

Kuwait: Consumer sector showcases some resilience as mobility restrictions ease

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Highlights

- Consumer spending stages a decent recovery at the start of Q3 led by an ease in some mobility restrictions.
- Spending has in part been supported by the deferral of debt repayments by six months and accumulated savings.
- Continued labor market weakness may weigh on spending in the quarters ahead.
- Sustaining the recovery in consumer spending will hinge upon the continued ease in virus-containment measures and people's sense of job security.

Consumer spending staged a decent comeback at the start of Q3, reversing months of declines, as the reopening of parts of the economy was met with pent-up demand. Consumer spending growth may edge higher in August as further restrictions are eased, before tapering off as the initial boost from reopening subsides. Job insecurities and economic uncertainties remain as significant overhangs on overall consumer sentiment.

Consumer spending reverses months of declines ...

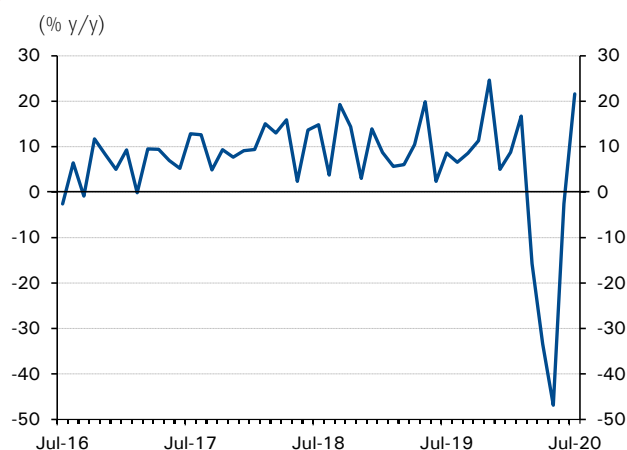
Consumer spending rose by a decent 21.6% year-on-year (y/y) in July (chart 1), according to the latest Knet monthly report, reversing months of declines, as the ease in mobility restrictions and the reopening of retail stores were met with pent-up demand for discretionary items. Point-of-sale (POS) transactions declined by a mere 0.1% y/y in July, a stark improvement from the 35% decline in June, while growth in online spending surged 160%. Indeed, the prolonged lockdown measures is likely to have led to long-lasting changes in consumer behavior, as stay-at-home orders has increasingly forced people to shop online.

Spending has in part been supported by accumulated savings, not least because of the deferral of debt payments by six months (which is expected to temporarily free up +KD1 billion in incomes, equivalent to more than 5% of estimated household spending in 2019), and the fact that a large portion of the population is spending their summer holidays in Kuwait, amid strict travel restrictions.

While we may see consumer spending gather more momentum in August and the remainder of Q3 as restrictions on public transport, catering, personal care services, health clubs and other recreation venues (such as museums, cinemas and concert halls) are eased, it is likely to taper off as the initial boost from the reopening of the economy subsides. Lingering worries over

income security, particularly for expats, and the economy are likely to prevail and weigh on consumer sentiment going forward.

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

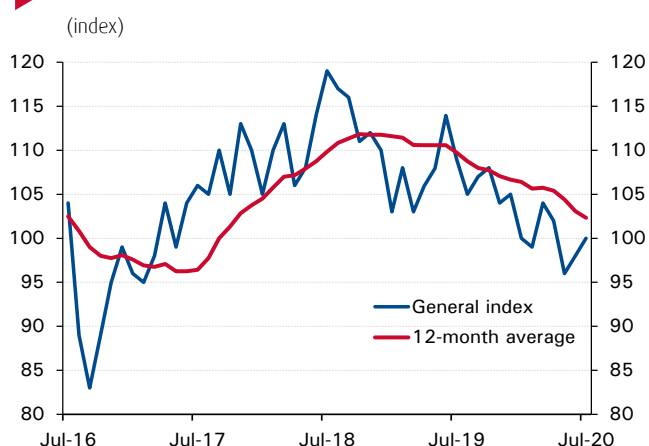


Source: Knet

... but consumer confidence trends lower

The latest trend in consumer confidence is at odds with the recent strength in consumer spending, reflecting the low oil price environment, underlying concerns about the economy and income insecurities, especially among expats, as employees are let go, furloughed or endure pay cuts. Ara's consumer confidence index was at 100 in July, down five points year-to-date, but still slightly higher than June's reading (98) as most subcomponents, including current employment and durable goods, improved in tandem with the reopening of the economy. (Chart 2.)

► **Chart 2: Consumer confidence index**

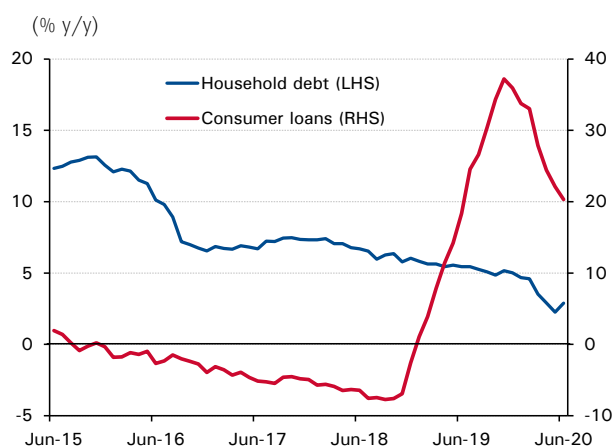


Source: Ara research and consultancy

Consumer lending moderates further in Q2

Personal consumer loan growth appears to show a correction so far in 2020, after accelerating sharply throughout most of 2019 mainly on the back of the Central Bank of Kuwait's (CBK) relaxation of consumer loan limits (to KD25,000 from KD15,000 previously) in December of 2018. The moderation so far in 2020 has undoubtedly been amplified by the Covid-19 pandemic and lockdown measures. As such, growth in loans for consumption purposes (i.e. excluding housing loans) eased to 20% y/y in June, down from 22% in May and the 36% surge in 2019. (Chart 3.)

► **Chart 3: Consumer loans & household debt**



Source: Central Bank of Kuwait (CBK)

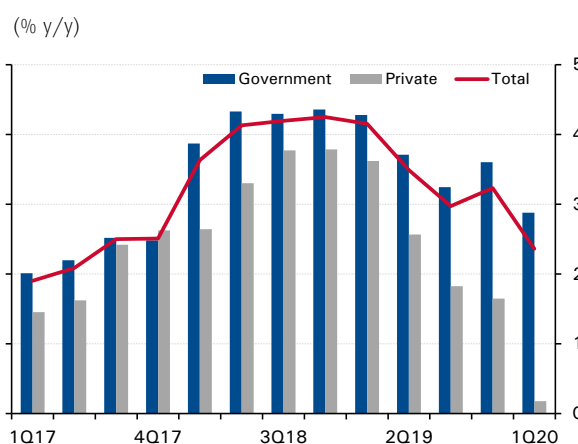
Meanwhile, growth in overall household debt (i.e. including housing loans) also softened further for most of Q2, coming in at 2.9% y/y in June, lower than the 4.7% reading at the start of the year.

Labor market weighed down by weaker economic activity

The ongoing weakness in the jobs market is likely to weigh on the consumer spending outlook in the near-to-medium term. Employment growth among Kuwaitis slowed to 2.4% y/y in

1Q20 from 3.2% in 4Q19, led by a slowdown in both public sector hiring (2.9% – an over two-year low – from 3.6%) and private sector hiring (a mere 0.2% from 1.6%). (Chart 4.) Overall employment growth among Kuwaitis appears to have been moderating since the start of 2019 and is likely to face further headwinds in the quarters ahead, as the effects of the Covid-19 pandemic are felt, particularly in the private sector. The public sector has fared quite well in comparison to the private sector, but this could mostly be attributed to the effects of Kuwaitization efforts.

► **Chart 4: Kuwaiti employment**

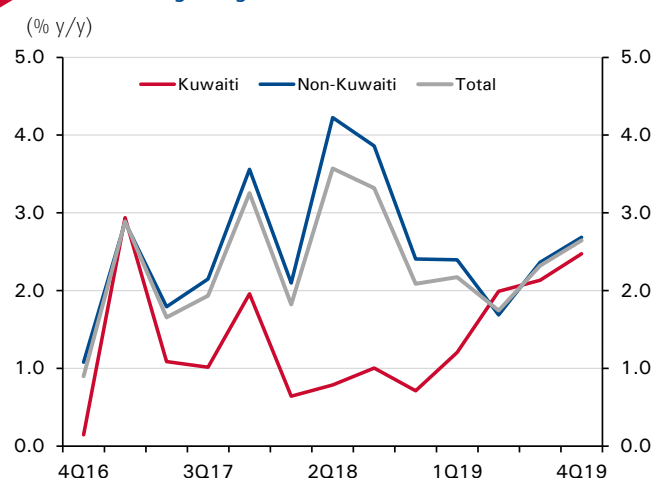


Source: Public Institution for Social Security

That said, expatriate workers are likely to bear the brunt of the slump in business activity. Although data on expat employment this year is yet to be released, it is likely to point to continued declines in expat employees in both the public and private sectors. Indeed, between mid-March and mid-July, northwards of 165,000 expats (around 5% of the total expat population) reportedly left the country. Many more expat workers are expected to leave by the end of 2020, according to some analysts, on the back of proposed changes to the residency law, aimed at clamping down on the number of expats in the country, and as companies are forced to shed workers amid a weaker economic climate.

Separately, while average wage growth edged higher in 4Q19 among both Kuwaitis (2.5% y/y from 2.1% in 3Q19) and non-Kuwaitis (2.7% from 2.4% in 3Q19), it is likely to moderate in the coming quarters, in line with a weaker economic climate, and ultimately weigh on consumer spending. (Chart 5.)

Chart 5: Average wages



Source: Labor Market Information System / NBK

Recovery in spending contingent on job, expat numbers

How much of the rebound in consumer spending will be sustained will be contingent upon how safe consumers feel about their incomes, the likely impact on expat demographics and also the future path of Covid-19 and the avoidance of future lockdowns, business closures and mobility restrictions. While we may see spending gathering some further momentum in the near-term as more parts of the economy reopen, a further weakening in the labor market and a potential drop in expat numbers, especially with sweeping changes to the residency law aimed at restricting expats in the country, are likely to weigh on consumer spending in the period ahead.

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