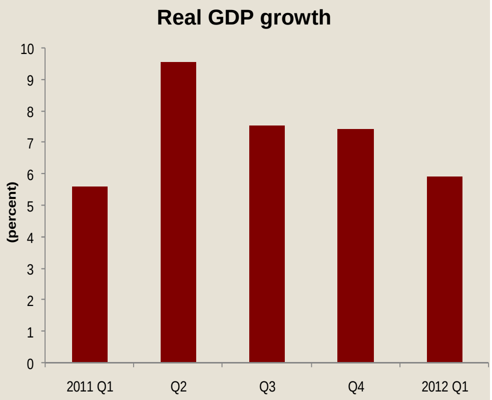
Jadwa Investment

June 2012

Healthy first quarter economic growth

Latest economic growth data confirm that the healthy performance of the Saudi economy continued into the first quarter of 2012. In real terms (that is, adjusted for price movements) the economy was 5.9 percent larger in the first quarter of 2012 than in the same quarter of 2011. Growth was lower than in the previous three quarters and more dependent on the oil sector, as the effects of short-term government stimulus eased. However, performance remains robust even when the oil and government sectors are removed.



At 5.9 percent, year-on-year growth in the first quarter was down from 7.4 percent in the final quarter of 2011. Quarterly real GDP data has only been published since 2010 and the first quarter reading was the slowest since the first quarter of 2011. The slowdown was fairly broad based, with only oil and utilities (electricity, gas and water) growing at a faster pace than in the fourth quarter. Nonetheless, each sector of the economy grew.

Real GDP growth
(percent change, year-on-year)

	2011				2012
	Q1	Q2	Q3	Q4	Q1
Agriculture	0.7	1.3	4.4	5.2	1.4
Oil	1.3	2.6	6.0	5.7	7.7
Manufacturing	12.0	14.9	9.0	20.6	8.4
Electricity, gas and water	9.1	3.4	6.7	2.5	9.0
Construction	8.8	12.7	12.3	13.3	9.1
Wholesale & retail trade	7.3	7.4	7.0	8.1	6.6
Transport & communication	11.2	11.4	11.7	10.9	9.0
Finance	1.0	3.9	6.0	1.5	1.8
Personal services	10.1	9.2	9.2	9.2	8.1
Government services	1.6	18.9	7.3	4.6	2.8
GDP	**5.6**	**9.6**	**7.5**	**7.4**	**5.9**

At 7.7 percent, growth in the oil sector was the fastest of the five quarters for which data is available. This was heavily influenced by the move in oil production, which was up by 13.2 percent over the same period. Oil production is the central driver of the performance of the oil sector and the divergence between the growth in oil production and the oil sector is surprising and likely to be revised in future. As oil production increased significantly in June 2011, the boost to GDP from the oil sector will fade in the coming quarters.

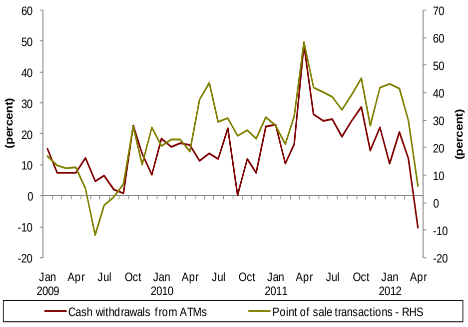
Construction was the fastest growing sector, at 9.1 percent. This is due to huge activity in building infrastructure, commercial and increasingly residential projects. The large government spending allocated to boosting the provision of housing will keep construction one of the fastest growing sectors for the next few years. Utilities and

For comments and queries please contact the author:

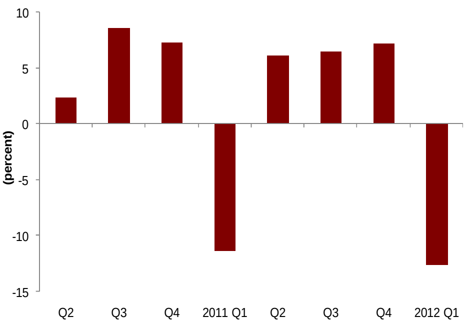
Paul Gamble
Chief Economist and Head of Research
pgamble@jadwa.com

Head office:
Phone +966 1 279-1111
Fax +966 1 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Indicators of consumer spending
(year-on-year change)



Quarterly real GDP growth



transport and communication both also grew at around 9 percent. For the former, this reflects government investment in increasing supply in the face of rapidly growing demand. Transport and communication growth stems from the need to move a high volume of goods around the Kingdom (both imports and construction materials) and the ongoing rise in mobile telecom and data services.

Year-on-year growth in manufacturing and wholesale and retail trade both dropped to their lowest levels in the five quarters for which data is available. In both cases, growth was still robust, at 8.4 percent and 6.6 percent respectively. The slowdown in manufacturing growth may reflect weaker demand from abroad. For wholesale and retail trade it was probably due to the lessening impact of the bonus for public-sector workers in the first quarter of last year.

Stripping out the oil sector, the slowdown in the economy in the first quarter was more pronounced. Non-oil economic growth dropped to 5.6 percent, its lowest during the period which data is available, from 8.2 percent in the fourth quarter. However, with growth in the government sector declining at a faster pace, to only 2.8 percent in the fourth quarter, excluding the oil and government sectors economic growth was a robust 6.4 percent. While this is not calculated in the same way as non-oil private sector growth, it points to another quarter of strong performance by the private sector.

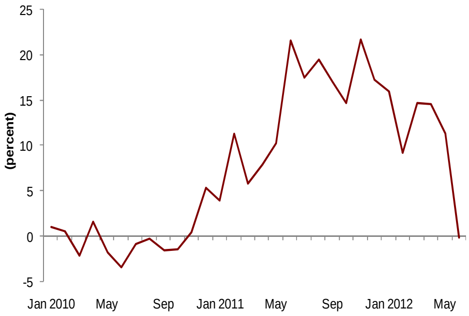
In quarter-on-quarter terms, the economy shrunk by 13 percent. However, this was in line with the seasonal trend; quarterly growth was –11 percent in the first quarter of 2011. Two sectors record large quarterly drops in output in the first quarter. The first was utilities (down by 16 percent quarter-on-quarter), which reflects the drop in residential and commercial power demand due to much lower use of air conditioning. The second was the oil sector (down by 54 percent quarter-on-quarter); the reason for this fall is unclear and not related to oil production. For most other sectors of the economy, quarterly output recorded double digit growth, again due to a seasonal factor, the impact of Eid al-Adha, which in recent years has fallen in the fourth quarter.

Real GDP growth
(percent change, quarter-on-quarter)

	2011				2012
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
Agriculture	23.8	-4.1	-3.1	-8.6	19.4
Oil	-54.7	36.6	34.4	27.1	-53.9
Manufacturing	21.3	1.7	8.1	-9.6	9.0
Electricity, gas and water	-20.6	63.6	16.0	-31.9	-15.6
Construction	20.5	-2.7	0.1	-3.5	16.1
Wholesale & retail trade	15.2	-15.5	2.5	8.4	13.6
Transport & communication	15.6	-5.7	-4.8	7.0	13.5
Finance	11.6	-4.6	-1.4	-3.3	12.0
Personal services	11.5	-1.1	-0.5	-0.5	10.4
Government services	-14.8	14.7	-6.0	13.9	-16.2
GDP	**-11.3**	**6.1**	**6.5**	**7.2**	**-12.6**

We assume that year-on-year economic growth will ease further in the second quarter. In addition to much lower growth in oil production, the impact of the bonus for public-sector workers will be less pronounced (cash withdrawals from ATMs were down by 10

Oil production
(year-on-year change; Jadwa forecast for June 2012)



percent in year-on-year terms in April, compared to a 14 percent rise in the first quarter). Furthermore, the renewed intensification of problems in the Eurozone and apparent slowing of the global economy will dent output. Nonetheless, high government spending will continue to support the economy and the construction sector is strong (cement sales in April and May are 10 percent higher than one-year earlier). Furthermore, year-on-year growth in bank lending hit a three-year high in April and business surveys point to further rapid expansion of the private sector. While local fundamentals are solid, with considerable uncertainty over the path of the global economy we maintain our forecast for total real GDP growth for 2012 at 5.2 percent.

Disclaimer of Liability

Unless otherwise stated, all information contained in this document (the "Publication") shall not be reproduced, in whole or in part, without the specific written permission of Jadwa Investment.

The data contained in this Research is sourced from Reuters, Bloomberg, Tadawul and national statistical sources unless otherwise stated.

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that contain in the Publication. It is not the intention of the Publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future.