

Economic Update

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Consumer sector

Kuwait: Consumer spending solid but growth easing after swift post-Covid recovery

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Highlights

- Consumer card spending growth remained robust at 17% y/y in 3Q22, though easing from 29% in Q2 as the effect of earlier government support measures faded.
- Strong consumer lending, steady job growth among Kuwaiti nationals, increasing wages and healthy consumer confidence levels continue to underpin spending.
- The latest government welfare measures will provide a fresh boost to spending forward. However, we still expect consumer spending growth to ease from current very high levels, given the softer macro climate and higher interest rates.

Consumer spending in Kuwait has remained strong, providing a solid boost to the non-oil economy. The growth in spending in the third quarter of this year (3Q22) softened on an annual basis compared to recent quarters, but overall, the post-Covid recovery has been stellar despite the concerns surrounding increasing cost of living pressures. Government support measures, such as the debt repayment holiday for Kuwaiti nationals last year and a special allowance to retirees in 2Q22, have helped keep spending firm this year. However, as the effect of these measures steadily faded, growth normalized during 3Q22. Meanwhile, employment gains, wage growth, and consumer confidence have remained robust; this along with a stronger currency (largely in-line with the strengthening USD) have helped cushion the impact of inflationary headwinds – which are still milder than in parts of the western world – on overall consumer spending.

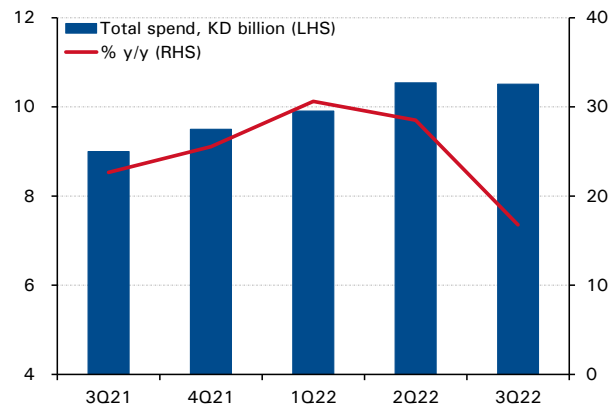
Looking ahead, we expect the trend in spending to remain positive, with some moderation in momentum from a very high base, and amid slightly elevated inflation and higher interest rates. The recently-approved state budget for FY22/23 entails additional welfare payments, to front-line workers for their service during the pandemic, and cash for unutilized leave balances for government sector employees that is worth around KD400m (1% of annual consumer cards spending), which should support spending late this year.

Overall spending remains strong, but growth eases

According to Central Bank of Kuwait (CBK) statistics, growth in total card spending, including cash withdrawals from ATMs, slowed in 3Q22, but still stood at a very solid 17% y/y, taking the YTD increase to 25% y/y. (Chart 1.) Consumer spending earlier this year benefitted from the government's relief measures for Kuwaiti households. With the positive effect of these measures now fading, along with a flattening post-Covid demand recovery, the growth in spending is now normalizing.

As the third quarter of the year typically coincides with school holidays, residents' spending abroad saw a seasonal uptick, further fueled by recovering post-Covid international traveling trends. Overseas spending grew 45% y/y, resulting in a higher share of abroad transactions in total spending of 6.8% in 3Q22 from 5.5% a year before.

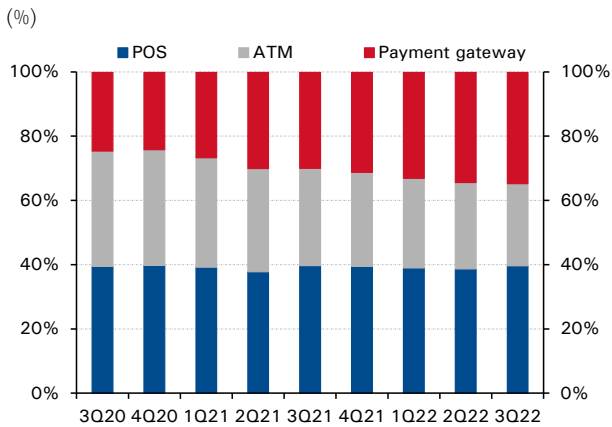
▶ Chart 1: Total card spending (POS, payment gateway & ATM withdrawals)



Source: Central Bank of Kuwait

Interestingly, payment gateway (i.e. online) transactions have been seeing a steady rise in their share in overall spending (now up to 35% from 24% in 4Q20), which has come at the expense of ATM withdrawals. In contrast, the share of POS transactions has remained largely flat. (Chart 2.) A possible explanation for declining cash transactions could be a rising adoption of rental payments through POS/online methods, usually the largest expenditure item for households, especially for expatriates.

► **Chart 2: Total card spending contribution**

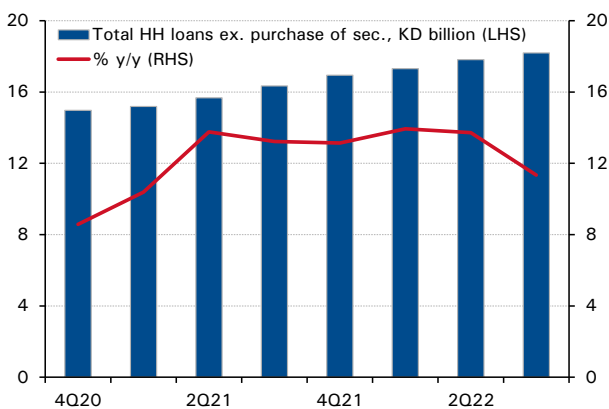


Source: Central Bank of Kuwait

Strong household lending gives boost to consumer wallets

Household lending (excluding loans for the purchase of securities) continues to be strong, with a rise of 11% y/y in 3Q22. Indeed, annual growth in household lending has remained at double-digit levels for the past several quarters. In fact, strong household lending has been among the key drivers of overall credit performance for the banking industry, with the household sector's (excluding loans for the purchase of securities) share in total credit increasing to 39.1% from 36.9% in 4Q20. Such strong levels of household credit should continue to bode well for consumer spending. We note that although interest rates are rising, the CBK has taken a more gradual approach to rate hikes than other countries so far this year, implying a smaller impact on household borrowing than if rates had risen more quickly. Moreover, existing household borrowers are somewhat cushioned from rate hikes by the predominance of fixed-rate lending, limiting the immediate impact on their disposable incomes and spending habits.

► **Chart 3: Kuwait household loans***



Source: Central Bank of Kuwait; * excluding loans for purchase of securities

Employment recovering; wage growth picks up for Kuwaitis

After the Covid shock, there are signs of a recovery in the labor market, with both population and employment rising again. Wage growth is also accelerating. These developments provide some underlying support for the spending outlook.

Kuwait's total population increased by 1.8% as of June 2022 compared to end-2021, marking the first rise since 2019, according to the data from the Public Authority for Civil Information (PACI). This increase may well have been driven predominantly by a post-pandemic revival in demand for expatriate labor, mainly relatively low-skilled workers, whose numbers had recorded a steep decline since 2019, though the relevant end-year employment data to corroborate this is not yet available. Overall employment (excluding domestic workers) fell 5.9% y/y in June 2022, overwhelmingly driven by declining non-Kuwaiti jobs (-9%). (Table 1.) In contrast, during the twelve months to June 2022, the number of Kuwaiti jobs increased by 26K to 449K (+6.1%), led by the private sector, which added 13.6K new jobs. This compares favorably with the 12.3K jobs created by the public sector. (However, a comparable jump in private sector jobs was not evident in data from other public sources, suggesting differences in data classification may have been responsible for this.) The number of unemployed Kuwaitis fell to 24K (-26% y/y), the lowest since December 2017.

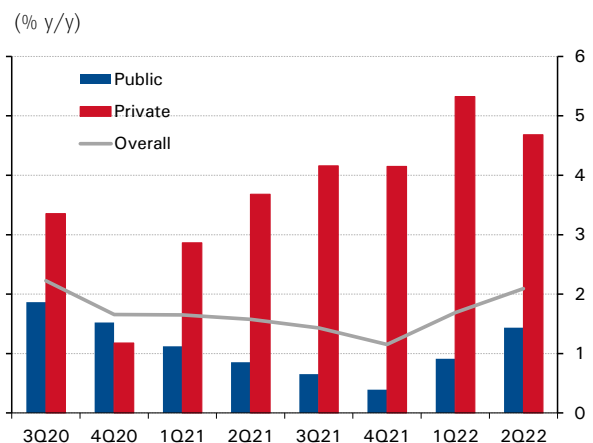
► **Table 1: Employment ex. domestic workers (period-end)**

	Employment ('000)			% y/y		
	Kuwaiti	Non-Kuwaiti	Total	Kuwaiti	Non-Kuwaiti	Total
2018	399	1,744	2,144	3.7	4.6	4.4
2019	409	1,776	2,185	2.4	1.8	1.9
2020	418	1,658	2,075	2.1	-6.7	-5.0
Jun-21	423	1,613	2,036	na	na	na
Jun-22	449	1,467	1,916	6.1	-9.0	-5.9

Source: PACI

Meanwhile, as per Labor Management Information System (LMIS) data, wage growth among Kuwaitis has picked up this year, driven by both the public and the private sectors. During 2Q22, salaries among Kuwaitis increased by 2.1% y/y after registering a 1.7% y/y rise in 1Q22. Wage growth in the public sector accelerated to 1.4% y/y in 2Q22, the highest annual rise since 4Q20. While the growth in private sector wages moderated to 4.7% y/y in 2Q22 from 5.3% in 1Q22, it remained significantly higher than the average annual rise of 3.7% since the beginning of 2020.

► **Chart 4: Average wages among Kuwaiti nationals**



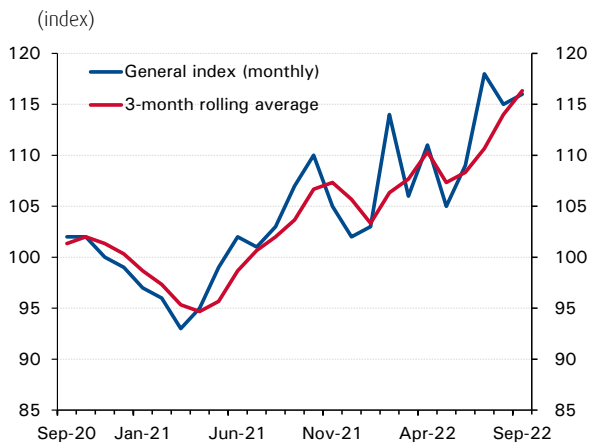
Source: LMIS

Consumer sentiment remains on upward trajectory

Meanwhile, as measured by ARA Research and Consultancy's Consumer Confidence Index, consumer sentiment continued its upward trend in 3Q22, rising to an average of 116 from 108 in 2Q22. (Chart 5.) This is the highest quarterly average since 3Q18, as consumer sentiment continues to get support from high oil prices, the broader post-pandemic recovery and the government's welfare measures.

In addition, a decline in unemployment among Kuwaiti nationals and a likely addition of new jobs for expatriates this year may have further fueled confidence among consumers.

▶ Chart 5: ARA Consumer Confidence Index



Source: ARA Research and Consultancy

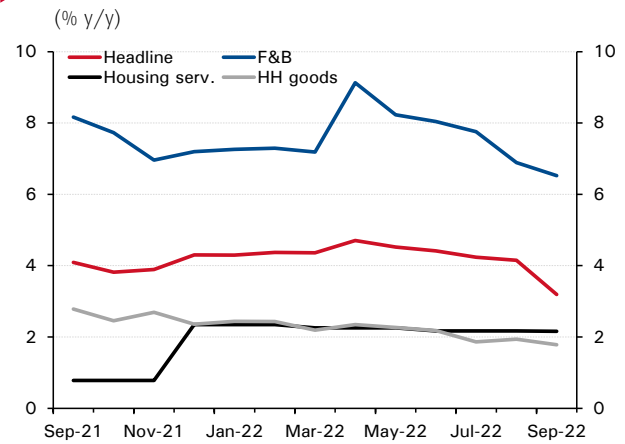
Inflation has softened after rising rapidly in H1

Generally, higher prices tend to squeeze consumer wallets, pressuring discretionary expenditures. While looking at the financial results from a sample of listed companies on Boursa Kuwait, it appears that consumer discretionary spending in Kuwait seems to have remained largely unaffected. Moreover, inflationary pressures in Kuwait are still moderate compared to rates in many other countries, including the US (inflation of around 8%) and Europe (10+%), insulating consumers from steep price rises.

According to the Central Statistical Bureau (CSB), Kuwait's inflation softened to 3.2% y/y in September, a fifth consecutive month of deceleration since April this year (when it reached a peak of 4.7%). Almost all major inflation sub-components have shown substantial moderation on a y/y basis. Price rises in the food and beverages category (+6.5% y/y) continue to drive the overall inflation rate, though at a much slower pace than April's 9.1%. This is in-line with the Food and Agriculture Organization's index of global food prices, which witnessed a sixth consecutive month of decline in September. We expect that inflation could continue to soften over the remainder of 2022 amid easing global supply-chain pressures, lower commodity prices as the effect of tightened monetary policy globally begins to be felt,

and moderate economic growth. If so, pressures on households' real (i.e. after inflation) incomes should be reduced.

▶ Chart 6: Consumer price inflation for main categories



Source: Central Statistical Bureau (CSB)

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