

Weekly Insights 4 Aug 2023: Expansionary PMIs & GDPs in the GCC, with signs of moderation & a resilient financial sector recovery

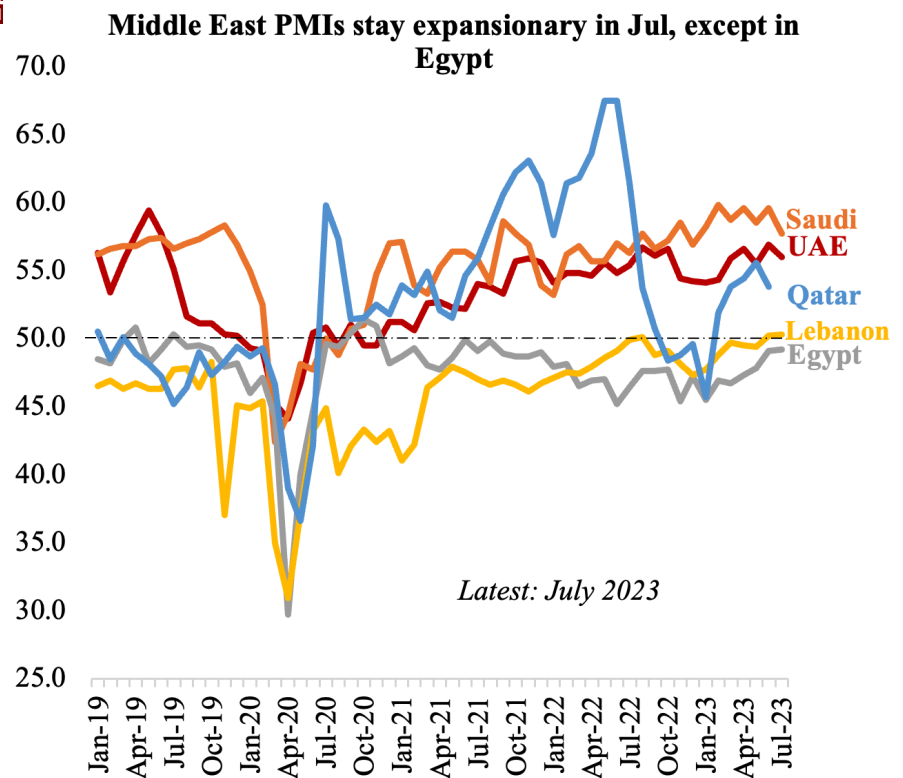
Middle East PMIs. GDP in Saudi Arabia & UAE. Monetary stats in Saudi Arabia and UAE. Regional trade growth Q1 2023.

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Weekly Insights 4 Aug 2023: Expansionary PMIs & GDPs in the GCC, with signs of moderation & a resilient financial sector recovery

1. PMIs: other than in Egypt, non-oil sector activity stays

expansionary, though



Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

- **Saudi non-oil sector PMI slipped to a 7-month low of 57.7 in Jul**, dragged down by an easing of new order growth. Fastest output expansion was reported by manufacturing and construction firms; while price discounting to promote sales remains a fixture, businesses are optimistic about government-backed project spending supporting further business expansion.
- **UAE PMI eased to 56 in Jul** (Jun: 56.9): new orders (though backed by strong customer demand) fell by 3.6 points to 57.4, the largest drop in the history of the series; new export orders were stagnant; firms reported an easing of cost pressures.
- **Lebanon PMI inched up further to 50.3 in Jul** (Jun: 50.2), the strongest improvement since Jun 2013, driven by stronger domestic demand (a likely effect of summer tourism). A slight ray of hope with the rate of job creation accelerating to the fastest since Sep 2015. Firms remain mostly pessimistic, as the political and economic turmoil continues unresolved.
- **Egypt was the only one in contractionary territory,**

though PMI inched up to 49.2 in Jul (Jun:49.1). Output contracted, across all 4 sectors covered by the survey, and at the slowest rate since Sep 2021. Some relief in inflationary pressure as well: selling prices rose modestly and at the softest pace since Apr 2022. Though business confidence ticked up from Jun, it is still among the lowest-ever recorded.

- **Main features of last month's PMIs in the Middle East:** domestic demand is a cornerstone of PMI gains (construction has been posting a strong recovery, also evident in GDP numbers ahead); new export orders haven't recovered as fast as overall new orders; input costs are on the decline, but firms are still pressing ahead with price discounting to boost sales.

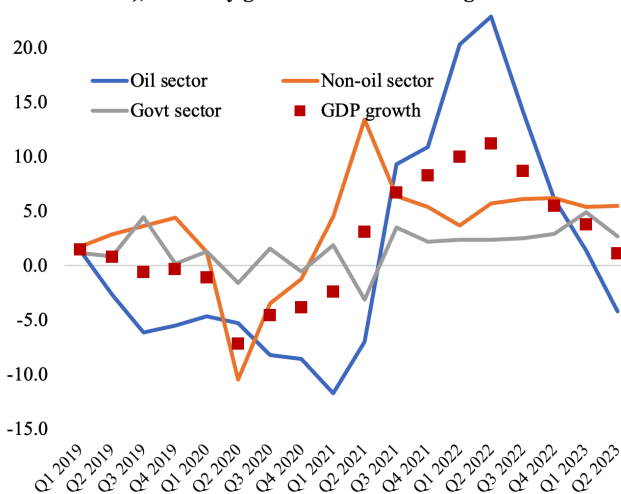
2. Saudi Arabia grew by 1.1% yoy in Q2 2023 (Q1: 3.8%), aided by non-oil sector growth (5.5%) as oil sector contracts (-4.2%)

- Preliminary estimates show a **1.1% yoy increase in Saudi Arabia's real GDP growth in Q2 2023**. Growth was substantially lower compared to the 3.8% uptick in Q1 2023 and 11.2% in Q2 2022.
- This was largely a result of the **fall in oil sector growth (-4.2%)** given the oil production cuts. The stricter voluntary cuts by 1 million barrels per day have been extended for a further month until Sep and will have a negative impact on Q3 GDP.
- However, the **non-oil sector GDP stays resilient**, rising by 5.5% in Q2 following a 5.4% uptick in Q1 2023. The **strong project pipeline** given mega and giga projects will support growth in the coming quarters (MEED Projects disclosed that **Saudi accounts for more than 50% of the Gulf projects market as of mid-Jul**, around USD 1582bn).
- **Government activity**, which grew by 2.7% in Q2 following Q1's 3.8% gain, has also supported non-oil sector

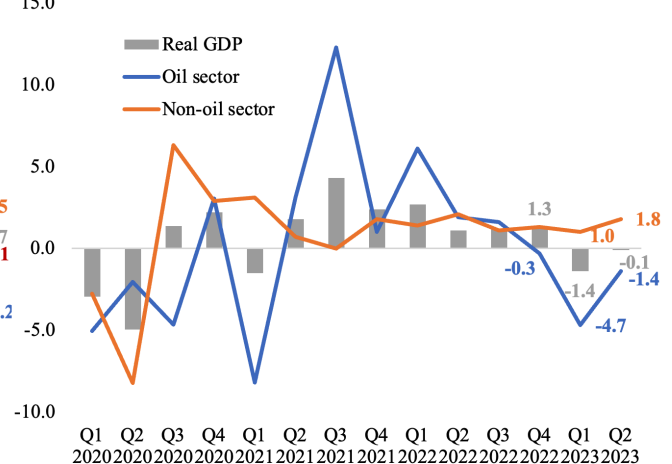
growth. **Oil revenues declining by 17% to SAR 358.3bn in H1** will leave a mark on government coffers and subsequent spending.

- In qoq terms, **GDP declined in Q2 by 0.1% following a 1.4% drop in Q1**, with the **oil sector** hit most severely. The sector posted **three consecutive quarterly declines**: -0.3% qoq in Q4 2022, -4.7% in Q1 2023 and -1.4% in Q2 2023.

% yoy **Saudi Arabia grew by 1.1% yoy in Q2 2023 (Q1 2023: 3.8%), driven by growth in the non-oil & govt sectors**



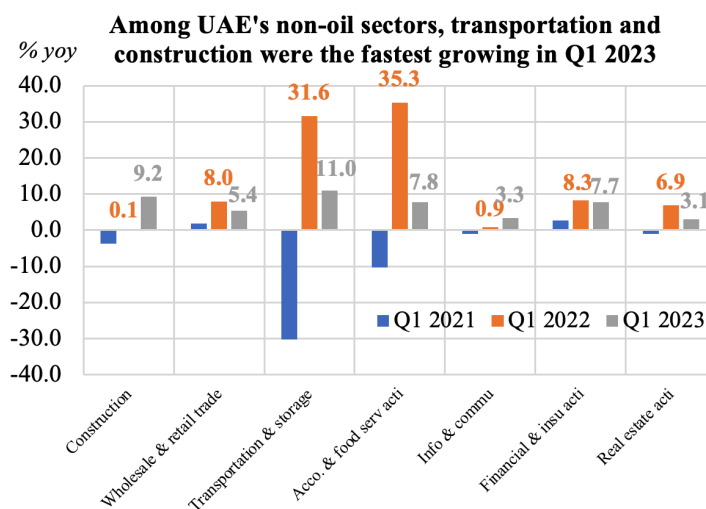
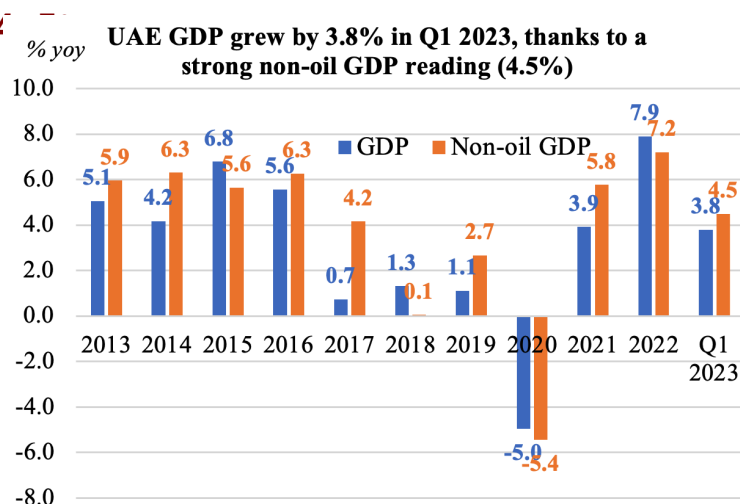
% qoq **Saudi Arabia GDP declined by 0.1% qoq in Q2 2023 (Q1 2023: 1.4%), dragged down by oil sector activity**



Source: General Authority for Statistics. Charts by Nasser Saidi & Associates.

3. UAE's real GDP grew by 3.8% in Q1 2023, with non-oil sector

growing by a stronger



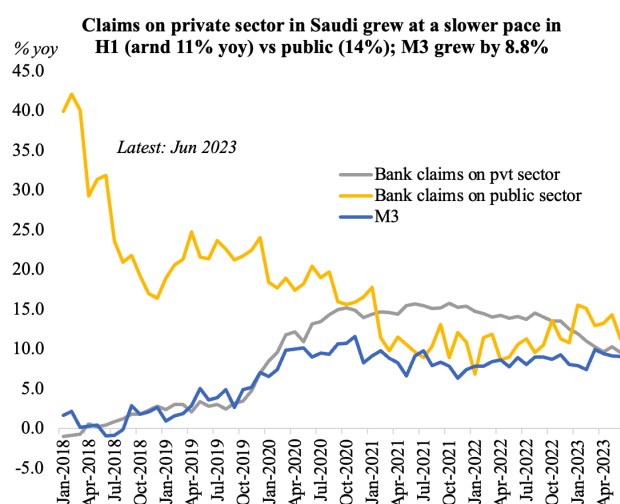
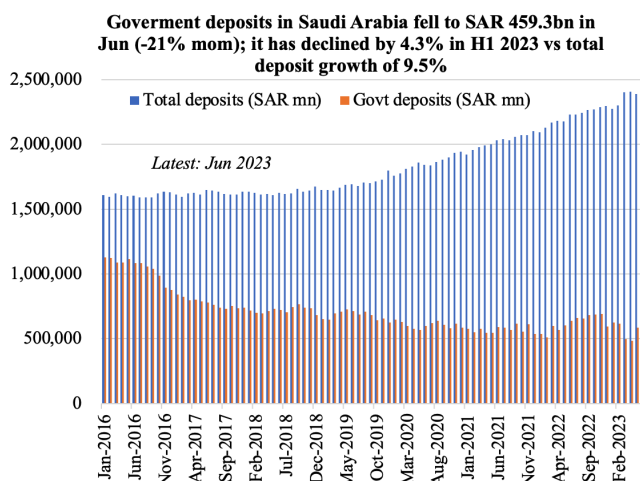
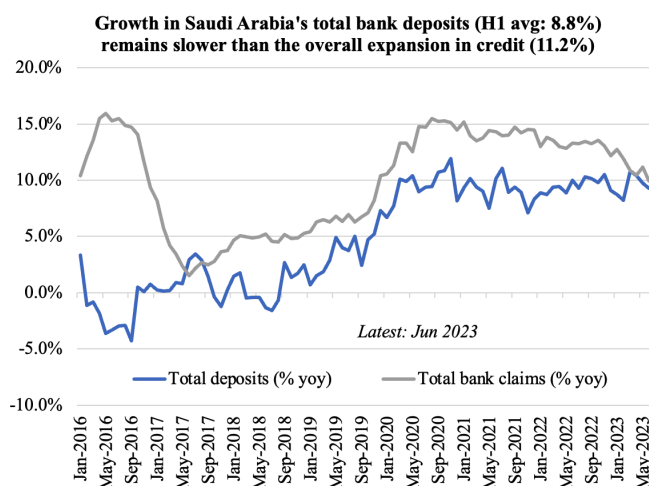
Source: FCSA (for quarterly data), UAE Central Bank (for 2022 GDP estimates)
Charts by Nasser Saidi & Associates

- **UAE's economy grew by 3.8% yoy (to AED 418.3bn) in Q1 2023**, following an estimated 7.9% growth in 2022 (Source: Quarterly Economic Review Q1 2023, UAE central bank).
- **Growth in the non-oil sector remained resilient**, up by 4.5% yoy in Q1 (from 7.2% in 2022) – which is also evident from the PMI readings this year, supported by increased domestic demand.
- **The fastest-growing sectors in Q1 2023 were transportation & storage (+11%), construction (9.2%) and accommodation & food services activities (7.8%).** This is similar to Abu Dhabi's main sectors of growth in Q1 2023.
- **Construction has seen the fastest jump:** from 0.1% growth in Q1 2022 to 9.2% in Q1 2023 (again similar to Abu

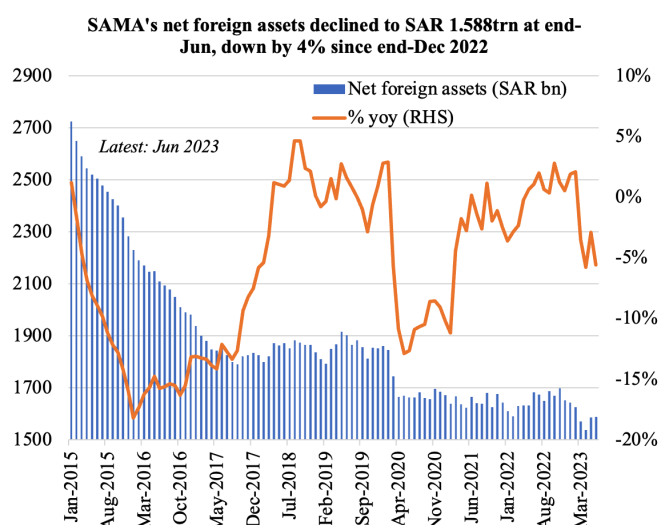
Dhabi's uptick to 14.36% from 0.23% a year ago).

- **Covid-affected sectors posted highest double-digit growth**, indicating a broad-based recovery: transport (11%), accommodation & food services (7.8%) and wholesale & retail trade (5.4%) among others.
- **Oil production cuts** will result in lower growth rates in the oil sector. On the non-oil side, **travel and tourism** industry is likely to support non-oil sector growth (evidence from passenger traffic at Dubai airport during summer and given the global COP28 conference to be held later this year), as will **construction and real estate** (UAE reported a surge in project announcements as of mid-Jul, touching USD 593bn or just higher than 1/5th of GCC projects according to MEED Projects).

4. Saudi Arabia's deposit growth lags credit expansion in H1 2023, though the gap has been narrowing; govt deposits are down by 23% from end-Dec; net foreign assets declined after May's uptick; **SAIBOR surged to a record again, crossing 6%**, raising concerns about the giga-project pipeline & cost of its funding

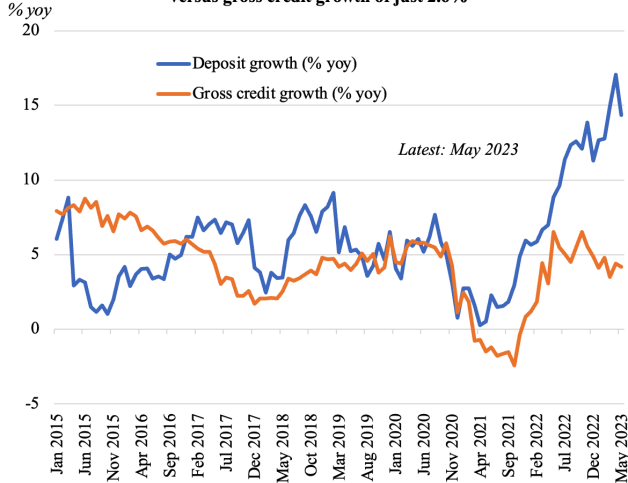


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

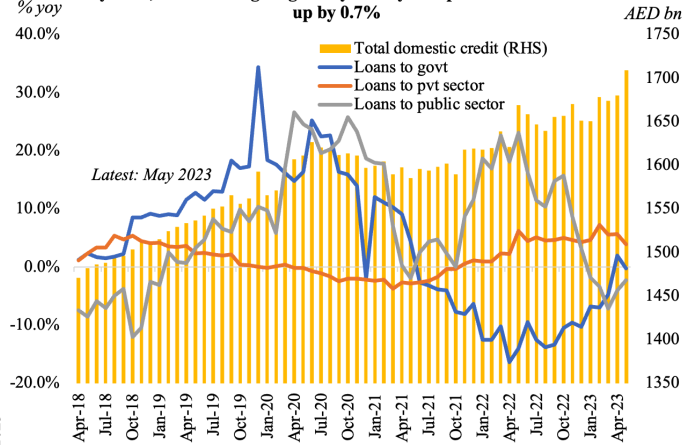


5. UAE banks lending to the private sector grew by 4.8% year-to-date (as of May 2023); deposit growth continues to exceed credit growth (with govt deposits up 4.7% ytd); foreign assets surged further to a record AED 590bn

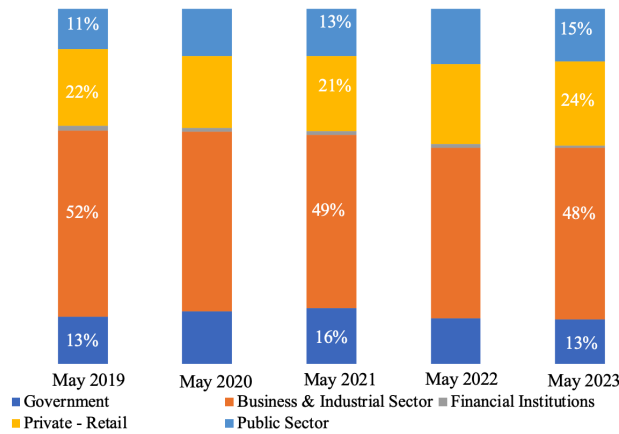
Bank deposits in UAE grew by 8.3% year-to-date (till May 2023) versus gross credit growth of just 2.6%



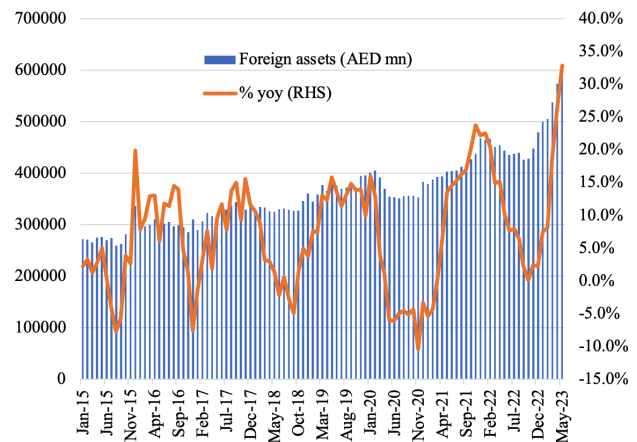
Credit growth to UAE's private sector rose by 4.8% year-to-date as of May 2023; loans to the govt grew by 0.9% ytd & public sector inched up by 0.7%



Credit to govt & public sector grows to 27.4% of total in May '23 (May '19: 25%); share of loans to business & industrial sector slips to 48%

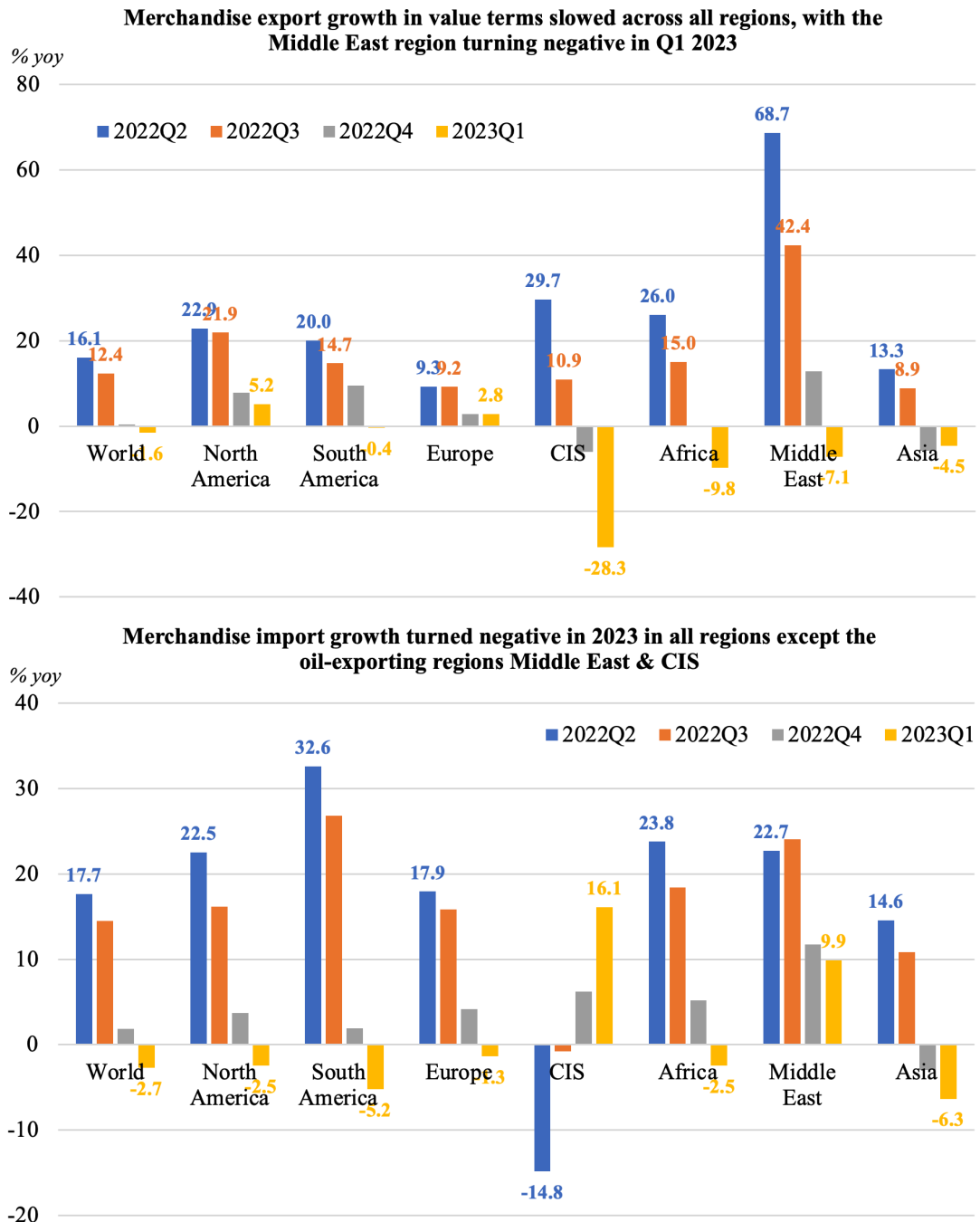


UAE central bank foreign assets surge 32.9% yoy and 2.8% mom to cross AED 590bn in May 2023



Source: UAE Central Bank. Charts by Nasser Saidi & Associates.

6. Global trade growth slowed in 2022 & remains weak in 2023:



Source: World Trade Statistical Review 2023.

- The World Trade Organisation, in its latest World Trade Statistical Review report, affirms that while **trade growth has slowed, it remains resilient and positive overall.**
- **High inflation rates** (especially via energy prices) and subsequent pace of monetary policy tightening in major economies dampened consumption, also weighing on economic activity.
- **Downside risks (WTO):** geopolitical tensions, food and

energy insecurity, increased risk of financial instability & high levels of external debt.

- Services trade continues to perform better than goods trade; however, weak tourism recovery within Asia puts travel exports at lower than pre-pandemic levels.
- **Value of merchandise trade expanded last year**, partly due to high global commodity prices, with the highest growth rates in the oil-rich Middle East region. Global exports of fuels & mining products grew on average by 19% per year between 2019 & 2022, touching USD 5,158bn last year.
- By quarter, merchandise trade growth fell to near-zero in Q4 2022: steeper declines were seen in oil-producing regions (and continues into Q1 2023). Imports were up 10% and 16% in the Middle East and the CIS regions respectively as high oil and natural gas prices boosted domestic revenues.

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