

Weekly Economic Commentary – December 2, 2012

Markets

With **US fiscal cliff** “talks” being stonewalled and the **ratings downgrades by Moody’s** on European Stability Mechanism and EFSF, markets were quite volatile; shares hit three-week highs towards week’s end but then retrenched. Regional markets were dragged down by **Egypt’s** tensions: the **Saudi** index slipped to a 10-month low early in the week, but rebounded when King Abdullah appeared on TV for the first time after a surgery. The **euro** was at a 5-week high against the dollar but lost most of the gains after news of the ratings cut. The vagaries of the dollar and Middle East tensions led to a rise in **oil** prices; **gold** prices, meanwhile, were down for the second consecutive month.

Global Developments

Americas:

- New orders for **durable goods** remained flat mom in Oct (Sep: 9.2% mom). New order for core capital goods, excluding defense and transportation, rose 1.7% mom sa (Sep: -0.4% mom sa), the largest increase since May.
- **Personal income** was unchanged in Oct, after +0.4% mom in Sep, the slowest since Apr. Wage income fell -0.2%, the first decline since May. Nominal consumer spending fell -0.2% due mainly to durable goods sales. Real spending fell -0.3%, a drop not seen since Sep 2009. The saving rate rose to 3.4%.
- The **Case-Shiller** existing-house prices accelerated in Q3. The 10-city composite was up 2.1% yoy. and the 20-city was up 3%. New home sales declined 0.3% mom in October, but Census revised downward Sep sales by 4.4%.

On a yoy basis sales are up 17%, with inventories tight at 4.8 months of supply. The median price of new homes sold in October was \$237,700, a gain of 5.7% yoy.

- A second estimate showed that **US GDP** growth accelerated in Q3, expanding at an annual rate of 2.7% qoq (Q2: 1.3% qoq), driven by an upturn in private inventory investment and government spending and a deceleration in imports.
- Initial **jobless claims** fell for a second consecutive week – by 23k to 393k in the week ended Nov 24, as effects of Sandy gradually weakened.
- **Brazil's** GDP grew by 0.6% qoq in Q3, as investments failed to pick up due to higher production costs and in spite of the government's efforts to shore up growth through lower interest rates, reduction of taxes and increased government spending.

Europe:

- The **eurozone M3 money supply** grew unexpectedly 3.9% yoy in Oct., up from 2.6% in Sep boosted by overnight deposits, but loans to the private sector declined again. **Inflation** in the eurozone slowed to 2.2% yoy in Nov (Oct: 2.5%), with energy prices up 5.8% (Oct: 8%).
- **German retail sales** declined 2.8% mom and plummeted to a 38-month low in Oct. Markit's eurozone **retail PMI** rose slightly in Nov to 45.8 (Oct: 45.3) but sales volumes declined for the thirteenth consecutive month.
- **Unemployment** in the eurozone hit a new record of 11.7% in Oct, with Spain and Greece recording 26.2% and 25.4% respectively while Germany limited the damage to a relatively low 8.1%.
- After a third attempt, EU ministers and the IMF agreed on a Greek debt-reduction package needed for the disbursement of a second tranche of financial aid. Days later, Greece announced a 10-14bn euro bond buyback plan, in accordance with IMF stipulations, outraging

private investors.

Asia and Pacific:

- **China's official manufacturing PMI** rose to a seven-month high of 50.6 in Nov (Oct: 50.2), as new orders were up 0.8% mom to 51.2 and exports sub-index grew 0.9% to 50.2.
- **India's GDP** grew 5.3% in Q3 (5.5% in Q2), dragged down by slower manufacturing growth (+0.8%) while capital formation was at 33.8% of GDP, its highest for at least two years. Growth is forecast to be between 5.5-6% this year – well below potential and the slowest since 2002-03.
- **Japan retail sales** fell 1.2% yoy in Oct (Sep: +0.4%) on weaker consumer demand and as car sales dipped; Oct **IP** meanwhile posted surprise gains of 1.8% mom (the first in four months), driven by electronics (+14.7% mom), especially in sales of smartphones to China.
- **Japan** unveiled and approved its **second stimulus package** (USD 10.7bn), ahead of the general elections, to revive growth by creating employment and supporting small businesses.
- **Philippines** posted a higher-than-expected 7.1% yoy GDP growth in Q3 (Q2: 6.0%). Growth was sustained by higher government spending (+12%) and consumer spending (6.2%) though exports dropped to 6.9% in Q3 from Q2's 8.3%.
- A mixed picture emerged from Oct **industrial production** (IP) data released in Singapore, Korea and Thailand. In **Singapore**, IP contracted 2.1% yoy (+3.3% mom sa), after a revised 2.8% decline in Sep, as the electronics and biomedical sectors fell 6% and 11.7% respectively. **Korea's** IP grew 0.6% mom, following a 0.7% gain in Sep; however in yoy terms, IP fell 0.8% in Oct – the first decline in 9 months. **Thailand's** IP shot up 36.1% yoy in Oct (Sep: -15.9%) due to a base effect.

Bottom line: Last week's data did not produce major surprises

in regard to the global economic situation. The “agreement” on the new Greece bailout is another fudge aiming at postponing the hard choices after the German elections. However the downgrade of the EU rescue funds throws some nasty sand in a mechanism already insufficient to tackle any new emergency.

Regional Developments

- A study titled “Paying Taxes 2013” reported that the concept of a **uniform VAT** across the GCC could become a reality in the next two to five years. While this is likely to replace the intra-GCC customs duty, removing customs duty and replacing with 5% VAT would raise overall revenue to about 1.5% of GDP.
- Protests against the controversial decree on presidential judicial powers and the Constitution continue (key role in the government as per the revised draft constitution), the IMF has reiterated that there should have been “no major change in the economic outlook and implementation plans” when the Board meets (tentatively Dec 19) to finalise the USD 4.8bn loan. Meanwhile, Egypt’s money supply grew 11% yoy to EGP 1145bn by end-Oct.
- **Jordan will get a boost of USD 250mn from Saudi Arabia** as part of the five-year, USD 2.5bn fund formed by the Gulf Arab countries and following Kuwait’s contribution a few months earlier. Additionally, Jordan and Saudi Arabia agreed on a USD 487mn financial assistance package to Jordan for development projects in the energy and water sectors, of which USD 125mn will be transferred soon while the remainder would be included in the 2013 budget.
- **Oman’s inflation rose 0.7% mom** and was at 3.2% yoy in Oct, largely due to a 21% rise in educational services. Also, the Central Bank of Oman data revealed that **money supply (M2) was up 13.2% yoy** to OMR 10.74bn in Sep while net foreign assets of banks grew 17.2% to OMR 6.21bn.

- **Oman's draft 2013 budget pencils in an increase in expenditure** – up 29% from announced 2012 expenditures and 12% higher than the amended 2012 budget expenditure – to OMR 13bn with revenues estimated at OMR 11.2bn (+27%). The budget deficit is forecast at OMR 1.7bn or about 5% of GDP. The average oil price was set at USD 85 per barrel for the budget calculation.
- **Oil consumption in Saudi Arabia hit about 4mn barrels per day** according to Aramco, making the average amount of individual consumption of oil double that of the international consumption rate.
- The Shura council approved a proposal for the **setup of a sovereign National Reserve Fund to manage Saudi Arabia's budget surpluses**.
- **Saudi Arabia's** Ministry of Labour is expected to collect about SAR 10bn in expat fees this Hijri year, given the fees of SAR 2400 per person and about 4 million expats – of which exemptions include domestic helpers and companies with more than 50% Saudis.
- **Saudi Arabia became the top oil exporter to Japan in Oct**, as its imports were up 1% yoy to 1.04mn bpd, followed by UAE at 725k bpd (down 1.6%) and Qatar at 309k (-12.9%).
- **Saudi Arabia's** Council of Ministers have endorsed the creation of a commission of **GCC Customs Union** and the timetable for the implementation of the final status of the Customs Union with all its requirements.

UAE Focus

- **Dubai's** economy grew by 4.1% yoy in H1 2012 (H1 2011: 3.4%), helped by growth in the tourism sector, as per latest official data; wholesale and retail businesses were up 3.8% alongside 1.5% pickup in the real estate sector during this period. Citi meanwhile revised Dubai's growth estimates for 2012 to 5.1% from its previous 1.9% forecast, calling for revival of the real

estate and construction sector.

- With UAE national unemployment at close to 20.3% in 2011 according to the National Bureau of Statistics, **2013 was declared the year of creating jobs for UAE nationals and for Emiratisation of jobs.**
- The revised **UAE company law** is unlikely to be passed in 2012, according to a senior official. The changes to the law would mean that “for specific sectors that can add value to the economy, 100% [foreign ownership] will be considered”.
- A new resolution (initiated by the Ministry of Economy and passed last week) looks set to provide a boost to entrepreneurs and the **SME sector in UAE** – and states that “federal government bodies and ministries allocate 10% of their total purchases for SME projects set up by youth”.
- While Dubai’s Deputy Ruler ruled out the implementation of any **corporate tax in the UAE** soon, he also stated that the long-pending public debt law could be issued within the next 18-20 months and it might broaden the sources of revenue.
- **UAE central bank’s** fixed income securities investments, at 80% of total assets, rose to a record high of more than AED 200bn by end-August. Overall assets were AED 250bn at the end of the eight months this year compared to AED 234bn at the end of 2011.
- **UAE banks are prepared for Basel III**, which will be gradually implemented until 2019, given the “high liquidity, no cash problems and their [already high] capital”, according to the UAE central bank governor.
- **Trade between the Jebel Ali Free Zone and China** recorded almost 150% rise in the past five years – growing to AED 37bn at the end of 2011 from about AED 16bn in 2006. According to a senior Economic Zones World (EZW) official, the EZW contributed over 25% to the Dubai’s GDP while accounting for over 40% of the total FDI in the UAE.

- **Dubai Duty Free sales** value increased by 11.1% yoy to AED 4.71bn by end-Oct, and could result in full-year sales of close to AED 6bn.

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