جدوى للإستثمار
Jadwa Investment

July 2013

Quarterly GDP update:
Oil sector pulls overall growth down in Q1-13

Real GDP growth
(percent)

	Quarterly change	Annual change
2013-Q1	1.3	2.1
2012-Q4	0.2	4.4

Comparative economic growth
(2013-Q1, year-on-year change)

For comments and queries please contact:
Fahad Alturki
Head of Research
falturki@jadwa.com

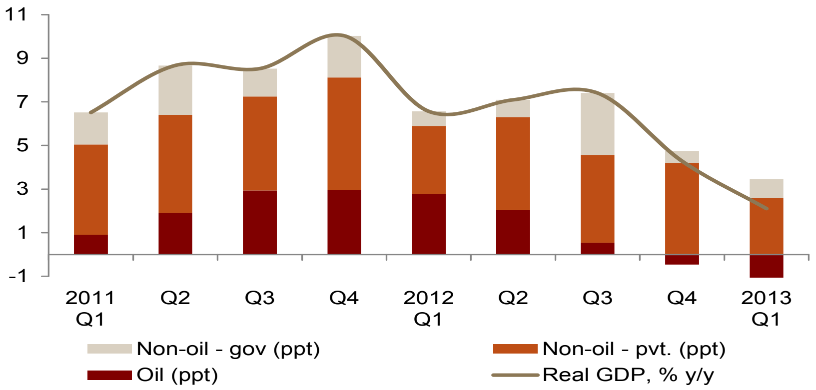
Head office:
Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

- In real terms, the Saudi economy was 2.1 percent larger in the first quarter of 2013 than in the same quarter of 2012. Growth was the slowest since the first quarter of 2011.
- The slowdown was fairly broad based, with only government services growing at a faster pace than in the fourth quarter. Nonetheless, most sector of the economy grew with the exception of oil sector.
- We assume that year-on-year economic growth will ease further in the second quarter owing to lower growth in oil production. Other sectors of the economy will benefit from solid local fundamentals.

The Central Department of Statistics and Information (CDSI) has released GDP data for the first quarter this year showing a real economic growth of 2.1 percent compared with 4.4 percent in the fourth quarter last year and 6.6 percent in the first quarter of 2012. In fact, growth was the slowest since the first quarter of 2011. The slowdown was fairly broad based, with only government services growing at a faster pace than in the fourth quarter. Nonetheless, each sector of the economy grew, with the exception of the oil sector. The private non-oil sector was the main growth driver in the first quarter contributing 2.6 percentage point (ppt, Figure 1). The government contribution improved to 0.9ppt in the first quarter compared with 0.5ppt in the previous quarter. Finally, the oil sector contribution was -1.4ppt owing to lower oil production.

Non-oil GDP growth expanded by 4.4 percent year-on-year compared with 6.1 percent in the previous quarter and 4.8 percent in

Figure 1: Contracting oil sector pulled growth down



Growth recorded the lowers quarterly ready in the first quarter...

...with a broad based slowdown…

...though all sectors of the non-oil economy grew.

the same period last year. While private sector was the main driver of the non-oil sector, its contribution and growth level have started to normalize as the impact of the 2011 fiscal stimulus fade away gradually. The private non-oil sector expanded by 4.3 percent year-on-year in the first quarter compared with 5.1 percent for the same period last year. Despite the slower growth, we expect the private sector to maintain the current level of growth supported by strong domestic demand, rising bank lending and public sector investment.

Expansion of government services contributed to strong public sector growth.

Non-oil public sector expanded by 4.9 percent year-on-year, the highest sectorial growth in the first quarter. Most of this growth was sourced from higher government services which expanded by 5.7 percent year-on-year. The contribution of government services to overall economic growth is likely to remain firm over the rest of the year as the recent labor market reform and enforcement of labor law increases demand for government services. We also expect this expansion in services to translate into higher non-oil revenues for the government budget.

Lower oil production pulled oil-sector growth to the negative territory.

The oil sector contracted by 6.3 percent (Figure 4), the lowest quarterly reading for which data is available (quarterly real GDP data has only been published since 2010). This was heavily influenced by the move in oil production, which contracted by 7.9 percent over the same period. As a result, the share of the oil sector in overall real GDP shrunk to 19.6 percent compared with 21.3 percent a year earlier. As oil production is likely to gradually increase during the summer months owing to rising domestic demand, the negative effect of oil reduction on overall GDP growth will decline in the coming quarters.

Solid demotic consumption positioned the growth of the retail sector on the top.

While most sectors registered a positive year-on-year growth in the first quarter, their performance varies (Figures 2, 3 and 5). As

Figure 2: GDP growth composition

	Percentage change (q/q)				Percentage change (y/y)			
	2012	2012	Q1-13		2012	2012	Q1-13	
	Q1	Q4	q/q	Contribution (ppt)	Q1	Q4	y/y	Contribution (ppt)
Oil Sector	0.6	-3.4	-3.2	-0.7	13.3	-2.1	-6.3	-1.4
Non-Oil Sector	6.7	1.1	2.7	2.1	7.1	6.1	4.4	3.5
Private Sector	14.4	0.2	8.1	4.7	7.9	7.6	4.3	2.6
Government Sector	-13.3	3.8	-12.0	-2.6	4.5	2.5	4.9	0.9
By sector								
Agriculture	24.1	-9.3	21.3	0.6	2.7	2.2	1.0	0.0
Mining and quarrying	1.8	-3.8	-0.3	-0.1	13.8	-2.3	-6.3	-1.3
Of which: crude petroleum & natural gas	1.2	-3.6	-0.9	-0.2	14.1	-2.6	-6.7	-1.3
Manufacturing	11.8	0.4	2.5	0.4	12.0	6.0	2.6	0.4
Electricity, gas and water	-16.8	-30.2	-17.4	-0.4	8.5	3.5	2.8	0.0
Construction	17.5	-3.8	7.8	0.6	10.4	10.3	6.7	0.5
Wholesale & retail trade	15.0	9.0	11.0	1.4	7.2	8.9	6.9	0.9
Transport & communication	15.8	7.2	2.8	0.3	10.2	10.8	2.4	0.2
Finance	13.0	0.3	9.2	1.2	3.5	5.5	3.0	0.4
Personal services	7.6	-0.9	3.7	0.1	5.3	5.7	3.3	0.1
Government services	-20.6	3.8	-16.4	-2.7	2.8	0.6	5.7	0.7
Real GDP	**5.2**	**0.2**	**1.3**	**1.3**	**8.3**	**4.4**	**2.1**	**2.1**

Construction sector was the next fastest growing sector.

expected, **wholesale and retail trade** sector was the fastest growing sector (6.9 percent), though at a slower pace than the previous three quarters. The retail sector is likely to maintain a robust growth over the coming quarters as indicated by rising cash withdrawals from ATMs and point of sale transactions year-to-May. **Construction** sector was the next fastest growing sector, at 6.7 percent year-on-year compared with 4.7 percent in the same quarter of 2012. 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 in the face of rapidly growing demand will keep construction one of the fastest growing sectors for the next few years.

Seasonal trend pushed the utility sector down...

…while subdued external demand weigh on manufacturing growth.

Year-on-year growth in **utilities, manufacturing and transport and communication** all slowed compared to the same period last year. For utilities (electricity, gas and water) and transport and communication, the slower growth was partially due to large base effect. The utilities expanded by 2.8 percent in the first quarter this year compared with 8.5 percent for the same period last year. The transport and communication sector grew by 2.6 percent in the first quarter this year compared with 8.6 percent for the same period last year. The slowdown in manufacturing growth to 2.6 percent may reflect weaker demand from abroad.

In quarter-on-quarter terms, the economy expanded by 1.3 percent…

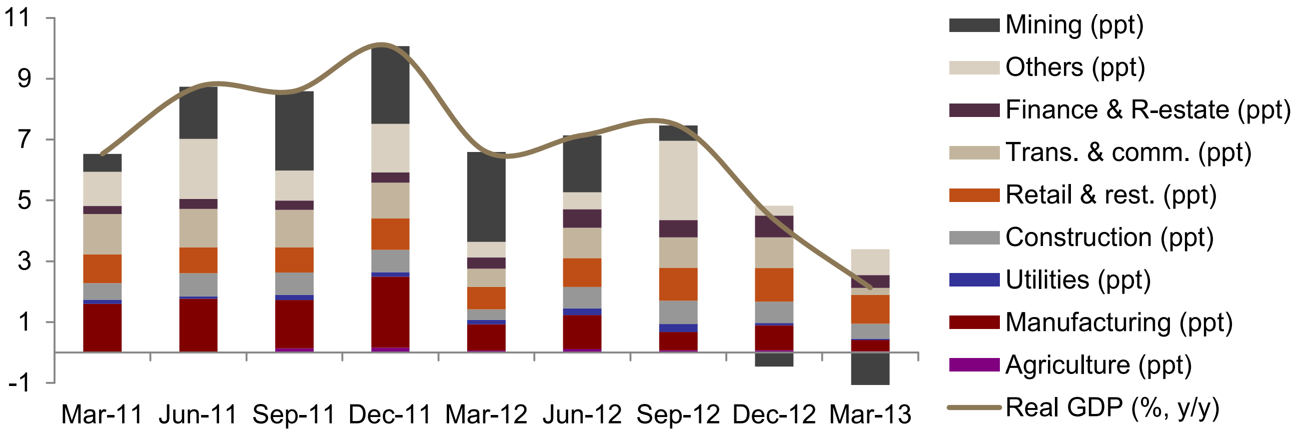
...supported by strong private sector growth…

In quarter-on-quarter terms, the economy expanded by 1.3 percent compared with 0.2 percent in the previous quarter. Most of this growth was generated by the non-oil private sector which expanded by 8.1 percent, while both the oil and government sectors shrunk by 3.2 percent and 12 percent, respectively.

...with oil, utilities and government services recording negative growth.

Two sectors record double digit output growth rates in quarter-on-quarter terms in the first quarter. The first was agriculture sector (4 percent of the overall GDP) which registered the highest quarterly growth of 21.3 percent owing to a seasonal trend. The second was the wholesale and retail trade which expanded by 11 percent quarter-on-quarter. For most other sectors of the economy, quarterly output was mostly driven by seasonal factor. A positive seasonal trend affected the construction sector which expanded by 7.8 percent compared with a contraction of 3.8 percent in the previous quarter. On the other end, the utility sector recorded the largest drop in output in the first quarter (-17.4 percent). This is expected given the seasonal decrease in residential and commercial power demand during the winter months.

Figure 3: Sectoral contribution to real GDP growth



We assume that year-on-year economic growth will ease further in the second quarter…

...owing to lower growth in oil production...

...but other sectors of the economy will benefit from solid local fundamentals.

We expect the economic performance to be mixed for the reminder of the year. On the one hand, the contribution of oil production to annual economic growth is likely to remain on the negative side leading to a subdued overall growth particularly in the second quarter. On the other hand, we expect both government and private sectors to maintain their solid performance which will maintain a healthy economic performance. In fact, leading indicators point toward a solid performance in the first half of the year for construction, retail, transport and communication sectors. Furthermore, year-on-year growth in bank lending maintained a firm upward path (Figure 6) and business surveys point to expanding private sector (Figure 7). 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 2013 at 4.2 percent.

Figure 4: Oil production and real oil GDP
(year-on-year)

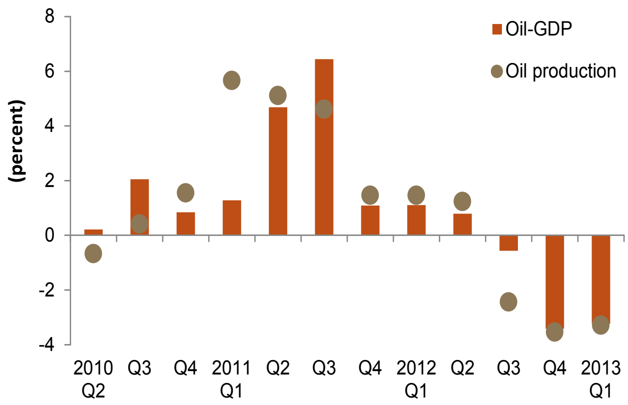


Figure 5: Quarterly real GDP growth
(year-on-year)

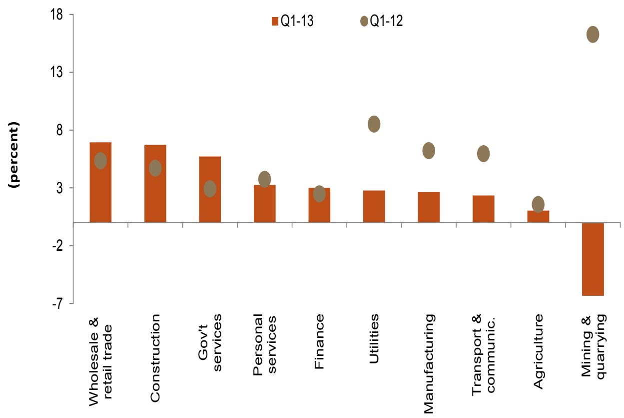


Figure 6: Credit to private sector

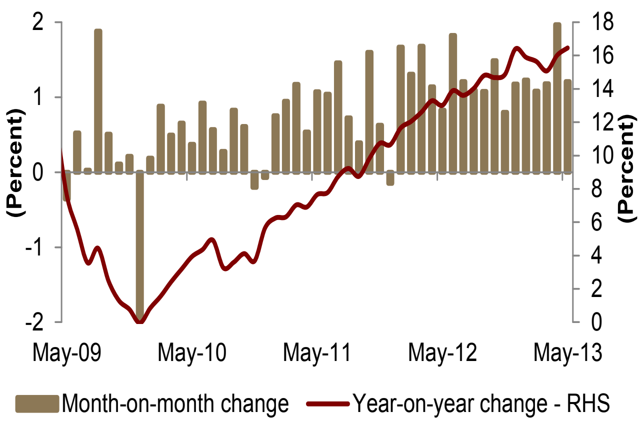
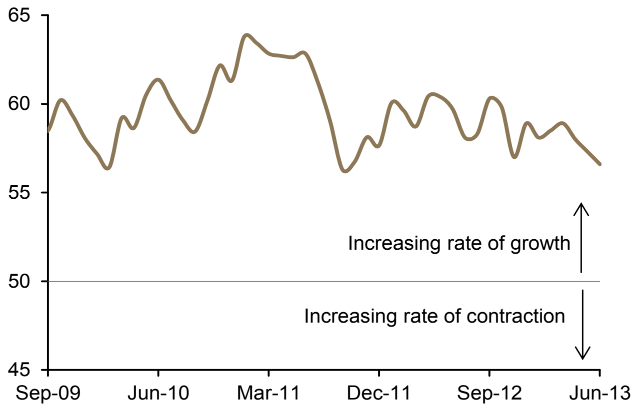


Figure 7: Purchasing Manager Index



Disclaimer of Liability