جدوى للإستثمار
Jadwa Investment

June 2023

Q1 2023 GDP Update

Non-oil GDP growth remains buoyant

- GASTAT data show that the non-oil economy continues to expand at a robust rate. Real non-oil GDP grew by 5.3 percent in Q1, year-on-year, the third quarter running that this mark was achieved, and in line with the 2021-22 quarterly average.

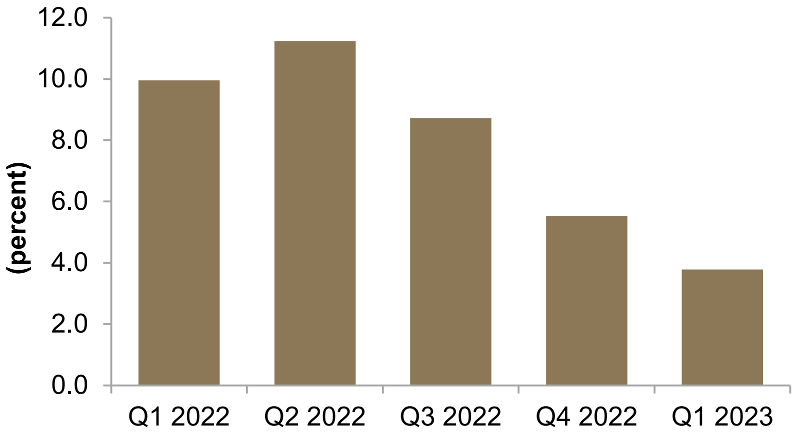
- Overall GDP slowed to 3.8 percent growth from 10 percent in Q1-22 as oil production growth softened. Oil GDP expanded by just 1.4 percent in Q1, and is set to shrink for the full year given cuts (realized and proposed) to Saudi crude production.

- From a Sectoral perspective, an important driver was Wholesale and Retail Trade, which grew by 7.5 percent, year-on-year. This sector continues to benefit from a steady supply of new entrants to the labor market, and an increasingly diverse offering of spending options.

- Manufacturing contracted slightly, weighed down by weaker oil refining output as the authorities diverted more crude to export markets, along with the impact of some softening in regional demand. The more important subsector, Petrochemicals, saw a 2.3 percent gain. This was well below the average quarterly increase in 2022 (7.9 percent), reflecting the fact that, for the moment at least, China's chemicals' inventories are near capacity. This should begin to unwind in the months ahead and the sector can look forward to decent growth in H2.

- From an Expenditure perspective, Private Consumption now accounts for some 45 percent of domestic demand, up from 36 percent a decade ago. That said, Investment has shown tremendous growth, expanding by 45 percent from the end of 2020 to Q1-23.

Figure 1: Change in Real GDP, year-on-year (2010 prices)



For comments and queries please contact:

James Reeve
Chief Economist
jreeve@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Released: June 21-2023, 16:00 UTC+3

Real GDP grew by 3.8 percent in Q1-23, year-on-year. This marked a slowdown from the 10 percent recorded in Q1-22, mainly reflecting weaker oil production growth.

GASTAT released first quarter GDP data in early June. The data show that real GDP expanded by 3.8 percent, year-on-year, down from 5.5 percent in Q4-22, and from 10 percent in Q1-22 (Figure 1). The main drag on growth was from Oil Activities, which slowed to 1.4 percent growth from 6.1 percent in the previous quarter, and from a colossal 20.2 percent in Q1-22. Meanwhile, Non-oil Activities accelerated to 5.3 percent versus 3.4 percent in Q1-22 (Figure 2).

From a sectoral perspective, Manufacturing was the only sector not to post year-on-year growth. This reflected a contraction in Refining output as the authorities opted to sell more crude abroad.

Table 1: GDP by Institution and Economic Activity, year-on-year percent change, Q1-23 vs Q1-22 (2010 prices)

	Q1 2022	Q1 2023
Overall GDP	**10.0**	**3.8**
By institutional sector		
Oil Sector	20.2	1.4
Non-oil Sector	3.4	5.3
Government Sector	2.9	5.4
Private Sector	3.6	5.2
By economic activity		
Agriculture, Forestry & Fishing	3.2	2.9
Mining & Quarrying	20.4	2.2
a) Crude Petroleum & Natural Gas	20.7	2.3
b) Other Mining & Quarrying	1.0	0.2
Manufacturing	7.3	-0.4
a) Petroleum Refining	17.3	-7.6
b) Manufacturing excluding petroleum refining	4.1	2.3
Electricity, Gas and Water	1.4	1.6
Construction	0.4	5.5
Wholesale & Retail Trade, Restaurants & Hotels	6.3	7.5
Transport, Storage & Communication	5.9	9.3
Finance, Insurance, Real Estate & Business Services	2.5	2.8
a) Real Estate	1.2	1.7
b) Finance, Insurance and Business Services	4.2	4.2
Community, Social & Personal Services	1.1	12.8
Producers of Government Services	2.4	4.9

Figure 2: Change in Real GDP by Institution, Oil and Non-Oil, year-on-year (2010 prices)

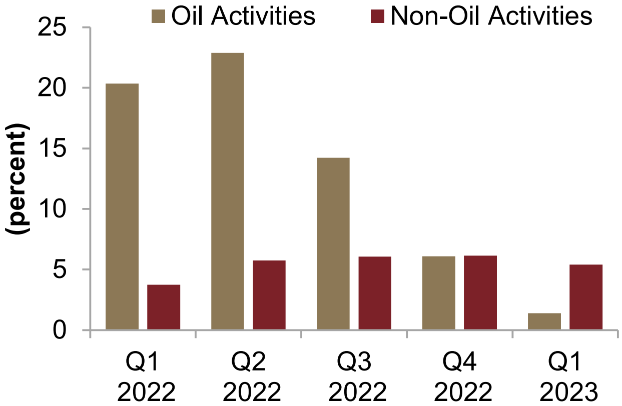
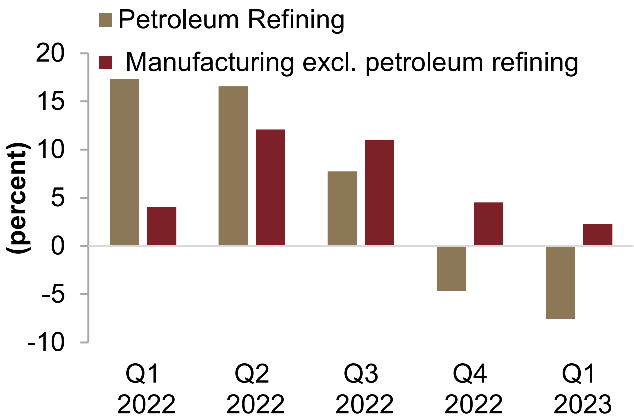


Figure 3: Change in Real Manufacturing GDP, Refining and Petrochemicals, year-on-year (2010 prices)



Oil's contribution to real GDP growth is likely to go into reverse during the remainder of the year given the Kingdom's OPEC-agreed cuts in May and July.

Oil Activities are set to slow further, and indeed go into reverse given the Kingdom's commitment to additional cuts in production as part of OPEC agreements. The second quarter encompasses a 500,000 bpd cut to output, which was made at the beginning of May, and is assumed to stay in place for the remainder of the year (Bloomberg puts the actual cut at 510,000 bpd). This will probably leave output around 3 percent lower than in the second quarter of 2022. Then, in July, a further 1 million bpd cut to Saudi output is promised, which we also assume will apply for the rest of the year. Thus, oil output for the third quarter is likely to be down by at least 15 percent, year-on-year. Barring an unexpected recovery in output in Q4 (which will depend on the authorities' reading of the demand situation) total crude output is likely to be some 8-10 percent lower in 2023 compared with 2022.

Non-oil GDP grew by a solid 5.3 percent. There were strong gains from both "government" and "private" non-oil activities.

Non-oil output grew by a healthy 5.3 percent year-on-year rate, the third quarter running that this mark was achieved. Non-oil activity is split into "government" and "private", with the latter generally accounting for around 70 percent of output (though see Box 1). In this instance government output saw stronger growth (5.4 percent year-on-year), yet private activity was still up by 5.2 percent.

Looking at GDP by Sector, the biggest non-oil growth driver (outside of Government Services) remains Manufacturing, which in turn is dominated by Petrochemicals and Oil Refining (Table 1; Figure 3). Refining struggled in the first quarter, falling by 7.6 percent, which is probably a reflection of the authorities' efforts to push more crude out to export markets at the expense of domestic refining activity, along with the impact of some weakness in regional refining demand. Petrochemicals output decelerated sharply to 2.3 percent as chemicals stocks in China (KSA's main market) neared capacity. Chinese demand is expected to pickup again as its stocks are drawn down, giving support to a sector that suffered more than most during China's lockdowns. Indeed, subsequent data for April show that overall Manufacturing output increased by 10.5 percent.

Wholesale and Retail Trade had another very strong quarter. This reflects buoyant domestic consumption, driven in turn by female labor force entry and burgeoning spending opportunities.

Wholesale and Retail Trade is the next largest sector and this has enjoyed solid growth over the past few years. The sector expanded by 7.5 percent in Q1 and now accounts for just under 10 percent of overall GDP (Figure 4). Demand is being propelled by women joining the workforce, while on the supply side there is ever-increasing scope to spend new incomes on entertainment and domestic tourism.

In terms of sector size, Trade is followed closely by Finance, Insurance, Real Estate and Business Services (9.5 percent of GDP). However, growth in this sector was much more subdued in Q1-23 at 2.8 percent overall, with the Real Estate sub-sector dragging. Real Estate enjoyed outsized growth in 2021 and much of 2022 before higher interest rates began to weigh on mortgage demand. Pent-up demand is still substantial, however, and the sector is likely to see renewed acceleration once interest rates begin to fall (likely H1-2024).

Construction has rebounded forcefully following a challenging few years. The sector is being powered along by the rollout of various giga projects, along with regular central government capex which surged in Q1-23 according to the fiscal accounts.

Following a challenging couple of years (mainly Covid-19-related), the Construction sector appears to have rebounded quite forcefully, growing by an annual 5.5 percent in the first quarter. Indeed, the average for the past four quarters has been 5.9 percent. The sector has obviously benefitted from the surge in public sector investment, most notably around giga-projects, though housing construction has also been a significant tailwind. There are some constraints around labor and other inputs, though this is hardly surprising given the pick-up in pace of project roll-out as interim Vision 2030 deadlines loom.

The biggest "non-oil" sector, Government Services, saw a 4.9 percent Q1 gain, the largest since Q2-18. However, this pace is unlikely to be sustained given the highly uncertain oil demand outlook.

The biggest non-oil sector is Government Services, though this sector's relationship to oil revenue is obviously pretty tight. This picked up to 4.9 percent annual growth in Q1-23 (from an average of 2.6 percent in the previous four quarters), which is in line with the increase in spending revealed in the government's Q1 fiscal accounts. The 4.9 percent gain was the largest since Q2-18, and reflects in part the increase in procurement costs (associated with a surge in capex) during the quarter. Government spending growth seems likely to moderate in the quarters ahead given the very uncertain oil demand outlook.

Box 1: Defining "private" investment

The GASTAT data put "Non-Government" investment as the largest element of overall investment. However, this needs treating with caution as it includes investments made by the Public Investment Fund (PIF). We can see this from the fact that "government" fixed investment (in current prices) is virtually identical to central government capex from the fiscal reports (if PIF investments were included in the former then the series would not match).

Disentangling public investment from private is not straightforward.

The authorities classify PIF investments as private, reflecting the recipients of its investments, which are often, but not always, private sector entities. However, as the name suggests, the PIF is a public sector actor. Unfortunately, there is not enough detail about PIF investments to separate them out from private investments. The latest PIF financial statement covers 2021 and shows that total PIF assets increased by SR479 billion during the year. However, much of this would have been valuation gains in existing investments (the TASI alone rose more than 30 percent in 2021) along with the impact of the merger between NCB and Samba (in which PIF had pre-existing stakes).

The Fund's spending plans give some insight into the likely deployment of capital in the domestic economy. The PIF has pledged to invest SR150 billion a year domestically, and if we strip out this amount from the "non-government" investment in 2022 (in current prices) we are left with around SR750 billion of private investment, up from SR530 billion in 2021. But this approach clearly has only limited value in gauging the actual level or growth of purely private investment in the Saudi economy.

Figure 4: Change in Real Domestic Trade GDP, year-on-year (2010 prices)

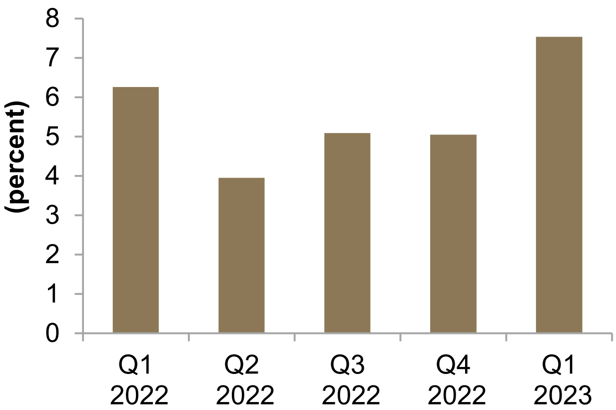
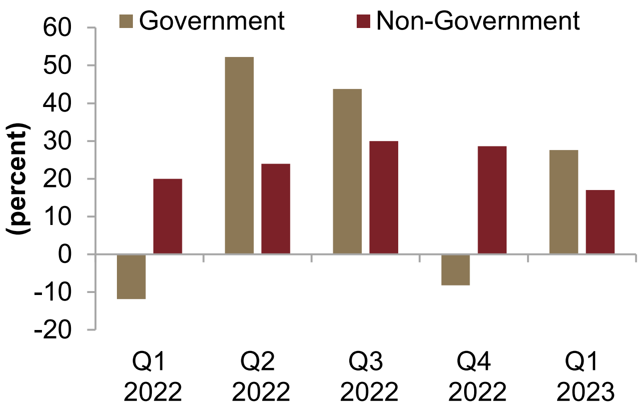


Figure 5: Change in Gross Fixed Capital Formation, Government and Non-Government, year-on-year (2010 prices)



GDP by Expenditure showed very strong gains for Investment and Consumption, offsetting a weak showing from Net Exports.

The strong showing from government services in Q1 is matched in the GDP by Expenditure data (Table 2). These show Government "Final Consumption" expanding by 16.2 percent in real terms, year-on-year—a startling gain on the 6.7 percent average for 2022. Despite this, government consumption is still only around half that of private consumption, which has seen steady and impressive gains over the past couple of years, averaging 7 percent. Private consumption now accounts for 45 percent of final domestic demand (that is, subtracting volatile net exports) up from 36 percent a decade ago. Private consumption will be a durable tailwind for GDP for years to come given that women still represent only 38 percent of the workforce, compared with a global average of around 50 percent.

Table 2: Real GDP by Expenditure, year-on-year percent change, Q1-23 vs Q1-22 (2010 prices)*

	Q1 2022	Q1 2023
Gross Final Consumption Expenditure	4.9	7.8
Govt. Final Consumption Expenditure	2.5	16.2
Private Final Consumption Expenditure	6.1	3.9
Gross Fixed Capital Formation	17.5	17.6
Government	-11.9	27.6
Non-Government	20.0	17.0
Domestic Final Demand	1.5	6.8
Exports of Goods & Services	27.9	2.0
Imports of Goods & Services	5.8	11.2
Gross Domestic Product	**10.0**	**3.8**

**excludes change in inventories*

Real Investment has grown by a phenomenal 45 percent since 2020. Still, the economy is now much more consumption-oriented than it was ten years ago.

Meanwhile, Gross Fixed Capital Formation underscored its role as the primary growth driver of the Saudi economy with a 17.6 percent year-on-year expansion in Q1 (Figure 5). Yet even this eye-watering figure was still some way lower than the 24.2 percent average growth rate recorded in 2022. Fixed investment has grown by a colossal 45 percent in real terms since the Covid-19-afflicted 2020, as giga-projects (and other "lesser" infrastructure additions and improvements) have been ramped up. However, separating private from public investment is not straightforward (Box 1).

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