

Economic Update

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Consumer sector

Kuwait: Record spending in October, driving broader economic recovery

> Assil El Mahmah
Senior Economist
+965 2259 5360
assilelmahmah@nbk.com

Highlights

- Consumers spent a record KD2.55 billion in October (+24% y/y), supported by the debt repayment holiday and strong consumer loans.
- Optimism about work and economic prospects was close to a two-year high in September, motivated in part by a substantial reduction in the number of positive coronavirus cases in Kuwait.
- The spending outlook will be shaped by economic gains, including in terms of private sector job creation, higher oil prices and continued successful virus containment.

The consumer sector continues to be the backbone of the economic recovery in Kuwait, fueled by a combination of easing mobility restrictions, a high vaccine penetration rate, and the government's loan repayment holiday for nationals. Indeed, consumer spending hit record levels in October and has been growing at double-digit rates ever since the public emerged from lockdown in the summer of 2020. However, growth has decelerated from highs recorded earlier in the year due to the fading of annual base effects. Near-term prospects continue to look solid, given the expected gradual broadening of the economic recovery, low Covid infection rates and high oil prices, which are supporting confidence. At the same time, spending growth may start to ease back to more normal levels as we go into next year, and as loan installment payments are restarted. There are also downside risks from factors such as possible further virus waves, lower oil prices, sluggish jobs growth and higher consumer prices eroding household incomes.

Spending growth is recovering well

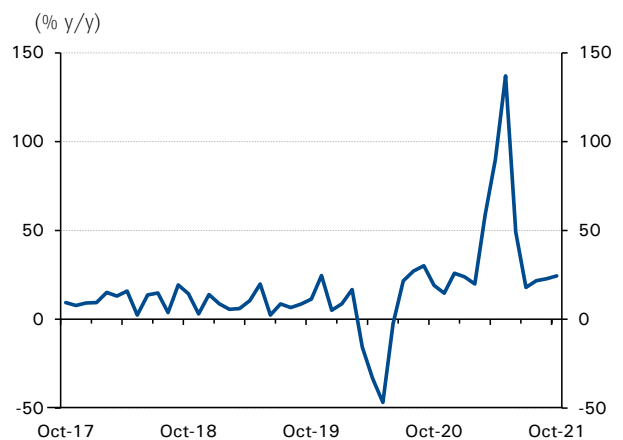
Consumer spending grew by 24% y/y (+0.6% m/m) to KD2.55 billion in October. (Chart 1.) This is the strongest rate of growth since June and the highest monthly spending level ever. On a year-to-date cumulative basis, spending is almost 39% higher than over the same period last year. Highlighting the strong recovery, it is worth noting that the rise in consumer activity came even while more spending was diverted abroad following the loosening of travel restrictions in the summer. The online spending channel continues to gain in popularity, growing by 58% y/y in October to account for almost 39% of all Knet transactions (May 2020 was higher at 48%, though this was during full curfew and therefore under atypical conditions).

Consumer sentiment continues to improve

Meanwhile, consumer sentiment, as measured by ARA's Consumer Confidence Index, continued its upward trend in

September, rising to 107 from 103 in August. (Chart 2.) This is the highest level since October 2019, and owes much to the reduction in positive coronavirus cases to the low levels last seen in March 2020, the first full month of the pandemic, and to optimism about the economic environment amid rising oil prices.

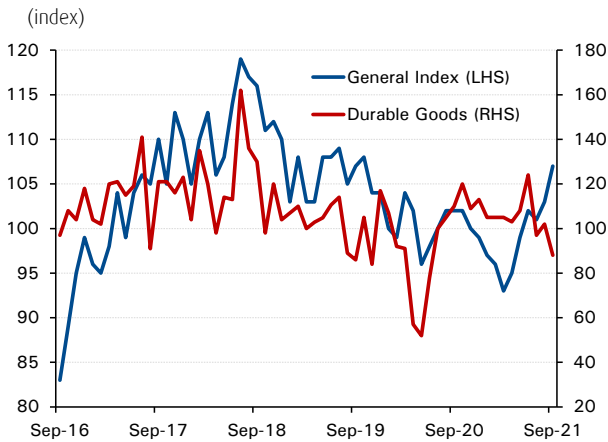
▶ Chart 1: Total spending (Knet IPOS & POS, Kpay & ATM)



Source: Knet

However, the index also revealed consumer concerns about the rising cost of retail products. Unlike most index subcomponents that showed a positive trend, the Purchase of Durable Goods Index sharply decreased from 102 in August to 88 in September. This could be partly explained by the rise in travel costs (especially flights) and the increase in related expenditures during the summer; these factors may have forced consumers to reduce or postpone spending on durable goods. The latest official consumer price index data shows the 'durable goods' category of inflation reaching an over 8-year high of 6.4% y/y in June (but overall inflation is lower – see below).

Chart 2: ARA Consumer Confidence Index

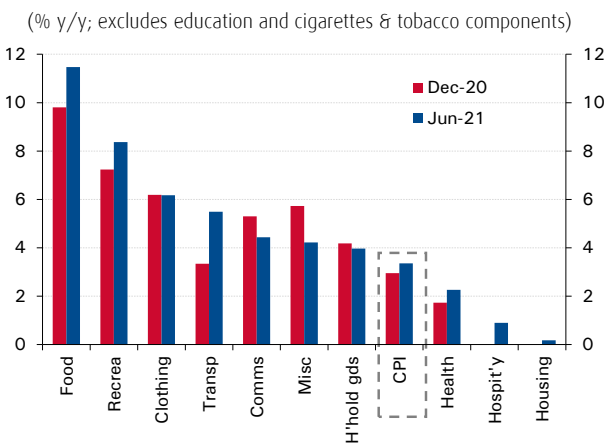


Source: ARA Research and Consultancy

Consumption could be affected by rising inflation

The official figures show that overall inflation edged up to 3.4% y/y in June from 3.0% in December, amid rising international food prices and supply chain constraints that have also pushed up inflation globally. This is still much lower than in many other countries (in the US for example, inflation recently hit 6.2%), but continued increases in prices could put more pressure on consumer incomes and start to weigh on discretionary spending in the coming months. As chart 3 shows, inflation in most segments of the CPI accelerated in the first half of the year, and is now rising most quickly in the food (11.5% y/y), recreation (8.4%) and clothing (6.2%) segments. On the other side, still-minimal increases in housing rents (0.2%) are helping to keep overall inflation down given their large weight (33%) in the CPI basket. Overall, we expect inflation to come down next year but acknowledge the risk that recent upward pressures from global forces could last longer than we expect.

Chart 3: Consumer price inflation by main category



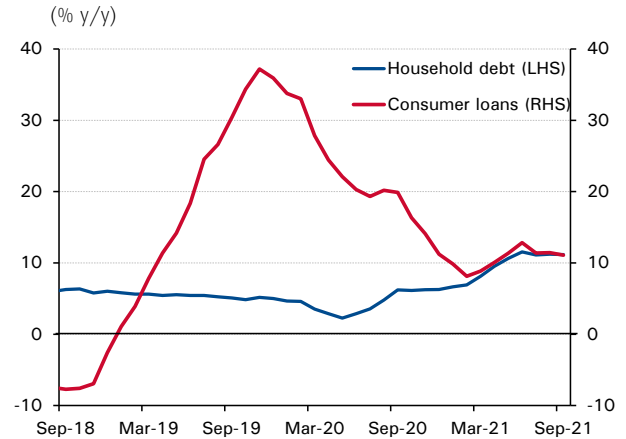
Source: Central Statistical Bureau (CSB)

Spending has benefitted from strong consumer lending

Consumer spending has been supported by strong household credit growth. Loan growth stood at a multi-year high of 11.2% y/y in August and September, with both installment (housing)

and consumer loans increasing by more than 11% y/y. (Chart 4.) Spending has also benefited from the pandemic-linked higher savings rate, thanks to the government's (optional) six-month repayment deferral for Kuwaiti borrowers, which expires this quarter. Under some broad estimates, this may have temporarily boosted disposable incomes by about KD 1 billion.

Chart 4: Consumer loans & household debt*

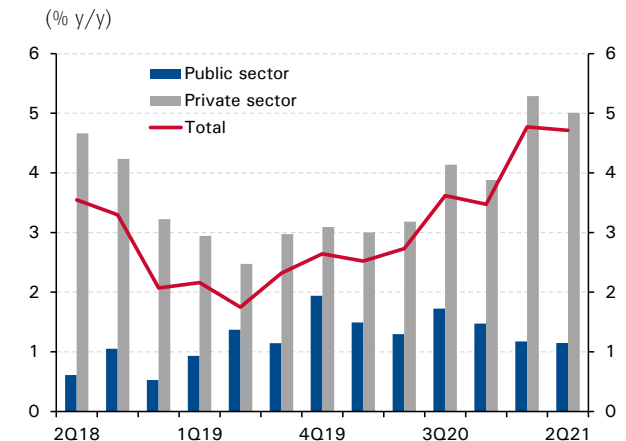


Source: Central Bank of Kuwait (CBK). * Includes loans for home purchases.

Soft labor market to weigh on consumer spending

As business activity has picked up this year, the labor market has also begun to gradually improve. According to the Labor Market Information System (LMIS), wage growth remained strong at 4.7% y/y in 2Q21, slightly below the 4.8% recorded in Q1 but well above 2020's average of 3.1% and above the rate of inflation. (Chart 5.) The improvement this year has been driven by accelerating private sector wage growth (+5% y/y). Public sector wage growth continued to decelerate, to 1.1% in 2Q21, reflecting partially the government's decision to address the fiscal deficit caused by the pandemic shock.

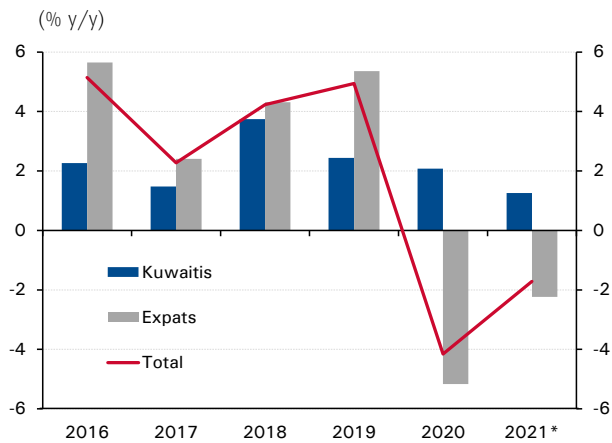
Chart 5: Average wages



Source: LMIS

Overall however, a combination of moderate economic growth and the further possible departure of expatriate residents seem likely to weigh on employment growth going forward, and could contribute to a softer consumer spending outlook. Some 190,000 (6%) expatriates left the country between end-2019 and June 2021, and 184,000 (7%) left employment. (Chart 6.) This translated into a drop in total country-wide employment of 6% overall (employment of Kuwaiti nationals rose 3% over the same period). Admittedly, the majority of these job losses were in relatively low-paying jobs, likely tempering the impact on consumer spending. Still, a continued drop in expat workers may have an impact on labor markets once the pandemic is contained. In fact, with potential labor shortages emerging in specific sectors or occupations, at different skill levels, wages in the private sector could rise. This may improve spending, though also subject businesses to higher costs.

► **Chart 6: Employment growth**



Source: PACI ; *As of June 2021

Head Office

Kuwait

National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

France

National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353