Weekly Insights 6 Sep 2024: Growth dependent on non-oil sector; promising gains in global trade despite transport disruptions

Middle East PMIs. Global shipping disruptions & trade. Qatar GDP, monetary stats & tourism. UAE credit appetite.
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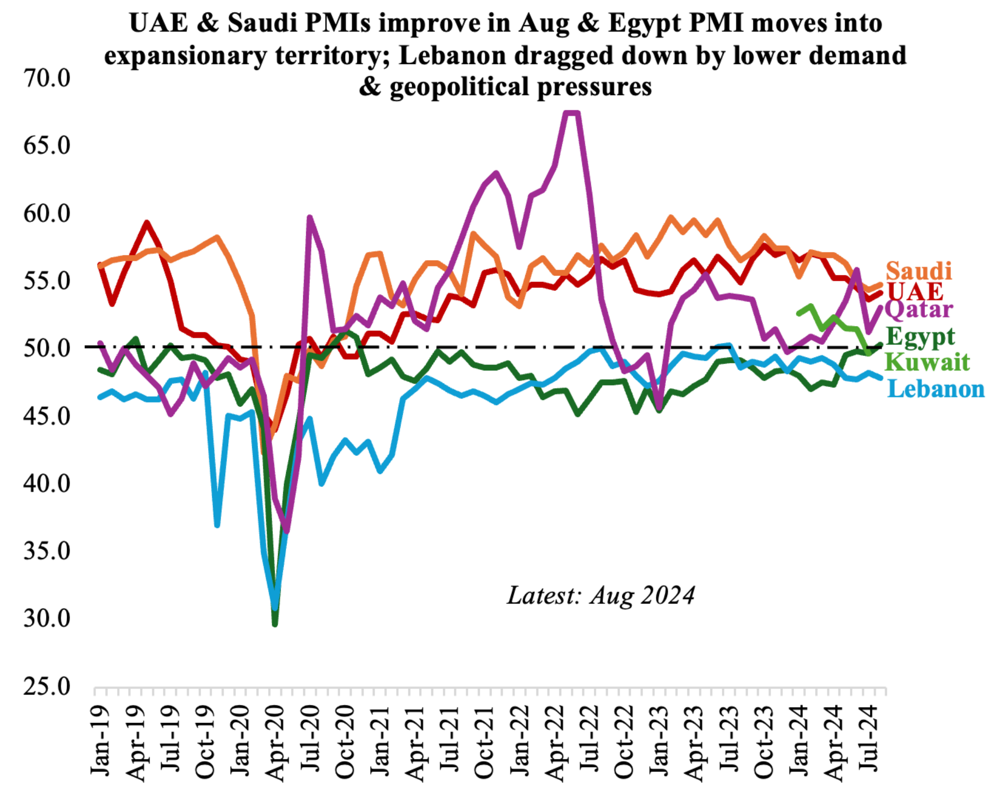
1. A mixed bag c



Source: LSEG Workspace. Chart by Nasser Saidi & Associates

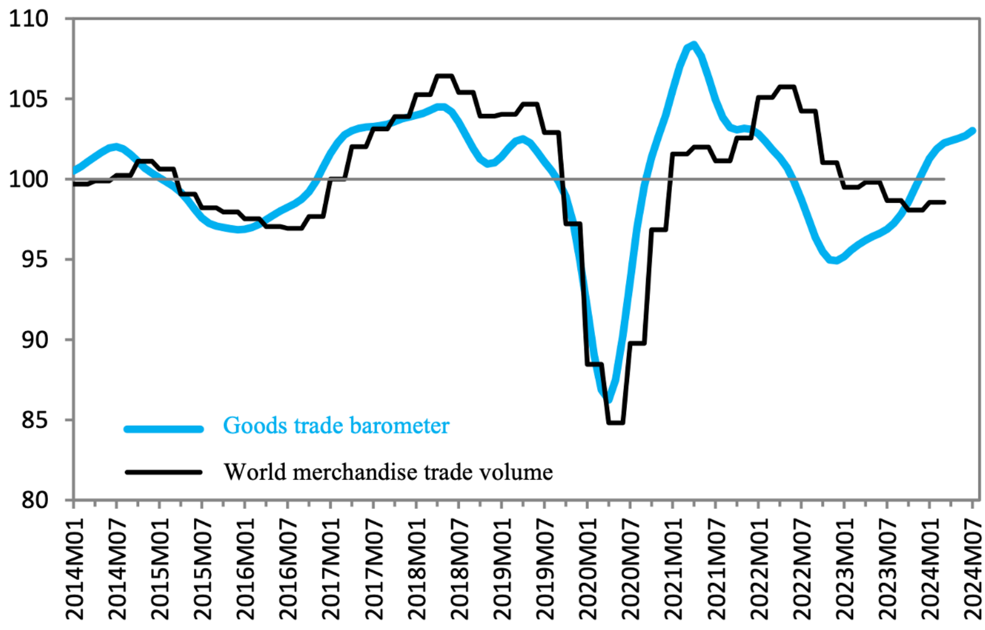
- **Some gains in Aug PMI:** both **Saudi Arabia and UAE** posted the first increase in 6 months; **Egypt**PMI clocked in an expansion, for the first since Nov 2020.
- **In contrast, Lebanon** stayed in contraction territory and **Kuwait fell to a sub-50 reading** for the first time in over 1.5 years.
- Rise in consumer and business spending led to **strong increase in new orders** in the UAE (export orders rose the most since Oct 2023) and Saudi Arabia. Kuwait posted a marginal uptick in new orders alongside new export orders growing at a much faster pace.
- **Saudi employment grew the most in a decade**, and Qatar's workforce growth rate was the second-highest on record. Meanwhile, **job creation eased to a 7-month low in UAE**. Wage costs were high across the board while in Qatar staff costs index touched a new high.
- **Input cost pressures varied:** input prices hit a 4-year high in Qatar, eased to the lowest since Jul 2023 in Saudi and to a 4-month low in the UAE (despite higher

prices and wages). Discounting was still prevalent: output costs fell in Qatar and Saudi while it increased (albeit at a softer pace) in both UAE & Kuwait

- **Egypt finally moved into expansionary territory after 44 consecutive months**: not only did output grow for the first time in 3 years, but foreign sales were also higher, and employment rose. However, input price pressures accelerated to the most since Mar.
- **Lebanon's PMI**, which usually posts a seasonal recovery in summer, saw reduced tourist demand in Aug (given the escalation in border conflict). New export orders contracted for the 9th month in a row and business confidence remained subdued.

2. Supply chain disruptions are ongoing, but global trade shows uptick; firms have become more experienced in managing shocks given the pandemic & previous geopolitical events

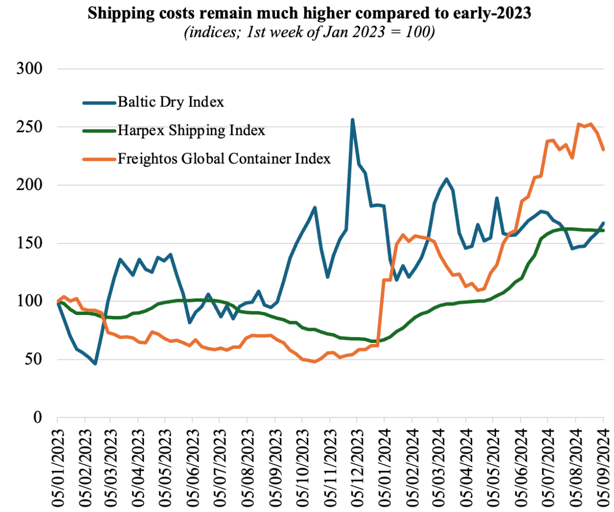
Goods trade barometer increases to 103 in Jul 2024
(Dec 2023: 100.6)
Index history, trend = 100

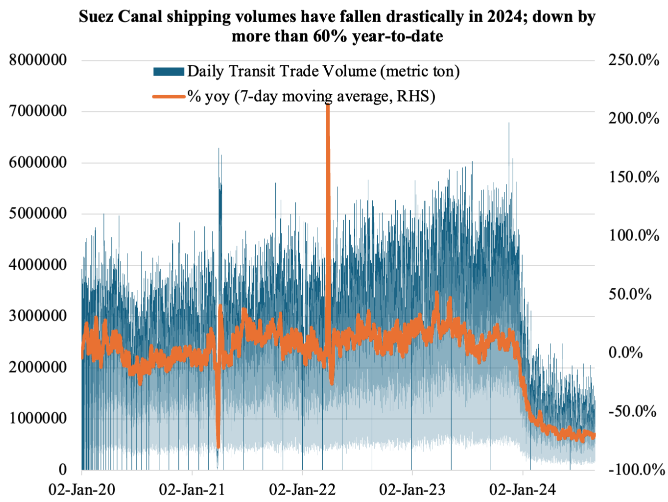


Source: Goods Trade Barometer, Sep 2024, WTO.

- **Shipping costs are rising**. freight rates via major shipping routes are much higher compared to the first week of 2023, though not yet close to crisis levels. **Air freight rates are becoming more competitive** – air cargo could be seen as a back-up option, especially if shipping rates go further north closer to the Q4 holiday season.

- Shipping containers are **still re-routing most transit trade volume** that would normally go through the Red Sea **via the Cape of Good Hope**. Data from the IMF's PortWatch platform shows that, compared to a year ago, **shipping volume** (7-day moving average) **via Suez Canal was down 70.3% yoy as of 27th Aug** and down by 20% from end-Q1. This has meant higher operational costs and longer shipping times/ lengthening of supplier delivery times.
- **In addition, the Red Sea attacks have led to** reduced capacity, higher insurance costs (war risk premia increase to 0.6-1.0% vs"normal" of 0.05% a factor of 10) as well as a diversion to alternative modes of transport (e.g. using rail or air) among others.
- **However, WTO's latest goods trade barometer indicates an upturn in trade volume** in Jul: 103 vs 100.6 at end-2023. A breakdown of components shows above-trend readings for both container shipping (104.3) and air freight (107.1). However, weaker new export orders and continued fall in electronic components could lead to a more uncertain future.



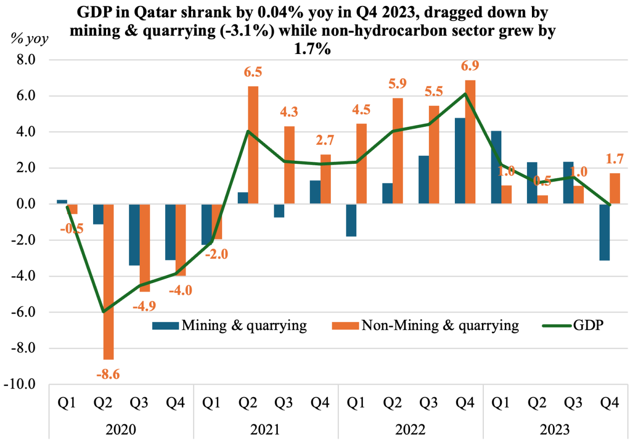


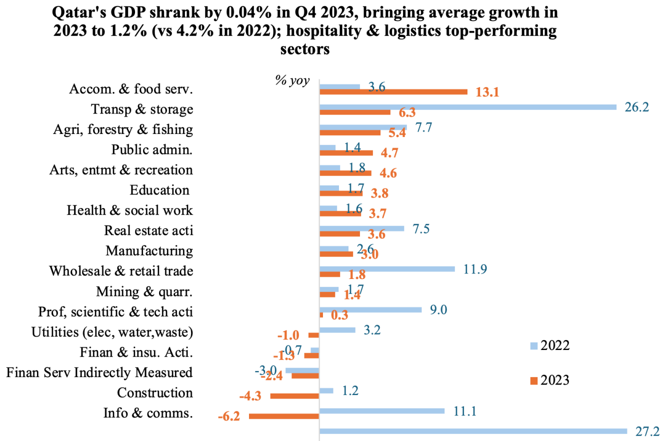
Source: LSEG Workspace, IMF Portwatch. Charts by Nasser Saidi & Associates.

3. Qatar's economic activity contracted in Q4 2023, dragged down by mining & quarrying sector but alongside robust non-hydrocarbon sector performance

- **Qatar's real GDP shrank by 0.6% qoq and 0.04% yoy** to QAR 176.78bn **in Q4 2023** (Q3 2023: 1.5% yoy), largely owing to the decline in hydrocarbon sector activity (-5.6% qoq and -3.1% yoy).
- **Non-hydrocarbon sector continued to grow steadily**, rising by 2.4% qoq and 1.7% yoy to QAR 114.6bn. A further breakdown by sector showed the fastest upticks in accommodation & food services activities (10.2% yoy in Q4), followed by agriculture, forestry & fishing (7.7% yoy) and arts, entertainment & recreation (6.4%). For the full year 2023, hospitality and logistics sectors topped growth.
- A percentage distribution of GDP by economic activity shows **mining & quarrying sector accounting for 35.2% of overall GDP in Q4 2023**, followed by construction (10.5%), financial & insurance activities (9.3%), wholesale & retail trade (9.1%) and manufacturing (7.9%).
- The **expansion of Qatar's LNG capacity** (and related, long-term alliances) **will support its near- and medium-term growth**, while the initiatives within the **Third**

National Development Strategy, if implemented effectively, could significantly boost non-oil sector activity (e.g. diversification & growth clusters, reforms to improve investment climate).



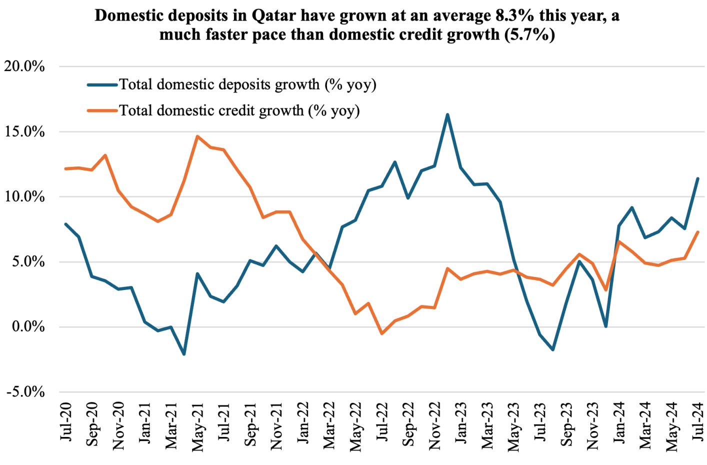


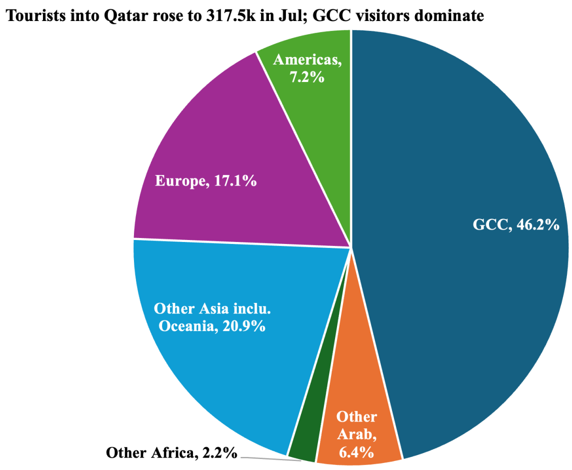
Source: National Planning Council, Qatar. Charts by Nasser Saidi & Associates.

4. Qatar’s domestic deposit growth outpaces credit; tourists from GCC dominate inflow

- Latest monetary statistics data released by the Qatar central bank showed that **total assets of commercial banks grew by 6.4% yoy to QAR 2trn in July. Money supply growth was healthy**: M2 and M3 were up by 6.4% and 11.3% respectively.
- Total deposits grew by 11.3% yoy to QAR 1.03trn in Jul, with **domestic deposits accounting for the major share** (80.7%). **Domestic deposits** were up by 11.4% in Jul and grew by an average 8.3% in Jan-Jul, with **public sector deposits accounting for 44% of the total.** Public sector deposits grew by +21.4% yoy to QAR 366.2bn while private sector deposits were up by 4.6% yoy to QAR 466.9bn.
- **Domestic credit increased at a much slower pace compared to domestic deposits.** The former was up by 7.3% yoy in Jul, with claims to the private and public sectors up by 6.9% (to QAR 884.1bn) and 12.8% (to QAR 112.4bn) respectively.
- **Tourism continues to rise**, with July alone seeing an inflow of 317.5k tourists (+0.4% mom and 10.2% yoy),

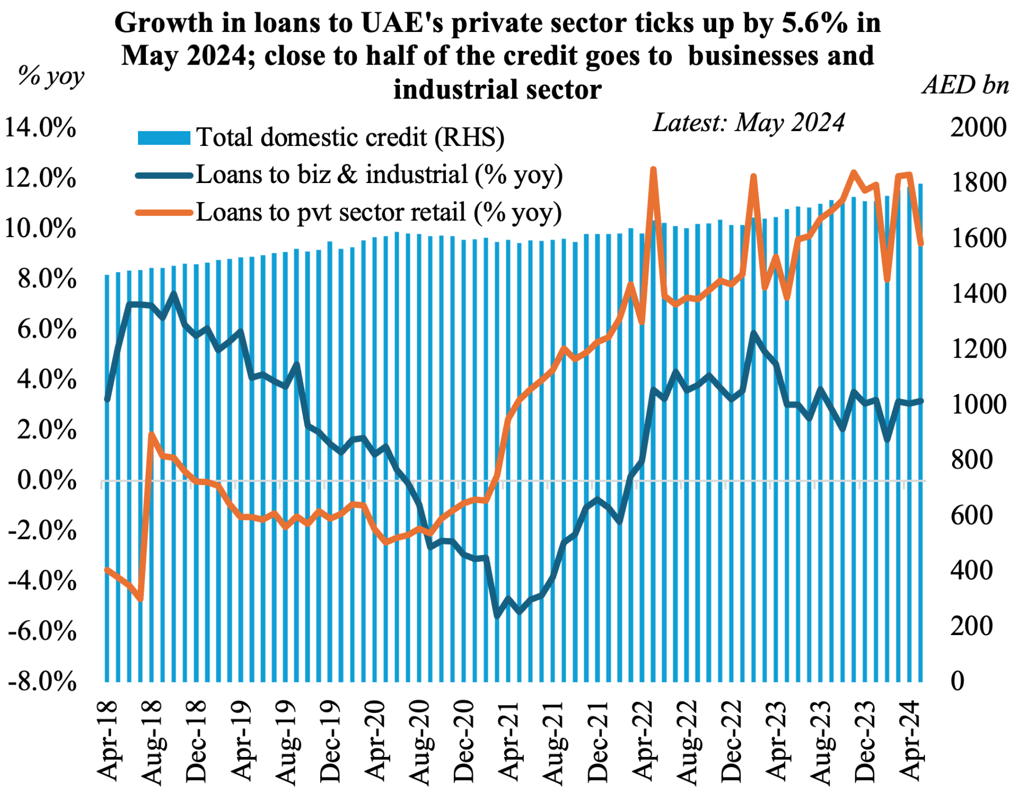
taking the total to **2.95mn visitors in Jan-Jul 2024** (Qatar had clocked in a record-high 4mn visitors in full year 2023, which was almost twice pre-pandemic levels). While **visitors from the GCC account for 46.2% of the total**, the upcoming unified GCC visa should further support tourism.





Source: Qatar Central Bank, National Planning Council. Charts by Nasser Saidi & Associates.

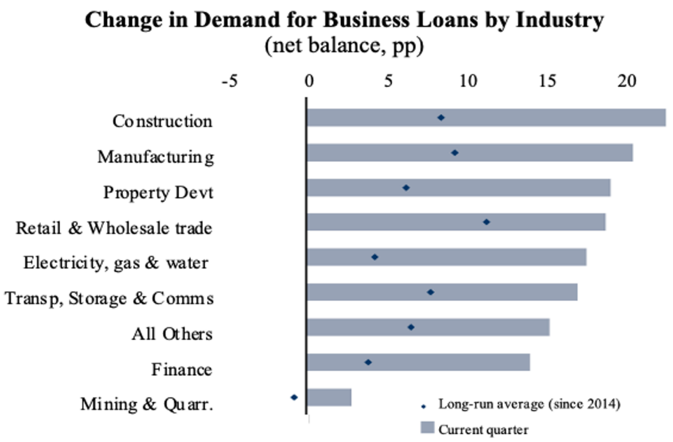
5. UAE's Q2 credit sentiment survey indicates healthy demand; banks' willingness for business lending is strong . Appetite to remain strong in Q3

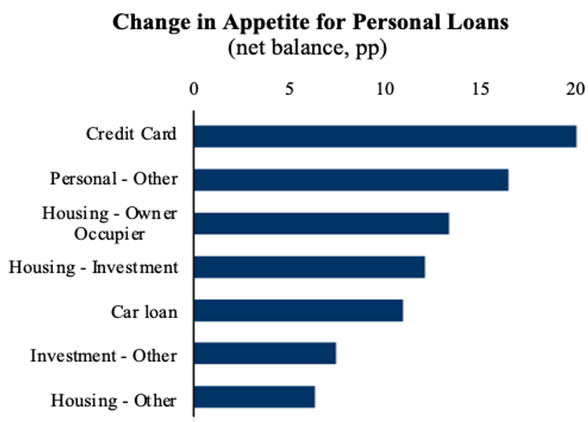


- Loans disbursed to UAE's **business & industrial sector**

accounted for 47.5% of total domestic credit in May 2024. It grew by 3.2% yoy in May (& 3.6% year-to-date) versus a faster pace in the private retail sector (9.4% yoy and 5.6% ytd).

- UAE central bank's Q2 2024 credit sentiment survey shows a **strong credit demand.** But domestic credit grew by 5.4% yoy in May 2024, slower than 6.5% and 6.1% in Apr and Mar respectively.
- **Demand for business loans** rose in Q2 2024: demand was strongest for GREs, followed by large firms. The largest growth rates were seen in construction, manufacturing, property development and retail & wholesale trade. Appetite to remain strong in Q3.
- While demand for personal loans was strong, **financing conditions for personal lending have become less favourable.** There was also a moderate increase in premiums charged on riskier loans. Credit card, personal loans and housing loans (owner-occupier) showed the largest increase in lending appetite.





Source: Credit Sentiment Survey Q2 2024, UAE Central Bank.

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