

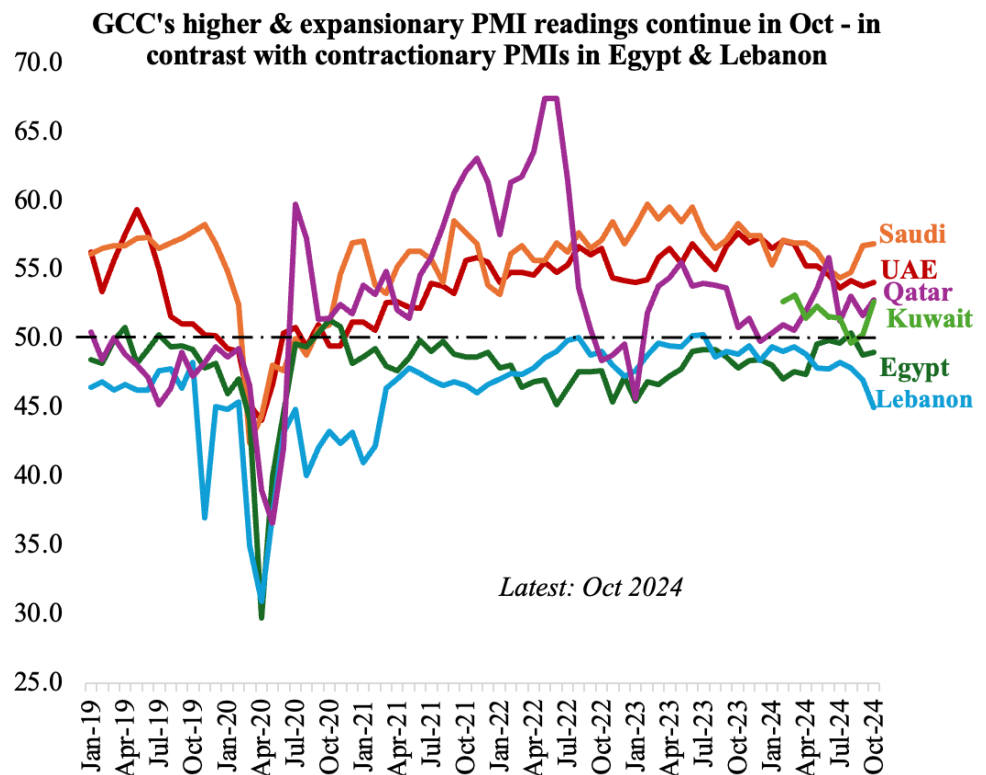
Weekly Insights 8 Nov 2024: Expansionary PMIs in the GCC & robust airlines performance despite regional conflicts

PMIs in the Middle East. Saudi budget deficit. UAE monetary stats. Inflation in UAE & Dubai. Middle East airlines performance.

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1. Diverging PMIs in the Middle East: expansionary & rising momentum in the GCC vs contractionary elsewhere



Source: LSEG Workspace. Chart by Nasser Saidi & Associates

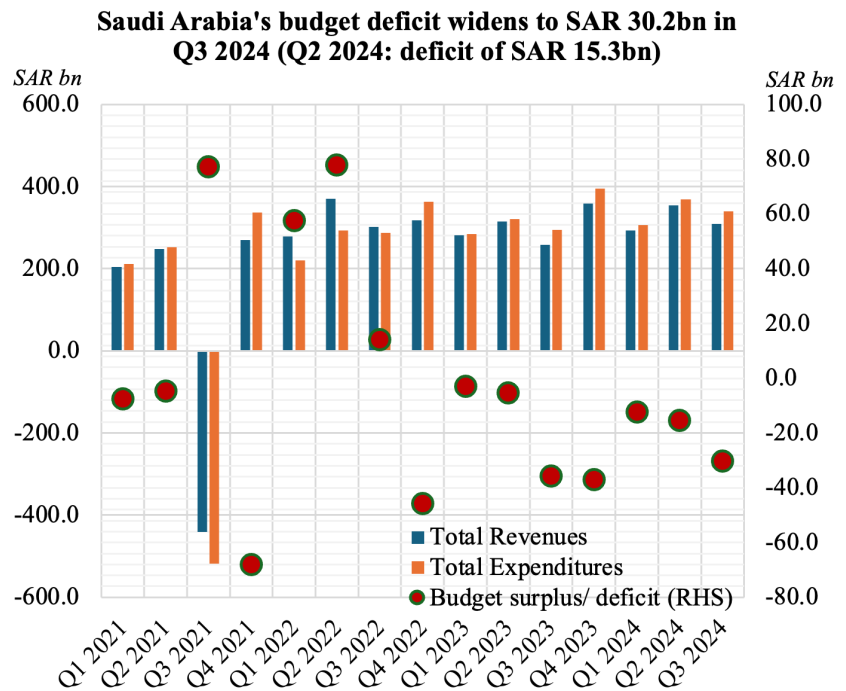
▪ Weak market conditions and impact from the ongoing

conflict was evident in October PMIs for Lebanon and Egypt.

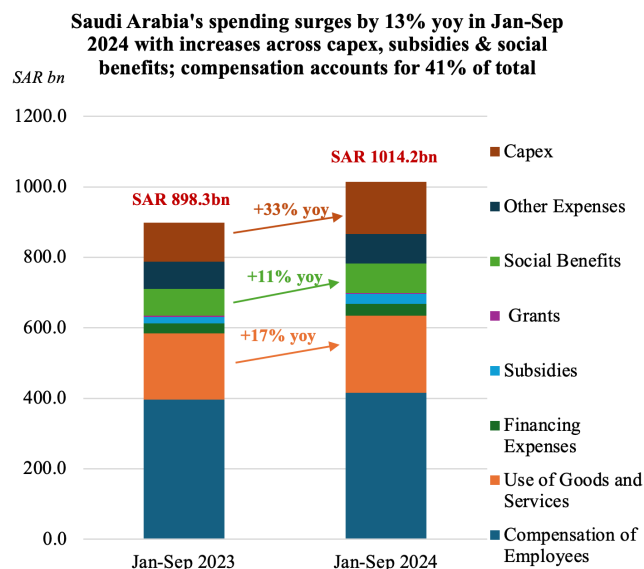
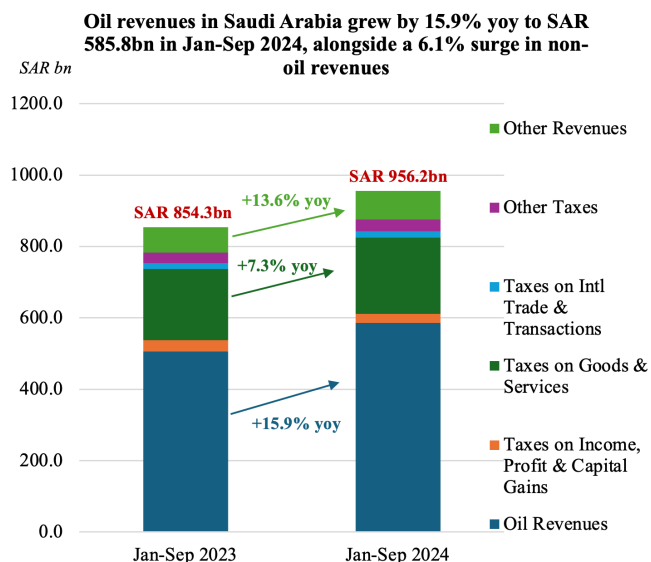
- **Lebanon posted the lowest reading since Feb 2021**, with sharp declines in new orders and new export orders. Though **Egypt's PMI edged up, it stayed contractionary**: demand remained weak, especially in construction. **Employment** dropped in Lebanon but rose for the fourth month in a row in Egypt.
- **UAE PMI gained** thanks to increase in output levels while new orders softened. Interestingly, **employment** fell to a 30-month low in UAE while in Saudi it has been up for 6 months in a row. **Saudi Arabia's PMI benefitted from new orders and rise in sales**, with domestic demand staying robust. **Kuwait's PMI grew 4 points** thanks to growth in new orders and output.
- **Input prices increased in most Middle East nations**, except in UAE (where input cost inflation eased to a 6-month low) and Egypt (where inflation eased from Sep's 6-month high). Input costs stood at a 19-month high in Lebanon; wages were the strongest pressure on prices in Qatar (most since Jul 2020); higher material costs and wages were the main drivers in Saudi Arabia.
- After opting to increase output charges for six months, **UAE joined other nations in lowering prices charged in Oct**. Output prices rose at the fastest rate in just over one and a half years in Lebanon.

2. Saudi budget deficit widened in Q3 2024, higher than

deficit in H1 2024



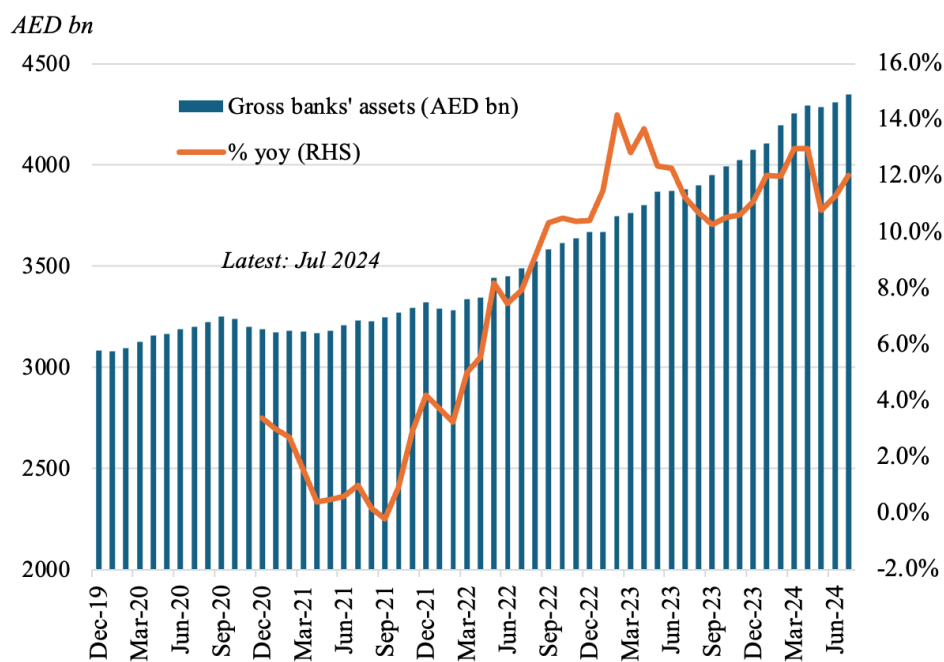
- **With Saudi fiscal deficit clocking in at SAR 30.2bn in Q3**, overall deficit this year increased to SAR 57.96bn (vs SAR 44bn in Jan-Sep 2023). Recent projections placed full year deficit for 2024 at SAR 118bn.
- **Overall revenues grew** by 11.9% yoy to SAR 956.2bn in the period Jan-Sep 2024, with oil revenues fastest growing component, rising by 15.9% (to SAR 585.8bn) while non-oil revenues grew by 6.2% to SAR 370.5bn. **Taxes accounted for 78.2% of non-oil revenues** in Jan-Sep.
- Despite the rise in revenues, **spending rose** by 12.9% yoy **to SAR 1.014trn in Jan-Sep**. Capex posted one of the largest increases during the period, not surprising given the spending on infrastructure, up 33.4% to SAR 147.6bn. Compensation of employees, which accounted for 41% of total spending, gained the least – up by less than 5% to SAR 416.0bn.



Source: Saudi Arabia's Ministry of Finance. Charts by Nasser Saidi & Associates

3. UAE gross bank assets rise 6.8% ytd to AED 4.4trn in Jul; deposits surge 8.5% ytd

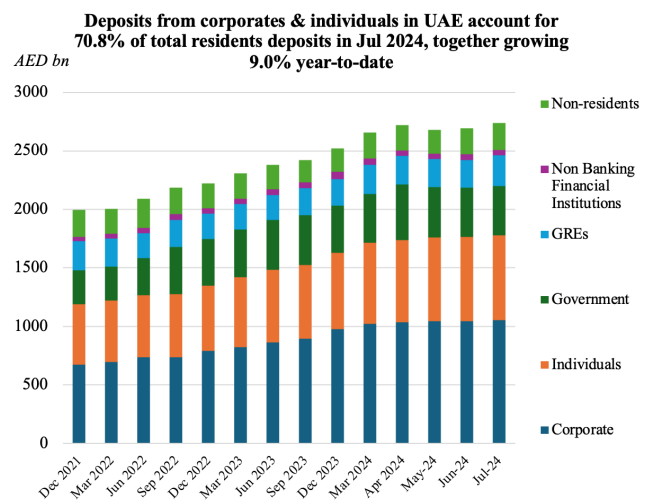
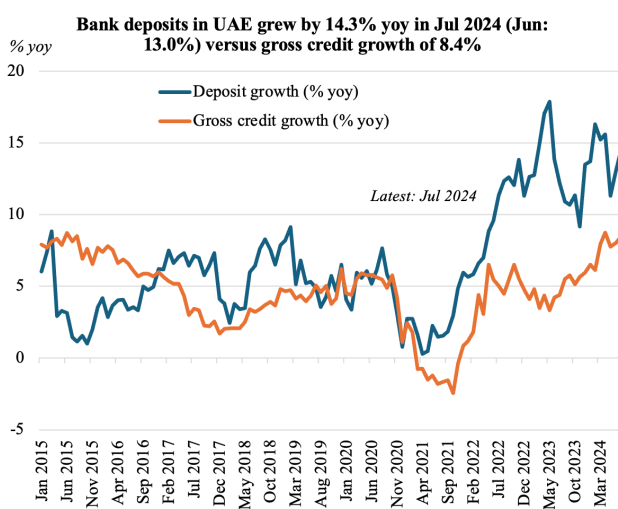
UAE banks' gross assets grew by 0.9% mom and 12.0% yoy to a new record-high AED 4.348trn as of end-Jul 2024



- **UAE's gross bank assets grew by 0.9% mom and 12% yoy to AED 4.348trn in Jul.** Year-to-date, it grew by 6.8%.
- **The central bank's total assets surged by 1.4% mom to a new record-high AED 817.889bn in Jul.**
- **UAE banks' deposits increased by 14.3% yoy in Jul,** thanks to a strong 14.6% uptick in resident deposits and

11.9% rise in non-resident deposits (its share was just 8.3% of overall deposits).

- **Private sector deposits** account for 64.9% of total deposits and 70.8% of total resident deposits in Jul. **Government and GREs** together accounted for one-fourth of total deposits; these grew by 5.2% and 17.2% ytd.
- Banks are expected to benefit from robust economic growth in the country; high deposit growth is likely to outpace credit growth.

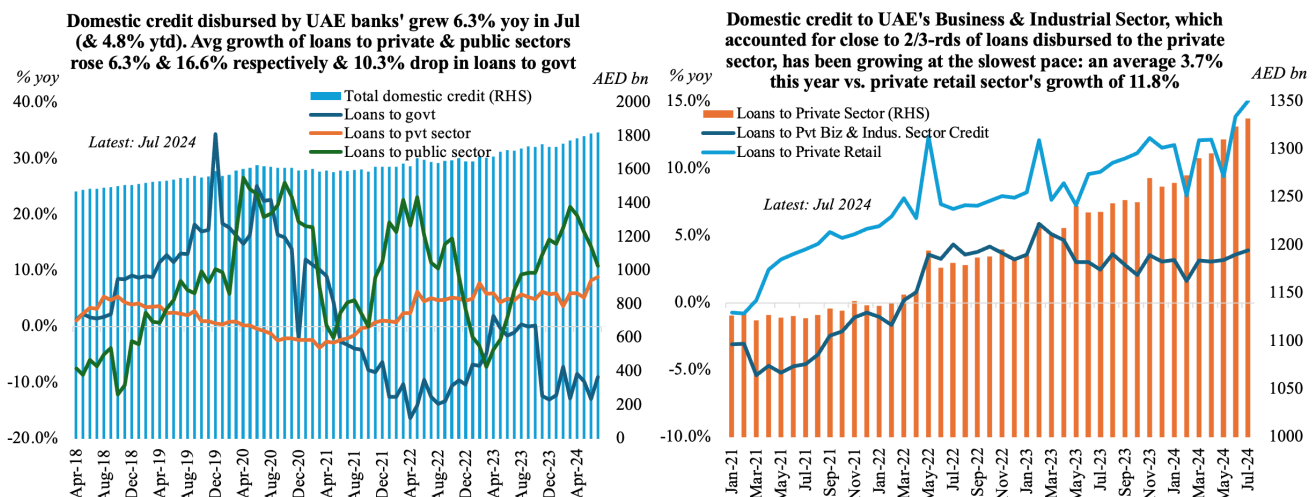


4. Domestic credit growth in the UAE rises by 4.8% ytd as of July 2024

- **Gross credit in the UAE** grew by 0.1% mom and 8.5% yoy to AED 2.101trn in Jul. This was driven by growth in **domestic credit** (0.3% mom and 6.3% yoy to AED 1.822trn in Jul) and **foreign credit** (24.6% yoy to AED 280.3bn). **Foreign credit** also includes loans and advances to non-residents, which grew by 7.5% mom and 22.3% yoy to AED 23.0bn.
- Within domestic credit, the share of loans to the **private sector** stood at 72.2% in Jul. **Loans to the government and GREs** increased by 4.6% and 1.5% year-to-date to AED 192.8bn and AED 296.8bn respectively as of end-Jul.
- **Loans disbursed to business and industrial sector** (at

AED 858.4bn) accounted for close to 2/3-rds of credit to the private sector. Credit disbursed to the private business and industrial sector grew by an average 3.7% yoy in Jan-Jul 2024 while in contrast, private sector retail credit grew at a much faster pace of 11.8%.

- Separately, the capital and reserves of banks operating within the UAE touched a new high of AED 502.6bn, up 1.5% mom & 10.5% yoy.

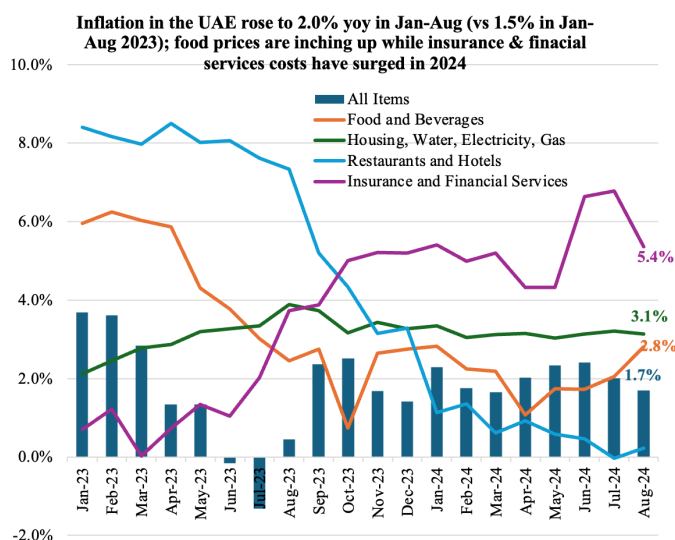


5. Inflation has increased this year, on average, in both Dubai & wider UAE. Housing and insurance costs among major components driving the uptick.

- Inflation in the UAE eased to 1.7% in Aug (Jul: 2.0%), clocking in an average of 2.0% for the period Jan-Aug this year (Jan-Aug 2023: 1.5%). Food and beverage costs are inching up, rising to 2.8% in Aug (Jul: 2.0%) – the highest since Jan 2024.
- For the Jan-Aug period, yoy gains were registered in housing & utilities (3.2% vs 3.0%), education (2.6% vs 0.9%), medical care (1.6% vs 0.9%), transportation (0.8% vs -6.9%) and insurance & financial services (5.4% vs 1.4%). The sharpest declines were recorded restaurants & hotels (0.7% from 8.0%), food & beverages (2.1% vs 4.7%) and furniture & household goods (0.5% vs 3.0%).
- Inflation in Dubai clocked in at 2.5% in Sep, the lowest

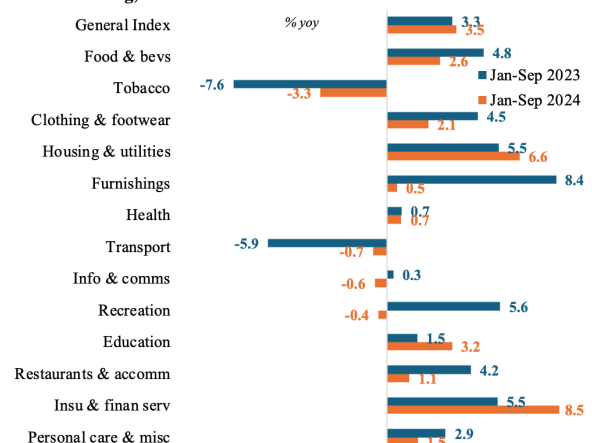
since Aug 2023, and from Aug's 3.38%, with declines across most categories excluding housing & utilities (7.02% in Sep vs 6.92% in Aug), furnishings (0.4% from 0.3%) and personal care & miscellaneous goods (2.21% vs 1.84%). **Both recreation and restaurants & accommodation costs turned negative in yoy terms in Sep (-2.7% and -0.1% respectively).**

- **Housing & utilities**, with an overall weightage of 40.7%, recorded the largest yoy gains in the new series starting 2022 (using 2021 as the base year).
- Overall, for the period Jan-Sep 2024, price increases were sharpest for insurance & financial services (8.5% from 5.5% a year ago), housing & utilities (6.6% from 5.5%) as well as education (3.2% from 1.5%). The increase in population has been driving demand for houses and education, driving up the uptick in related costs.
- Sectors where price declines were evident in Dubai till Sep 2024 were food & non-alcoholic beverages, clothing & footwear, recreation (turning negative this year) and restaurants & accommodation, among others.



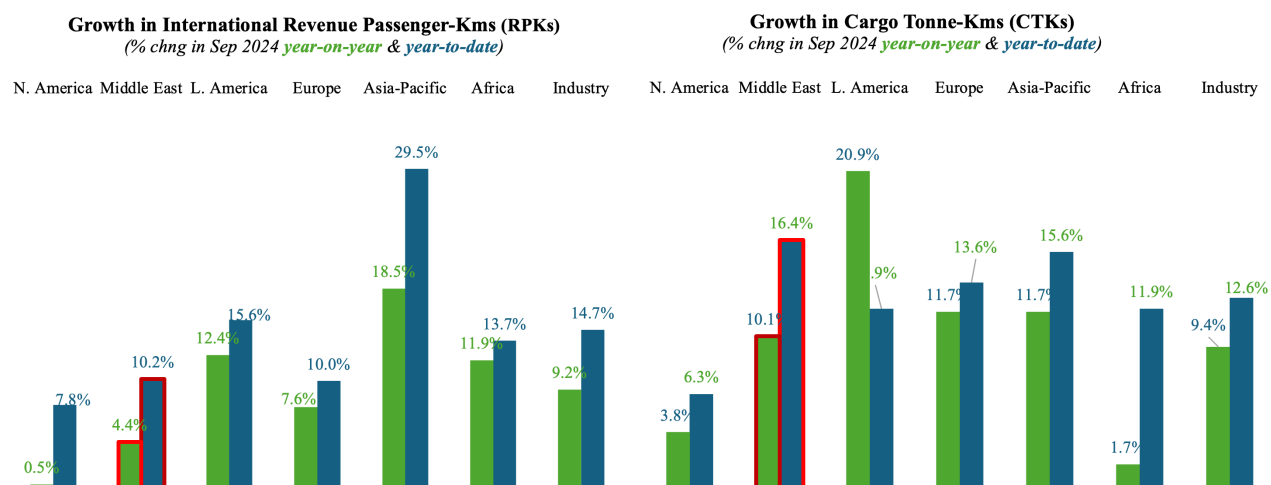
Source: UAE's Federal Competitiveness and Statistics Centre, Dubai Statistics Centre. Charts by Nasser Saidi & Associates.

Inflation in Dubai rose to an average 3.6% yoy in Jan-Jul 2024 (Jan-Jul 2023: 3.3%), largely driven by increases in costs of housing, education & insurance/ financial services



6. Gains in Middle East air passenger & cargo in Sep despite regional conflicts; strong demand to continue in Q4

- **Global international passenger traffic growth** was up by 9.2% yoy in Sep, and though growth has decelerated from previous months, air travel demand is expected to stay robust (as evidenced by ticket sales).
- **Middle Eastern airlines' international RPKs grew by just 4.4% yoy in Sep** – the lowest after North America's 0.5% gain. Asia Pacific was the fastest growing region globally for international RPKs (18.5% yoy and 29.5% ytd).
- **Cargo tonne-kms (CTKs) grew by 9.4% yoy in Sep, up for the 14th straight month.** It grew by a faster 12.6% ytd, with expansions across all regions; but demand contracted by 0.4% mom. **Middle East carriers grew fastest ytd (+16.4%)** followed by Asia-Pacific (+15.6%).
- Among international routes, **Middle East-Europe trade route expanded for the 14th month in a row (15.6%)** and 13 months of double-digit growth, followed closely by Middle East-Asia leg (+13.9%, the 16th straight month of growth & 12 in double digits).
- With shipping routes still facing disruption and e-commerce demand rising in US and Europe ahead of the holiday season, **the airlines are poised to continue their strong growth showing.**



Source: IATA, Air Passenger & Cargo Market Analysis (issued Oct 2024)

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