جدوى للإستثمار
Jadwa Investment

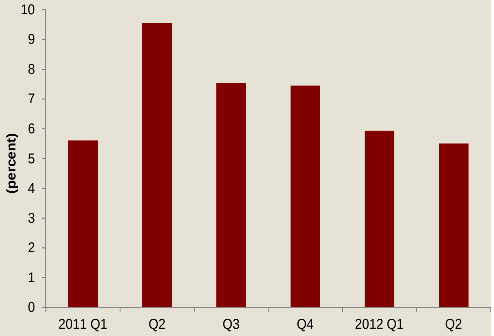
September 2012

Private sector leads real GDP growth in Q2

Latest economic growth data released last week confirm that the healthy performance of the Saudi economy continued into the second quarter of 2012 albeit at slower pace than previous quarters. In real terms (that is, adjusted for price movements) the economy was 5.5 percent larger in the second quarter of 2012 than in the same quarter of 2011. The non-oil private sector registered the highest year-on-year growth in the second quarter supported by a robust expansion in the construction and transport and communication sectors as well as strong domestic demand.

At 5.5 percent, year-on-year growth in the second quarter was down from 5.9 percent in the first quarter of 2012. In fact, the second quarter real GDP growth registered the slowest growth rate since such data was published in 2010. The decline in the growth rate is mostly due to base-effect as the strong growth in the second quarter of last year was affected by short-term government stimulus. Despite such slower growth, five out of the ten sectors registered improvements in the second quarter compared to that in the first quarter.

Real GDP growth



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

	2011			2012	
	Q2	Q3	Q4	Q1	Q2
Agriculture	1.3	4.4	5.2	1.4	1.4
Oil and gas	2.6	6.0	5.7	7.7	6.0
Manufacturing	14.9	9.0	20.6	8.4	6.9
Electricity, gas and water	3.4	6.7	2.5	9.0	8.0
Construction	12.7	12.3	13.3	9.1	9.3
Wholesale & retail trade	7.4	7.0	8.1	6.6	7.8
Transport & communication	11.4	11.7	10.9	9.0	9.1
Finance	3.9	6.0	1.5	1.8	2.0
Personal services	9.2	9.2	9.2	8.1	8.9
Government services	18.9	7.3	4.6	2.8	2.2
GDP	**9.6**	**7.5**	**7.4**	**5.9**	**5.5**

At 9.3 percent, growth in the construction sector was the fastest of the ten sectors. This was heavily influenced by government capital spending as well as 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. We, nonetheless, expect the sector to register a moderate slowdown in the third quarter following a seasonal trend. Transport and communication also registered more than 9 percent growth. This was expected given the strong link between the construction sector and the transport sector. We believe the strong growth in the latter is

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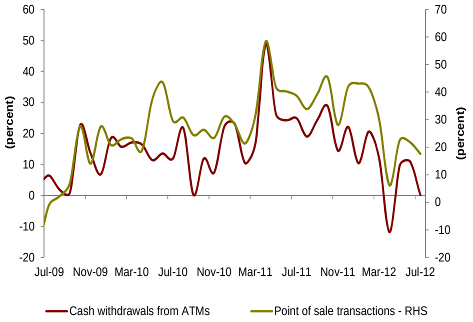
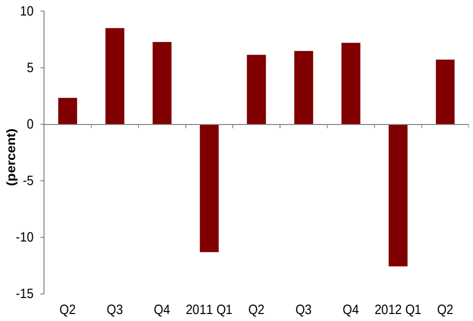
Indicators of consumer spending
(year-on-year change)



Quarterly real GDP growth



driven by the need to move a high volume of goods around the Kingdom (both imports and construction materials) and the ongoing investment in rail projects.

At 6 percent, growth in the oil and gas sector was significantly higher than it was a year ago but slightly lower than the first quarter of this year. This was heavily influenced by the move in oil production, which was up by 9 percent year-on-year in the second quarter of 2012. While oil production is the central driver of the performance of the oil sector, the divergence between the growth in oil production and the oil sector is surprising not only in this quarterly data release but also in previous quarters. As the growth in the oil production slows in the coming quarters mostly due to base-effect as well as lower production, the boost to GDP from the oil sector is expected to fade away in the coming two quarters.

Year-on-year growth in wholesale and retail trade, personal services and finance sector registered a higher growth in the second quarter compared to the first quarter this year. This improvement reflects a stronger domestic demand as we highlighted in our previous reports. The manufacturing sector growth rate slowed for the second consecutive quarter although remained robust at 6.9 percent. This slowdown may reflect weaker petrochemical demand from abroad.

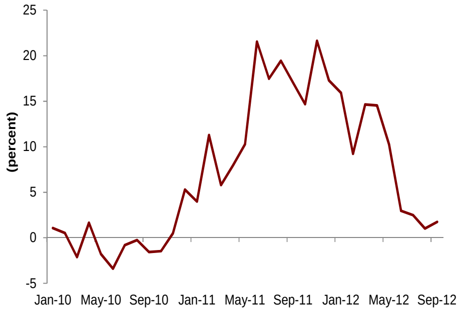
Stripping out the oil and gas sector, Non-oil economic growth slowed to 5.5 percent, the lowest during the period which data is available, from 5.7 percent in the first quarter. However, with growth in the government sector declining at a faster pace, to only 3.6 percent in the second quarter, excluding the oil and government sectors private non-oil sector growth was robust 6.4 percent. Such expansion puts the private sector at the lead in maintaining a robust growth in the second quarter. We expect such trend to continue over the coming quarters particularly as the private sector benefit from strong domestic fundamentals.

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

	2011			2012	
	Q2	**Q3**	**Q4**	**Q1**	**Q2**
Agriculture	-4.1	-3.1	-8.6	19.4	-4.2
Oil and gas	36.6	34.4	27.1	-53.9	34.5
Manufacturing	1.7	8.1	-9.6	9.0	0.3
Electricity, gas and water	63.6	16.0	-31.9	-15.6	62.2
Construction	-2.7	0.1	-3.5	16.1	-2.6
Wholesale & retail trade	-15.5	2.5	8.4	13.6	-14.5
Transport & communication	-5.7	-4.8	7.0	13.5	-5.6
Finance	-4.6	-1.4	-3.3	12.0	-4.4
Personal services	-1.1	-0.5	-0.5	10.4	-0.4
Government services	14.7	-6.0	13.9	-16.2	13.9
GDP	**6.1**	**6.5**	**7.2**	**-12.6**	**5.7**

In quarter-on-quarter terms, the economy expanded by 5.7 percent compared to a contraction of 12.6 percent in the previous quarter. While this trend is expected as performance in the second quarter has been generally higher than that in the first quarter, the quarter-on-quarter expansion is lower than that registered in the same period of last year. Such slowness was driven by six sectors that contracted in the second quarter with wholesale and retail sector registering the largest drop at –14.5 percent. The construction and transport and communication sectors both contracted in the second quarter

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



compared to the first quarter as rising temperature slows production. The utilities sector, however, registered a significant improvement expanding by 62.2 percent compared to the first quarter which reflects the rise in residential and commercial power consumption due to much higher use of air conditioning. The second fastest growing sector was the oil sector (up by 34 percent quarter-on-quarter); the reason for this expansion is again unclear and not related to oil production which expanded by 1.2 percent for the same period.

We expect year-on-year economic growth will ease further in the third quarter. In addition to much lower growth in oil production, the impact of the seasonal factors particularly on the construction and transport sectors are likely to be more pronounced. Furthermore, the intensification of problems in the Eurozone in the third quarter and apparent slowing of the global economy will dent output. Nonetheless, we maintain our view that high government spending will continue to support the economy. Furthermore, year-on-year growth in bank lending maintained a firm upward trend 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.