جدوى للإستثمار
Jadwa Investment

December 2013

Quarterly GDP update:
Growth picks up slightly in the third quarter

Real GDP growth
(percent)

	Quarterly change	Annual change
2013-Q3	1.1	3.0
2013-Q2	-1.1	2.7

Comparative economic growth
(2013-Q3, year-on-year change)

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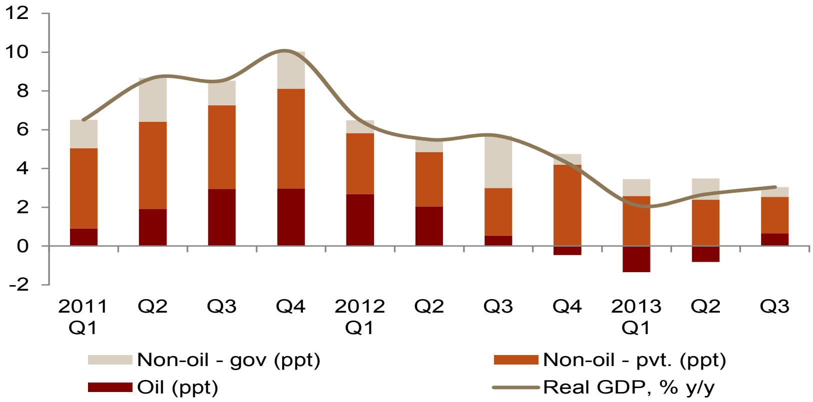
- In real terms, the Saudi economy was 3 percent higher in the third quarter of 2013 than in the same quarter of 2012 and 1.1 percent higher than in the second quarter of this year.
- Elevated oil production pushed the oil sector to its highest annual growth since the second quarter last year while the growth of the non-oil sector recorded an all-time low due to both base effect and changes in labor market.
- We expect year-on-year economic growth to pick up in the fourth quarter as the contribution of the oil and public sector improves.

The Central Department of Statistics and Information (CDSI) has released GDP data for the third quarter this year showing a real GDP growth of 3 percent year-on-year up from 2.7 percent in the previous quarter but lower than the 5.7 percent recorded in the third quarter last year. The increase in Saudi oil production since the end of the second half was the main driver behind this growth. As a result, the oil sector's contribution turns positive for the first time since the last quarter of last year. The contribution of the non-oil sector also remains robust despite a slower growth in a number of leading sectors.

As we highlighted in our latest quarterly GDP update (see *Growth picks up despite falling oil GDP*, September 2013), the oil sector's contribution to overall GDP growth was expected to turn positive in the third quarter. At 3 percent year-on-year, the oil sector registered its strongest growth since the second quarter of last year (Figures 2 and 4). This was heavily influenced by the move in oil production. The Kingdom's oil output averaged 10.1 million barrel per day (mbpd) in the third quarter compared with 9.8mbpd for the same

Figure 1: Contribution of the oil sector to headline growth turns positive



Headline growth picked up in the third quarter compared with previous quarter...

...supported by a positive contribution from the oil sector...

...yet overall growth remained lower than a year ago.

Non-oil sector recorded its lowest year-on-year growth for which data is available...

....owing to large base effect, strict enforcement of labor regulation, and seasonal factors.

As expected, construction sector recorded a solid growth…

period last year; a growth of 3.7 percent year-on-year. This increase in oil production was mostly due to elevated domestic oil consumption during the summer months as well as to offset the shortfall in global oil production. Moving forward, we expect a slower but still positive growth in the oil sector in the fourth quarter as domestic crude consumption eases, but external demand remains firm.

Stripping out the oil sector, the Saudi economy grew by 3.1 percent year-on-year down from 4.5 percent in the previous quarter and 6.7 percent in the same period last year. In fact, growth in the non-oil sector was the slowest of the eleven quarters for which data is available. The slowdown was fairly broad based with both private and public sector recording their lowest quarterly growth levels for which data is available. Private sector growth slowed to 3.3 percent year-on-year from 4.2 percent in the second quarter and from 4.3 percent in the same period last year. The slower growth reflects both normalization of growth as the impact of the 2011 fiscal stimulus gradually fades away and as a result of introducing new and stricter labor market regulation. The non-oil public sector grew by 2.4 percent year-on-year, down from 5.5 percent in the previous quarter. This sharp slowdown was mostly due to large base effect, meaning that the figure represents an annual rise over an all-time high growth of 14 percent year-on-year in the third quarter last year. We maintain our view that elevated demand on government services is expected to maintain a firm public sector growth over the next few quarters.

With the exception of the petroleum refining, all sectors registered a positive year-on-year growth in the third quarter, though most sectors recorded a slower growth compared to year ago (Figures 2 and 5). Construction, non-oil manufacturing, Transport, storage and communication and utilities (electricity, gas and water) were among the fastest growing sectors. The growth of the **construction** sector, however, slowed compared to the second quarter, but was still robust at 5.7 percent year-on-year and higher than the 4.9 percent

Figure 2: GDP growth composition

	Percentage change (q/q)				Percentage change (y/y)			
	2012 Q3	2013 Q2	Q3-13 q/q	Q3-13 Contribution (ppt)	2012 Q3	2013 Q2	Q3-13 y/y	Q3-13 Contribution (ppt)
Oil Sector	-0.7	4.2	6.3	1.3	2.4	-3.7	3.0	0.7
Non-Oil Sector	1.3	-2.6	-0.2	-0.1	6.7	4.5	3.1	2.4
Private Sector	0.1	-6.4	-0.7	-0.4	4.3	4.2	3.3	1.9
Government Sector	4.5	9.9	1.5	0.3	14.0	5.5	2.4	0.5
By sector								
Agriculture	-4.8	-4.7	-5.0	-0.2	0.7	1.1	0.9	0.0
Mining and quarrying	-1.3	4.2	5.9	1.1	2.5	-3.4	3.6	0.7
Of which: crude petroleum & natural gas	-1.3	4.6	6.1	1.1	2.4	-3.6	3.7	0.7
Manufacturing	0.2	-5.2	0.3	0.0	0.9	3.5	3.6	0.5
Electricity, gas and water	14.9	56.1	14.5	0.4	8.6	3.4	3.1	0.1
Construction	1.0	-3.6	0.2	0.0	4.9	6.5	5.7	0.4
Wholesale & retail trade	3.9	-17.2	0.4	0.1	7.1	6.2	2.7	0.3
Transport & communication	-4.7	-5.8	-4.4	-0.4	6.8	2.9	3.2	0.3
Finance	-2.7	-5.1	-2.9	-0.4	3.4	2.0	1.8	0.2
Personal services	-0.7	-1.2	-0.3	0.0	4.4	2.3	2.8	0.1
Government services	7.1	14.7	3.0	0.5	16.5	6.4	2.3	0.4
Real GDP	**0.8**	**-1.1**	**1.1**	**…**	**5.7**	**2.7**	**3.0**	**...**

...benefiting from elevated government investment spending…

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

growth in the same period last year. Slower growth compared with the previous quarter may reflect the combined effect of the recent changes and enforcement of labor market regulation as well as slower construction activity during the summer months. We, however, expect the impact of changes and enforcement of labor market regulation to be temporary as the sector adjusts to this new norm. On the upside, the sector will continue to benefit from vast activity in building infrastructure, commercial and residential projects.

Non-oil manufacturing was the second fastest growing sector…

...as both domestic and external demand on manufacturing products improved.

Non-oil manufacturing was the second fastest growing sector in the third quarter, rising by 4.8 percent year-on-year. While this growth is still lower than the previous quarter (5 percent), it is significantly higher than in the same period last year (0.8 percent). This solid growth reflects the strong local demand for manufactured products, especially those used for construction, such as cement and steel as well as the revive in external demand for both petrochemical and plastic products. The Kingdom's exports of both petrochemical and plastic grew by 13.4 percent year-on-year in the third quarter.

The growth rates of the transport and wholesale and retail trade sectors were below expectations.

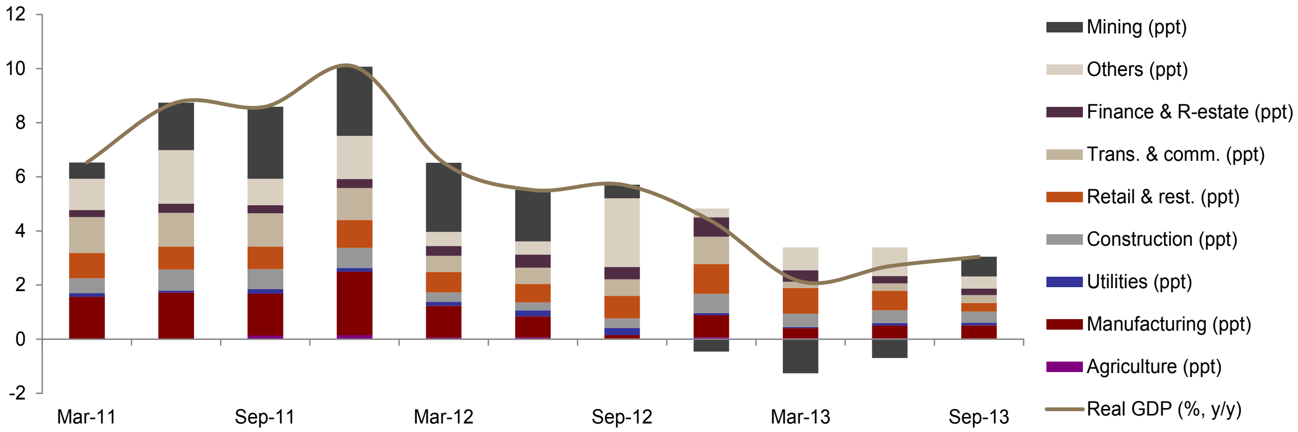
Year-on-year growth in **transport and wholesale and retail trade** both dropped significantly compared to a year earlier. The former expanded by 3.2 percent year-on-year in the third quarter compared with 6.8 percent in the same period last year, while the wholesale and retail trade sector hit an all-time low of 2.7 percent year-on-year in the third quarter this year. In both cases, we think the slower growth was caused by the recent changes and enforcement of labor market policies. With this initial shock behind us, we expect these two sectors to maintain the positive growth with risks to the upside as retail sector benefits from higher income while the transport sector benefit from positive spillover from the robust performance of the manufacturing and construction sectors.

In quarter-on-quarter terms, the economy expanded by 1.1…

...driven by higher oil production and positive growth in government services.

In quarter-on-quarter terms, the economy expanded by 1.1 percent. This was in line with the seasonal trend; quarterly growth was 0.8 percent in the third quarter of 2012 and 0.6 percent for the same period 2011. Oil sector (6.3 percent) and utilities (14.5 percent) were the main drivers of growth on quarter-on-quarter terms. At the same time, two sectors recorded large quarterly drops in output in the third quarter again due to seasonal factors. The first was transport and communication sector with –4.4 percent growth and the second is finance, insurance and real estate which contracted by 2.9 percent quarter-on-quarter.

Figure 3: Sectoral contribution to real GDP growth



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

...owing to elevated oil production

Both private and public sector contribution to overall growth will also remain positive.

We expect year-on-year economic growth will improve in the fourth quarter as the negative impact of changes and enforcement of labor market regulation on private sector activity slightly ease. At the same time, both elevated government spending and stabilizing oil output will balance overall economic growth. We expect Saudi oil production to average 9.7mbpd in the fourth quarter which should maintain an oil sector growth rate above 3.5 percent year-on-year in the fourth quarter. 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 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 percent down from 5.1 percent last year.

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

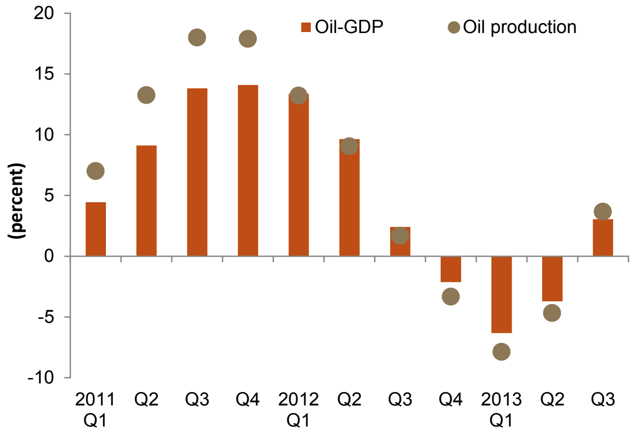


Figure 5: Real GDP growth by sector
(year-on-year)

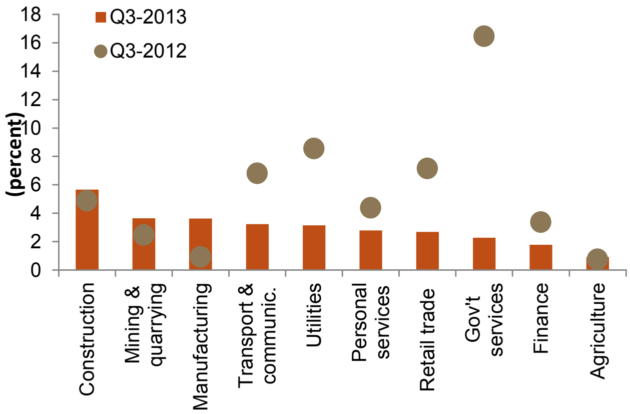


Figure 6: Credit to private sector

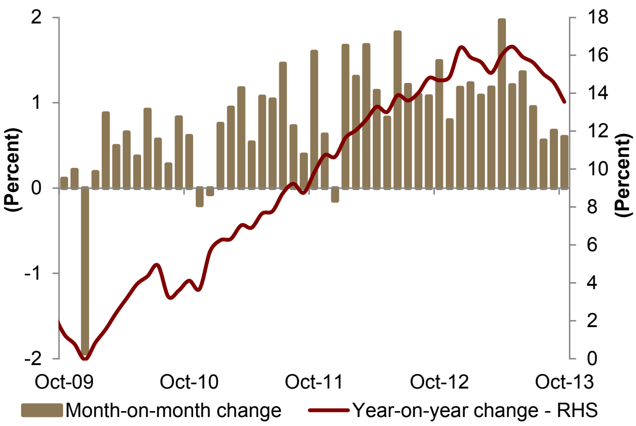
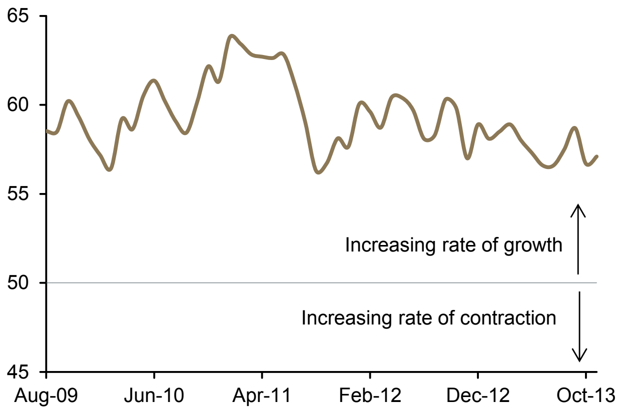


Figure 7: Purchasing Manager Index



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