جدوى للإستثمار
Jadwa Investment

September 2013

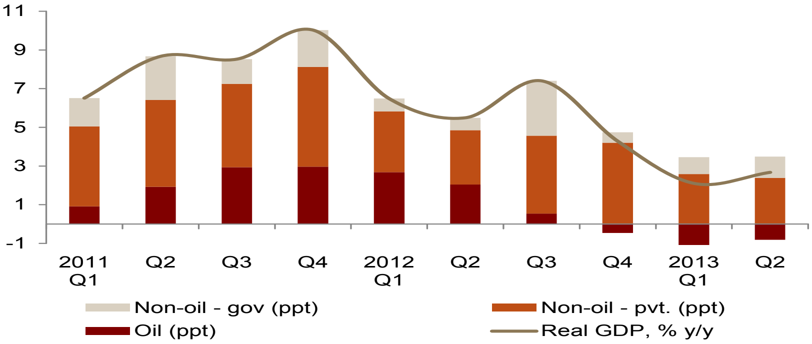
Quarterly GDP update:
Growth picks up despite falling oil GDP

- In real terms, the Saudi economy was 2.7 percent larger in the second quarter of 2013 than in the same quarter of 2012.
- Elevated demand on government services pushed public sector growth up while falling oil output pulled headline growth down.
- We expect year-on-year economic growth to pick up in the third quarter as the contribution of the oil sector improves.

The Central Department of Statistics and Information (CDSI) has released GDP data for the second quarter this year showing a real GDP growth of 2.7 percent year-on-year compared with 2.1 percent in the first quarter and 5.5 percent in the second quarter last year. While this reading marks the second lowest quarterly growth since the first quarter of 2011, it is mainly due to falling oil output as non-oil growth picked up to 4.5 percent form 4.4 percent for both previous quarter and the same period last year. In terms of contribution to overall growth, the private non-oil sector was the main growth driver in the second quarter contributing 2.4 percentage point (ppt, Figure 1). The government contribution accelerated to 1.1 ppt compared with 0.6ppt in second quarter last year. Finally, the oil sector contribution was -0.8ppt owing to lower oil production.

In line with our forecasts, the oil sector was the main drag on overall real GDP in the second quarter. At -3.7 percent year-on-year, the oil sector registered the weakest growth among all sectors of the economy, though the level of contraction slowed compared with -6.3 percent in the first quarter (Figures 2 and 4). This was heavily influenced by the move in oil production, which contracted by 4.7

Figure 1: Contribution of the oil sector to headline growth remains negative



Real GDP growth
(percent)

	Quarterly change	Annual change
2013-Q2	-1.1	2.7
2013-Q1	1.3	2.1

Comparative economic growth
(2013-Q2, year-on-year change)

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Headline growth picked up in the second quarter...

...with support mainly from private and government activity…

...while the oil sector contribution remained negative.

percent year-on-year in the second quarter. As oil production gradually picks-up during the summer months owing to rising domestic demand as well increasing external demand on Saudi crude recently, the negative effect of oil reduction on overall GDP growth will decline in the coming quarters.

Stripping out the oil sector, the economic growth ticked up to 4.5 percent from 4.4 percent in the first quarter. Private sector growth slightly slowed to 4.2 percent year-on-year, its lowest during the period which data is available, from 4.3 percent in the first quarter. The slower growth reflects both normalization of activity as the impact of the 2011 fiscal stimulus gradually fades away and as a result of introducing new and more strict labor market regulation. Growth of non-oil public sector, however, accelerated to 5.5 percent year-on-year. Most of this growth was sourced from higher government services which accelerated to 6.4 percent year-on-year. Elevated demand on government services is expected to maintain a firm public sector growth over the next few quarters which will also be translated into higher non-oil revenues for the government.

Elevated demand on government services will maintain a strong public sector growth...

..and contribute to non-oil government revenues.

As expected, construction sector recorded a solid growth…

...though changes in the labor regulation limited the upside.

With the exception of the mining sector, all sectors registered a positive year-on-year growth in the second quarter (Figure 3). Construction and wholesale and retail trade sector along with the government services were among the fastest growing sectors. The growth of the **construction** sector slowed compared to the first quarter, but still robust at 6.5 percent year-on-year and higher than a 4 percent growth in the same period last year. Slower growth compared with the previous quarter may reflect changes and enforcement of corrective labor market regulation as well as slower construction activity as the temperature rises. We, however, expect the impact of changes in labor market regulation to be temporary as the sector adjusts to a this new norm. On the upside, the sector will benefit from vast activity in building infrastructure, commercial and increasingly residential projects. The government has also recently

Figure 2: GDP growth composition

	Percentage change (q/q)				Percentage change (y/y)			
	2012 Q2	2013 Q1	Q2-13 q/q	Q2-13 Contribution (ppt)	2012 Q2	2013 Q1	Q2-13 y/y	Q2-13 Contribution (ppt)
Oil Sector	1.3	-3.2	4.2	0.8	9.6	-6.3	-3.7	-0.8
Non-Oil Sector	-2.7	2.7	-2.6	-2.1	4.4	4.4	4.5	3.5
Private Sector	-6.3	8.1	-6.4	-3.9	4.9	4.3	4.2	2.4
Government Sector	9.2	-12.0	9.9	1.8	3.1	4.9	5.5	1.1
By sector								
Agriculture	-4.7	21.3	-4.7	-0.2	1.9	1.0	1.1	0.0
Mining and quarrying	1.0	-0.3	4.2	0.8	9.7	-6.3	-3.4	-0.7
Of which: crude petroleum & natural gas	1.2	-0.9	4.6	0.8	9.9	-6.7	-3.6	-0.7
Manufacturing	-6.0	2.5	-5.2	-0.7	5.8	2.6	3.5	0.5
Electricity, gas and water	55.1	-17.4	56.1	1.0	8.3	2.8	3.4	0.1
Construction	-3.4	7.8	-3.6	-0.3	4.0	6.7	6.5	0.5
Wholesale & retail trade	-16.6	11.0	-17.2	-2.4	6.0	6.9	6.2	0.7
Transport & communication	-6.3	2.8	-5.8	-0.6	6.2	2.4	2.9	0.3
Finance	-4.1	9.2	-5.1	-0.7	3.4	3.0	2.0	0.3
Personal services	-0.3	3.7	-1.2	0.0	4.6	3.3	2.3	0.1
Government services	13.9	-16.4	14.7	2.0	2.2	5.7	6.4	1.0
Real GDP	**-1.7**	**1.3**	**-1.1**	**...**	**5.5**	**2.1**	**2.7**	**...**

The growth of the retail sector also slowed, but was still robust at 6.2 percent.

The sector will continue to benefit from strong domestic consumption demand.

Large base effects limited the growth of both utilities and transport and communication sector...

…while subdued external demand weigh on manufacturing growth.

In quarter-on-quarter terms, shrunk by 1.1…

...mostly due to a regular seasonal trend…

...as activity in both construction and transport sector slow in the summer months.

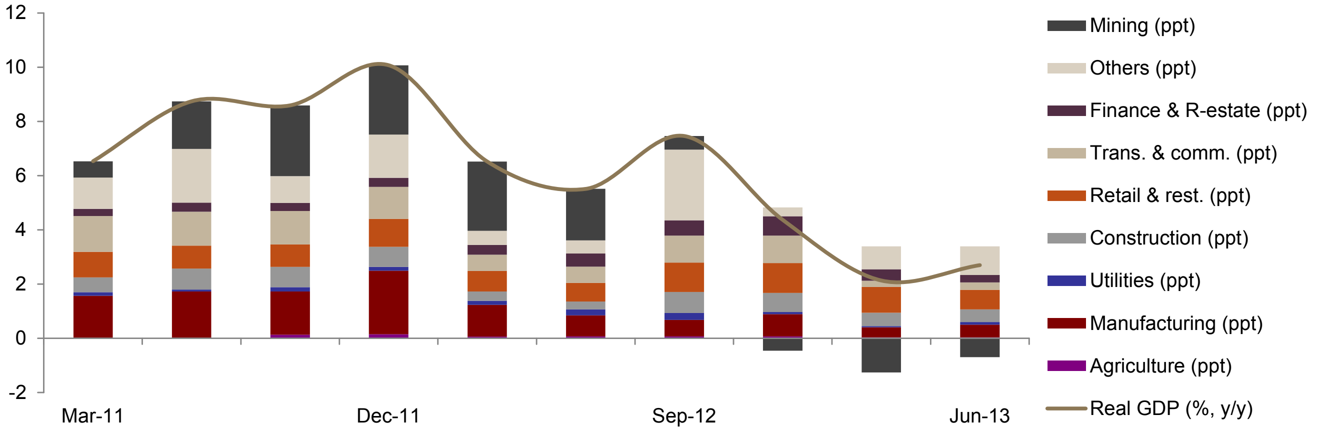
introduced new measures that would ensure faster implementation of approved infrastructure projects.

The growth of the **wholesale and retail trade** sector ticked up to 6.2 percent year-on-year in the second quarter compared with 6 percent the same period last year, though it was slower than the previous three quarters. Like the construction sector, the slower growth may reflect changes in the labor market regulation. The retail sector is, however, 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-July, all of which registered record highs this year. In addition, higher nominal wages and strong population growth will keep the retail sector, which includes wholesale, restaurants and hotels, as one of the fastest growing non-oil sectors this year.

Year-on-year growth in **utilities, transport and communication and manufacturing** picked up from the previous quarter, but 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 3.4 percent in the second quarter this year compared with 8.3 percent for the same period last year. The transport and communication sector grew by 2.9 percent in the second quarter down from 6.2 percent for the same period last year. The slowdown in manufacturing growth to 3.5 percent year-on-year compared with 5.8 percent in the same period last year may reflect weaker demand from abroad. As a proxy of manufacturing activities in the Kingdom, petrochemical and plastic exports (62 percent of non-oil exports) grew by only 0.9 percent year-on-year in the second quarter.

In quarter-on-quarter terms, the economy shrunk by 1.1 percent. However, this was in line with the seasonal trend; quarterly growth was -1.7 percent in the second quarter of 2012 and -0.7 percent for the same period 2011. At -17.2 percent, the wholesale and retail sector recorded the largest drop on quarter-on-quarter terms. While previous trend shows that the second quarter is generally the weakest quarter for this sector, the magnitude of the drop this year may also reflect the negative impact of recent changes in labor market. The construction and transport and communication sectors both contracted in the second quarter compared to the first quarter as rising temperature dampen output. 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.

Figure 3: Sectoral contribution to real GDP growth



We assume that year-on-year economic growth will improve in the third quarter…

...owing to a pick up in oil production...

...while both private and public sector contribution will remain positive.

We expect year-on-year economic growth will improve in the third quarter. While the negative impact of changes in labor market regulation on private sector activity is likely to carry-over into the third quarter as we approach the end of the grace period in early November, both government spending and stabilizing oil output will balance overall economic growth. As the growth in the oil production picks up in the coming months, the negative contribution to real GDP growth from the oil sector is expected to fade away. In addition, high government spending will continue to support the non-oil economy. At the same time, year-on-year growth in bank lending remained positive despite recent seasonal slowdown (Figure 6) while business surveys point to further expansion of the private sector (Figure 7). With solid local fundamentals, but considerable uncertainty over regional instability we maintain our forecast for total real GDP growth for 2013 at 4.2 percent down from 6.8 percent last year.

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

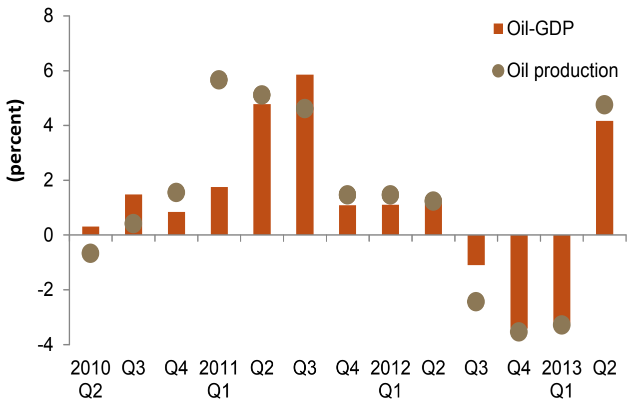


Figure 5: Real GDP growth
(year-on-year)

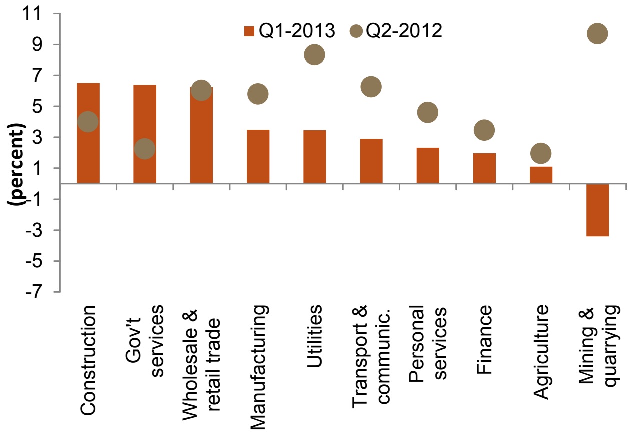


Figure 6: Credit to private sector

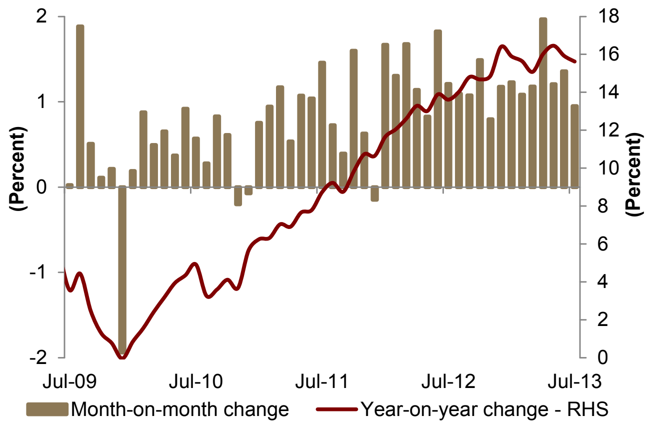
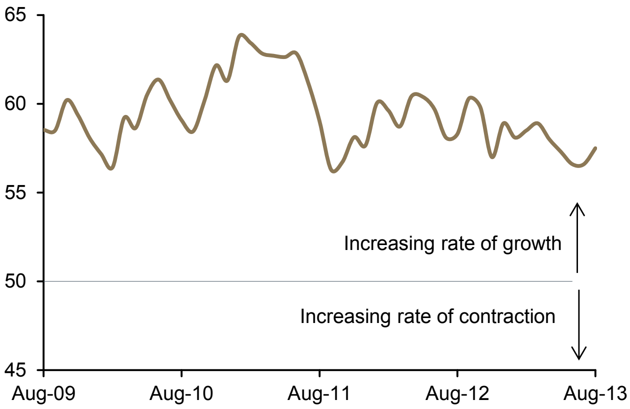


Figure 7: Purchasing Manager Index



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