



# MENA ECONOMICS UPDATE

## Saudi consumer resilience unlikely to last

- **Consumer spending in Saudi Arabia seems to have bounced back quickly in recent months, but the steep VAT hike and the suspension of the Cost of Living Allowance means that this is unlikely to be sustained.**
- Keeping track of Saudi consumer spending is difficult given the lack of timely retail sales figures and the late publication of quarterly GDP figures. But there are some indicators that can act as a useful gauge. **Point of sale transactions and ATM cash withdrawals fell by close to 35% y/y in April but, on average, were almost 10% higher in June and July than a year ago.** (See Chart 1.) In July, spending on hotels and transport was, unsurprisingly, down but spending in most other areas was up. (See Chart 2.)
- **Admittedly, Google data show that households are still taking fewer trips to retail and recreation outlets than before the virus outbreak. (See Chart 3.) But we wouldn't rush to conclusions from this data.** The lockdown may have led to a permanent shift towards more online spending and the data are relative to a January and February baseline; the searing summer heat may deter households from shopping trips.
- **Nonetheless, we doubt that the recent resilience of consumer spending will last. Perhaps most importantly, households are experiencing a severe squeeze on their incomes from recent austerity measures.** The most prominent has been a hike in the VAT rate from 5% to 15% that came into effect at the start of July, which pushed inflation up from 0.5% y/y in June to 6.1% y/y in July. (See Chart 4.)
- When VAT was first imposed in 2018, the impact was mitigated by the introduction of a Cost of Living Allowance for public workers. This time around, however, the allowance has been suspended. **Altogether, we estimate that these measures amount to a squeeze of 3.0-3.5% of GDP on household incomes.**
- In addition, some of the rebound in spending is likely to reflect pent-up demand as well as a rush to make purchases before the VAT hike came into effect. And with international flights only resuming today, households have probably spent more domestically and less abroad recently. These factors will soon fade.
- There are early signs that consumer confidence is suffering – an index compiled by Thomson Reuters and Ipsos dropped to a two-year low this month. **Weakness in household spending is a key reason why we think that Saudi Arabia's economic recovery will be slow-going.** (See [here](#).)

Chart 1: Sum of ATM Cash With. and Point of Sale Trans.

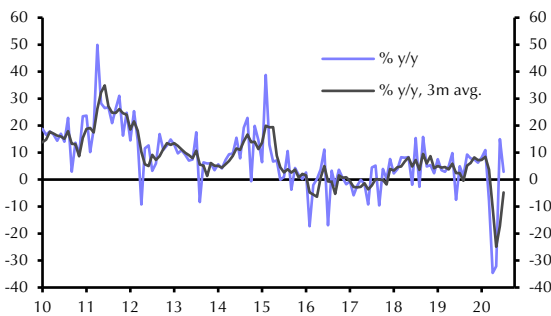


Chart 2: Point of Sale Transactions (July, % y/y)

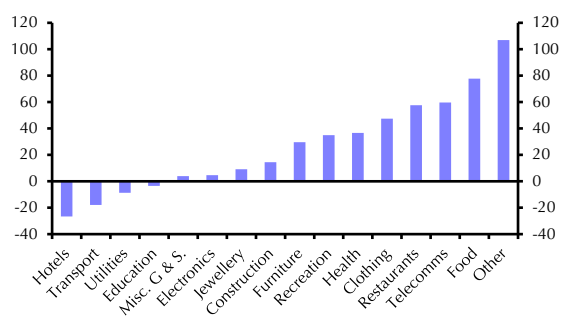


Chart 3: Visits to Retail & Recreation Facilities (%-Diff. From Jan.-Feb Median)

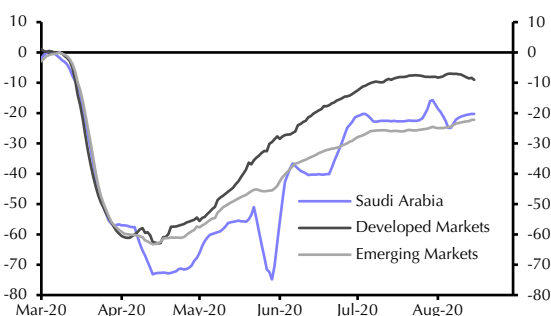
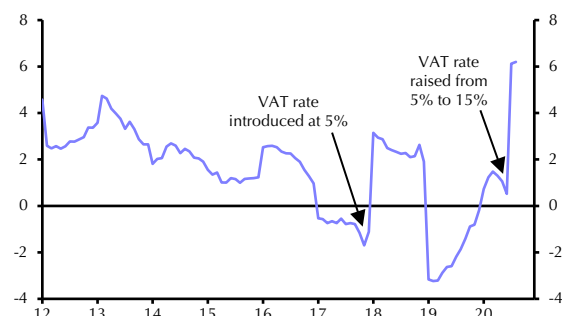


Chart 4: Consumer Prices (% y/y)



Sources: CEIC, Refinitiv, Google, Apple, Moovit, Capital Economics



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