

Special Report

ARA Consumer Confidence Index – April 2019

# Sentiment stable despite geopolitical tensions

On account of its interest for monitoring the economic situation in Kuwait, "ARA Research & Consultancy" issues a monthly Consumer Confidence Index, in collaboration with the "Arab Times" newspaper and under the sponsorship of the "Lexus" trademark. The Consumer Confidence Index is considered as the only indicator that measures the Consumers' psychological factors, based on people's opinions and their prospects about the current economic situation and its future as well as their expectations regarding their financial conditions, and how that reflects on their purchasing power.

The Consumer Confidence Index is issued the first Sunday of each month, and is based on quantitative research on a sample of 500 people, distributed among Kuwaitis and Arab residents in different Governorates.

The study was conducted by telephone through a random call selection, taking into account that the distribution of the sample should be representative of the population in Kuwait.

The general Consumer Confidence Index is based on six indices which the researchers at ARA use to measure the level of the consumer satisfaction and optimism. These are:

- Current Economic Situation Index
- Expected Economic Situation Index
- Current Personal Income Index
- Expected Personal Income Index
- Current Employment Opportunities Index
- Purchase of Durables Index

The indices' results in a month basis measure the psychological state of consumers in Kuwait, which equal 100 points. This result (100 points) draws the line between optimism and pessimism among consumers. The more the index surpasses this point, the more the psychological state of consumers in Kuwait is considered to be inclined towards optimism. The more the index declines below this point, the more pessimistic the outlook.

**General Index stable**

ARA Research & Consultancy has released its April 2019 consumer confidence index, in collaboration with the Arab Times newspaper and under the sponsorship of Lexus.

ARA General Index reported 103 points, maintaining its March record, but down 3 points compared with April last year.

The General Index posted its highest ratio in March 2012: 124 points; however, the current ratio is one of the lowest in 13 months.

This stability in the General Index raises a question about the factors and reasons that have led to it.



To answer this question, we should consider the current developments.

First, a number of positive developments took place at the domestic level in Kuwait in April, including:

1. The political and security stability in Kuwait.
2. The average price of Kuwaiti oil hit \$71.3 a barrel in April (the first month of the financial year). This price is 29.6% higher than the expected default price in the budget, and the highest since the beginning of 2019.
3. For the first time in three years, Kuwait has overcome the budget deficit and achieved a surplus of about 1.3 billion Dinars.
4. International financial institutions noted the solidity of Kuwait's external financial position, with foreign assets amounting to 561 billion dollars. These international testimonials enhance investments in Kuwait and encourage a rise in the contribution of foreign capital to the activities of the Kuwaiti Stock Exchange.
5. Kuwait is expected to achieve a 3% economic growth in the current financial year.

Moreover, the performance of the Stock Exchange improved, its profits increased, and the real estate sector and the construction industry recovered. All this has positively impacted several industrial sectors and services.

These positive developments were supposed to boost consumer confidence and hence the ARA General Index in April, but this trend encountered negative factors that hindered it and led the General Index to remain stable. These factors included:

1. The tense military, security and economic situation in most countries in the region as well as in the neighbouring geopolitical regions
2. The intensifying conflict in the global trade relations between major powers and continental trad-

ing blocs, and the consequences of this conflict on the global economic growth

3. The cautious expectations of the shrinkage of global economic growth and its negative impact on supply and demand in the oil markets

These key factors dampened optimism and stroke a balance in the General Index of consumer confidence in Kuwait.

**Capital more confident in economic situation**

The Capital has displayed greater confidence in the current and future economic situations, posting 119 points on the first, up 11 points, and 133 points on the second, a hike of 35 points.

The Capital's increased confidence in the economic situation bears encouraging signs, thanks to the Capital's political, economic, financial and administrative position. It reflects growing optimism among the research components, specifically in the economic fields.

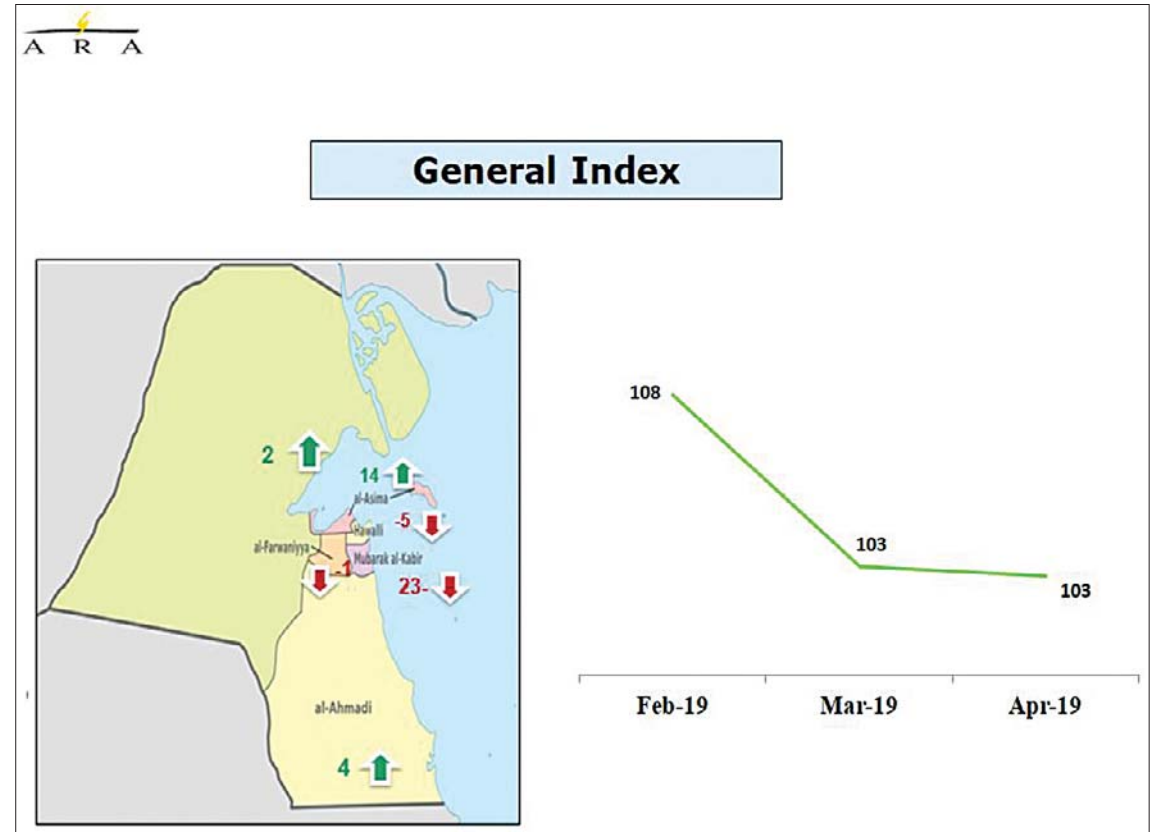
Based on the research findings, the Current Economic Situation Index scored 98 points, up 7 points within a month, and 1 point compared with April last year.

It is natural for discrepancies to emerge among the various research components with regard to the current economic situation, given the diversity of economic sectors working in in and the socio demographics of consumers

For instance, on the level of governorates, the Capital exhibited stronger confidence with 19 points, and Farwaniya with 15 points, while Mubarak El-Kabier dropped 11 points.

On the other hand, the females strengthened their confidence with 8 points, while the males lost 1 point.

On the level of education, the holders of intermediary or lower educational qualifications added 3 points to their previous ratio, while



those holding higher educational degree added 21 points within a month.

These discrepancies reflect the objective conditions of the economic situation on the one hand and the labor market needs on the other hand.

The Future Economic Situation Index scored 104 points, up 2 points within a month and down 2 points within a year.

After the improvement achieved in many financial and economic fields, it is logical for the level of consumer confidence in the economic situation to increase.

**Unjustified decline in expected personal income**

The Current Personal Income Index settled at 97 points, the same ratio recorded in March, but down 3 points from April 2018.

The Expected Personal Income Index posted 100 points, down 5 points within a month and 5 points within a year.

The females dropped 17 points, and the young people aged 18-35 years lost 11 points.

There were discrepancies on the level of governorates, as the Capital added 16 points to its previous ratio on the Current Personal Income Index, while on the Expected Personal Income Index it dropped 5 points.

Jahra fell 11 points, and the citizens dropped 4 and 7 points on the Current and Expected Personal Income Indices, respectively.

Research findings revealed that the

Current Personal Income Index plummeted 43 points within a month among the earners of a monthly household income of 450-849 Dinars.

This drop in both personal income indices among the citizens, youth, females and many other research components is unjustified, given the organic link between the financial and economic conditions and the level of personal income.

If the effect of this link is indirect, relative and gradual, then the economic situations – including the future expectations – should be better, as incomes should not lose their purchasing power.

The increase in wages and salaries during the 2017/2018 financial year was minor and limited to some segments in the public and private sectors.

Accordingly, it appears that the decline in the level of consumer confidence in the economic situations, especially the future one, is not based on the economic situation.

**Current employment opportunities shrinking**

ARA Current Employment Opportunities Index reported 135 points, down 13 points within a month and 26 points within a year.

This came as a result of the low confidence among most research components, with regard to the current employment opportunities in the market.

The young people aged 18-35

years, the females, the citizens, and the Arab residents dropped 21, 46, 7 and 29 points, respectively.

On the level of governorates, Farwaniya, Hawalli, and Mubarak El-Kabier lost 46, 29, and 26 points, respectively. Meanwhile, the Capital's ratio went up 10 points.

The lowest ratio on this index was reported by the unskilled workers, whose monthly wage does not exceed 450 Dinars, as they plunged 77 points within a month.

These figures reflect instability in the labor market currently, given the nature of the transitional period of some economic sectors.

It seems that the 3.7% rise in real estate liquidity in the first quarter of the year compared with the first quarter of 2018 has not yet reflected on the activity of the labor market.

This comes despite the fact that the real estate sector and the construction industry are the locomotive of many other industrial, commercial and service sectors.

However, a relevant positive development was registered in April: the Kuwaitization program achieved some success. The employment rate is expected to rise in the coming months because of the growth in national income that may exceed 3% and in the non-oil sector that reached 2.5%, which are considered good rates under the current circumstances.

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