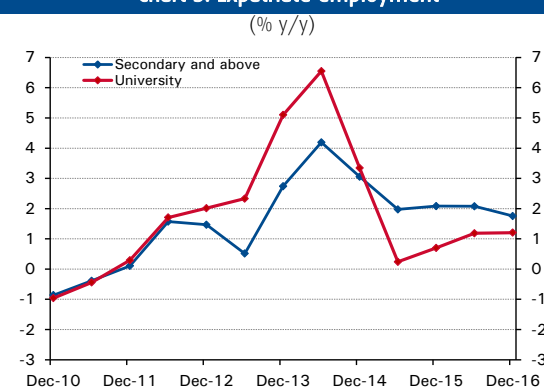
**The consumer sector is expected to continue to be soft in 2017, but could be supported by the recent government decision to soften hikes in utility prices.** The newly approved utility prices, which are much lower than the ones released earlier in law 20/2016 might provide a positive boost to the consumer sector, along with steady employment growth and modest gains in salaries in the government sector.

**Chart 4: Kuwaiti civilian job entrants**



Source: Public Institution For Social Security (PIFSS), NBK estimates

**Chart 5: Expatriate employment**



Source: Public Authority for Civil Information

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