

MIDDLE EAST ECONOMICS UPDATE

21st Mar. 2017



Saudi consumer spending continues to struggle

- **Household consumption in Saudi Arabia slowed sharply last year in the face of fiscal austerity and, while low-level indicators suggest that the worst may now be over, there's little sign of a strong pick-up.**
- The lack of a quarterly GDP expenditure breakdown or monthly retail sales figures makes it difficult to gauge how Saudi consumers are faring on a timely basis. But there are some indicators which we can use.
- **The industry breakdown of the quarterly GDP data suggests that consumer spending weakened last year.** The "trade, hotels and restaurants" sector (which includes the retail sector and is a useful gauge of consumer spending) *contracted* by an average of 0.7% y/y in the first three quarters of 2016. (See Chart 1.)
- **More timely indicators suggest household spending remained sluggish at the start of this year.** Low-profile measures, such as ATM cash withdrawals and point of sale transactions, continued to contract in year-on-year terms in January. (See Chart 2.) Consumer confidence indices have fallen sharply in recent months. (See Chart 3.) And while the Kingdom's own trade data aren't a particularly useful guide to household spending, figures from Eurostat (the EU's statistics agency) show that consumer goods imports by Saudi Arabia from the EU are still down by more than 10% y/y in riyal terms. (See Chart 4.)
- **Fiscal austerity was the main driver of the slowdown in household consumption last year and the government's decision in late-September to slash bonuses for public sector workers can probably explain the continued weakness of consumer spending at the start of this year.**
- **While the worst of the slowdown in consumer spending is probably now over, the outlook is still fairly bleak.** Fresh subsidy cuts are scheduled for the middle of this year and only the poorest households will be fully shielded from these via the introduction of a "household allowance". The imposition of a value-added tax in 2018 will further add to price pressures, eroding consumers' purchasing power.
- Meanwhile, the government has outlined plans to limit growth in the public sector wage bill. As part of the National Transformation Plan, the authorities are aiming to trim the number of civil servants by 20% over the next few years. We doubt that the private sector will be able to pick up the slack.
- **All told, we expect Saudi consumer spending growth to settle at rates of around 2-3% over the coming years, well below those of 6-7% recorded in the past decade.**

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Chart 1: Trade, Restaurants and Hotels GDP (% y/y)

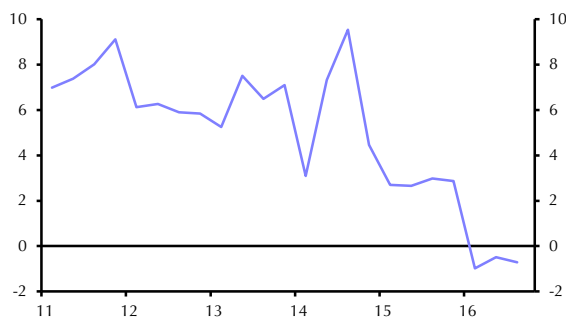


Chart 2: Point of Sale Transactions & ATM Cash Withdrawals (3m avg. % y/y)

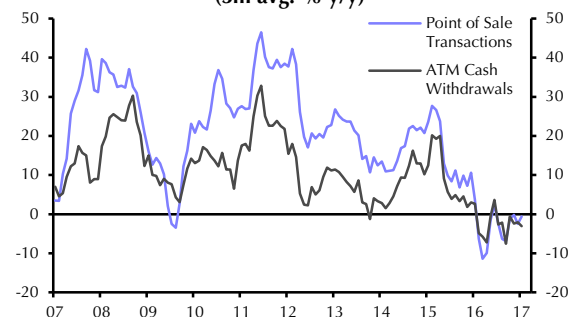


Chart 3: Consumer Confidence Indices

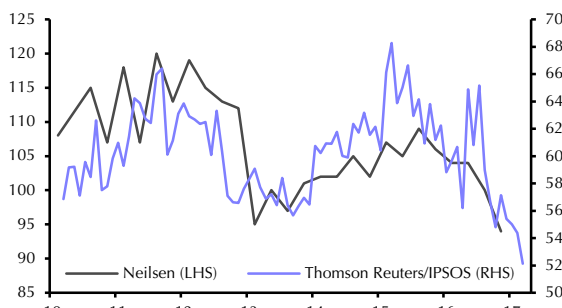
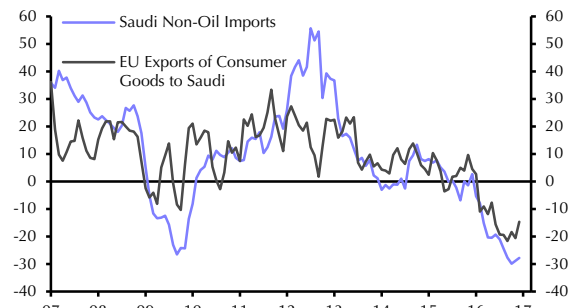


Chart 4: Imports (SAR Terms, 3m avg. % y/y)



Sources – CEIC, Thomson Datastream, Bloomberg, Capital Economics