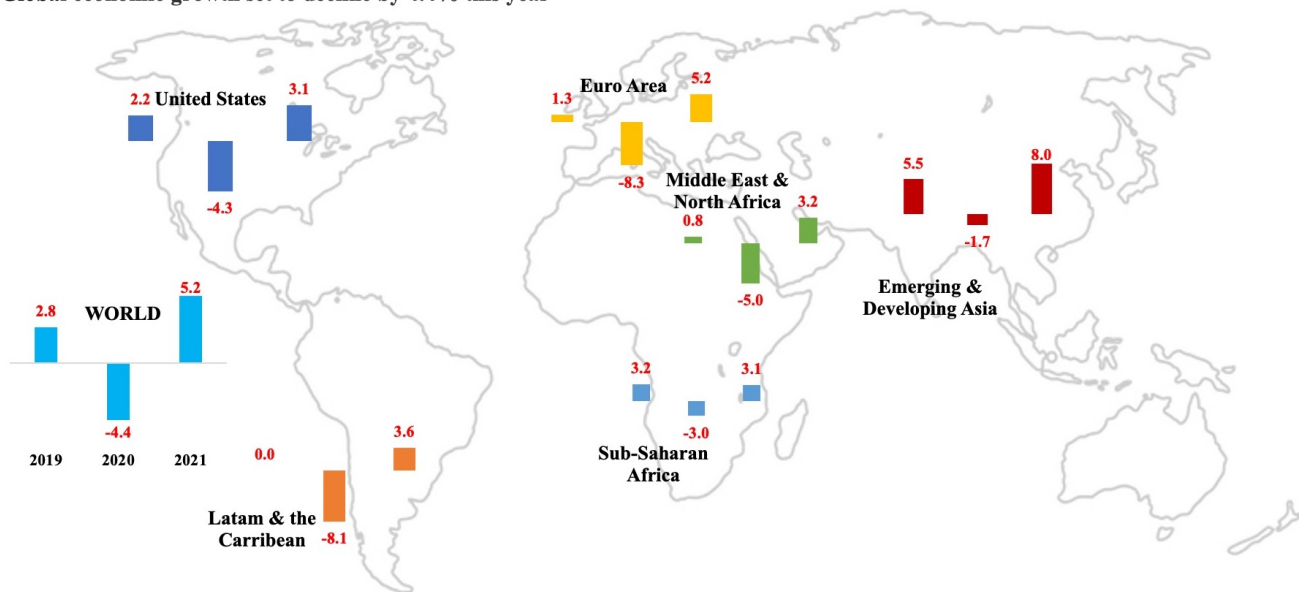


Weekly Insights 20 Oct 2020: Expect a Protracted Economic Recovery in Middle East/ GCC

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Fig 1. Global Economic Growth to decline by 4.4% this year, before rebounding to 5.2% in 2021

Global economic growth set to decline by 4.4% this year



Source: IMF World Economic Outlook, Oct 2020

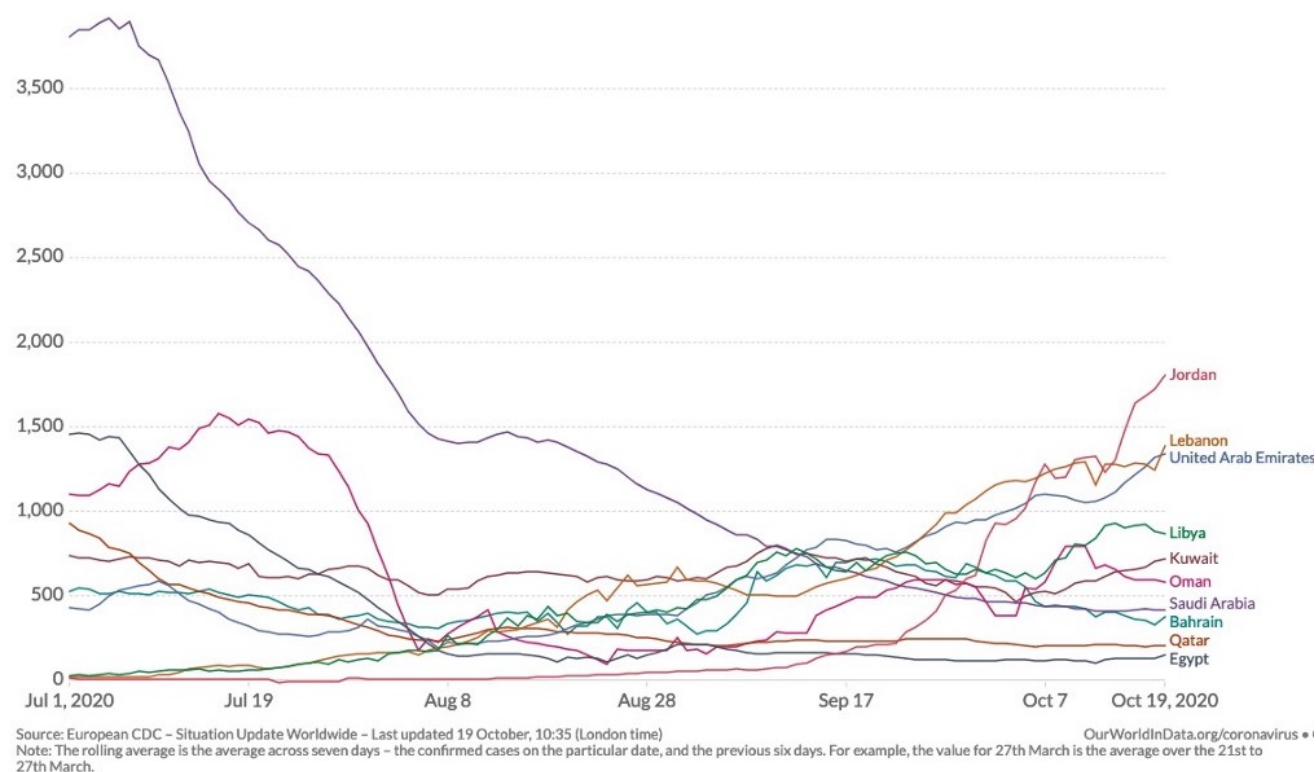
d Economic Outlook, released in October, forecast upwardly revised growth estimates for most country groups this year though stating that the recovery is “long, uneven and uncertain”. The IMF forecasts still seem relatively optimistic with all regional aggregates indicating a wobbly V-shaped recovery. Emerging markets and China are expected to recover much faster than their advanced counterparts while also noting that the plunge in growth was more severe for the advanced nations. A recovery in trade, PMI numbers and consumer spending are cited as supporting global recovery, though the sudden surge in Covid19 confirmed cases across Europe is likely to dampen the rebound, presaging a second wave and extended recovery.

Germany, Italy, Portugal and UK recently reported their

highest number of infections since the start of the pandemic and many nations are reimposing restrictions – Belgium's nationwide curfew, Switzerland making masks compulsory in indoor public areas, a 9pm curfew at many major cities in France – though a full-fledged lockdown is likely to be avoided. While Q3 may show an uptick in growth, Q4 is likely to slide back into negative territory (though not as sharp as Q2's plunge). Mobility indicators show a decline in footfall across many European cities (<https://on.ft.com/2Tmv0kZ>); PMI data reveals a divergence between manufacturing and services, with the latter reporting a drop in Sep. As we enter the cold winter months, the partial recovery seen in Q3 may be just temporary.

In the **Middle East and North Africa** (reeling from the effects of the global recession, Covid19 impact and oil exporters facing lower oil prices and demand), growth is expected to recover a tad later and slower compared to the rest, rising to only 3.2% from a 5.0% dip this year (*Source: IMF Regional Economic Outlook: Middle East & Central Asia, Oct 2020*). Egypt is the only country in the region forecast to grow this year (+3.5% yoy in spite of the massive decline in tourism). **GCC growth is forecast to shrink by 6.0% this year** – with oil and non-oil GDP contracting by 6.2% and 5.7% respectively.

Fig 2. Daily confirmed COVID-19 cases in select MENA nations, rolling 7-day average



Source: Our World in Data, accessed 20th Oct 2020.

COVID-19 cases might add to economic uncertainty in the region – Jordan has reimposed some restrictions since the beginning of the month, but none of the nations have gone back to the stringency levels seen during Mar-Apr 2020. The **immediate concerns remain on the fiscal side**, with most nations rolling out stimulus packages to ease the impact from COVID-19. For the **GCC, fiscal deficits are projected at 9.2% of GDP this year** (2019: -2%) while the fiscal breakeven oil price ranges from USD 42 for Qatar to USD 75.9 for the UAE and as high as USD 104.5 for Oman. Dependence on oil is still pronounced in spite of diversification efforts and the rising fiscal deficits are being met with a combination of debt issuances, tapping domestic markets, reduction of reserves and via sovereign wealth funds.

Though countries in the Middle East emerged from COVID-19 containment in Q2, the economic costs/ impact are likely to be protracted through the year and next given the many spillover risks: debt obligations and financing needs, job losses/ unemployment, potential NPLs affecting banking sectors,

business closures leading to insolvency/ bankruptcy, and for the oil importers decline in remittances as well as rising poverty and inequality. [IMF estimates](#) foresee that five years from now countries could be 12% below GDP level expected by pre-crisis trends.

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Weekly Insights 13 Oct 2020: PMIs, Mobility & Economic Recovery

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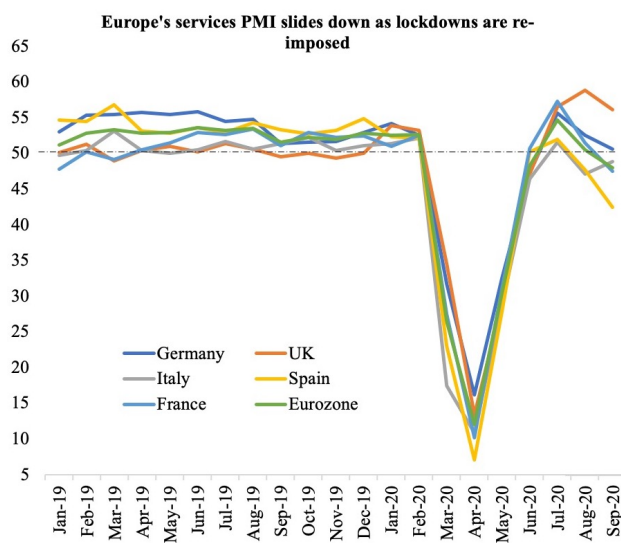
1.Global PMIs, shipping & trade

PMIs across the globe were released last week. The headline JPMorgan global composite PMI fell for the first time in five months, dipping to 52.1 in Sep (Aug: 52.4). Most manufacturing surveys still indicated an expansion (a reading above 50) though the pace of recovery has slowed as a result of capacity constraints and supply chain delays. Sector-wise, the most significant beneficiary has been the automotive sector, where production capacity increased and new orders posted the most gain since Dec 2019. On the other extreme, tourism and recreation sector continues to be the worst hit – reflecting the glaring divergence between the manufacturing and services sector PMIs (Figure below). September's PMI readings in the

services sector have declined from Aug's 7-month highs, as many countries witnessed a resurgence in Covid19 cases (and in some, new record daily cases!), leading to restricted lockdowns which added on to the restrictions due to social distancing policies. Employment posted a net increase for the first time since Jan: though jobs growth was faster in the services sector in Aug-Sep, remember that the sector had also seen the steepest job cuts earlier this year.

	US	Germany	EU	UK	Japan	China	India
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8

Source: Refinitiv Datastream, Nasser Saidi & Associates

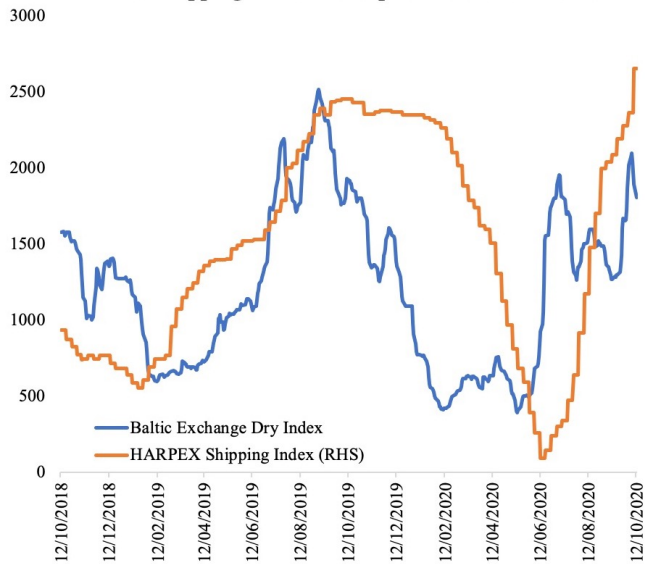


Source: Refinitiv Datastream, Nasser Saidi & Associates

facturing PMI readings have shown an increase in new export orders, supported by a pickup in demand. Global shipping indicators have improved during the summer, with both the Baltic Exchange Dry Index (tracks rates for ships carrying dry bulk commodities) and the Harpex shipping index (index created using container shipping rates across different classes of ship) picking up pace. Both indices rose to its highest in more than a year last week, after having touched 3-year highs in mid-2019 and declining sharply during the Feb-Jun period. However, the air freight sector has not recovered in tandem with shipping (Figure below), a result of cheaper ocean trade – a pattern visible during downturns – as well as insufficient air cargo capacity (according to IATA).

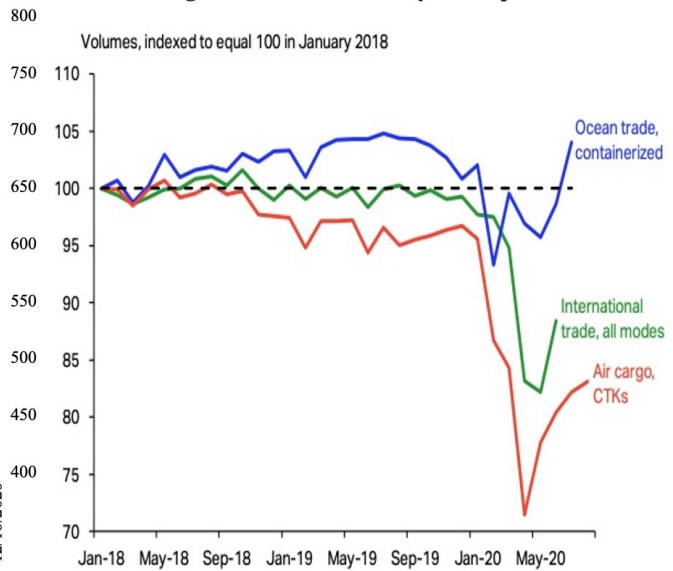
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Global Shipping Indicators improve over the summer



Source: Refinitiv Datastream, Nasser Saidi & Associates

Air cargo traffic recovers slowly in comparison



Source: IATA Air Freight Analysis report, Aug 2020

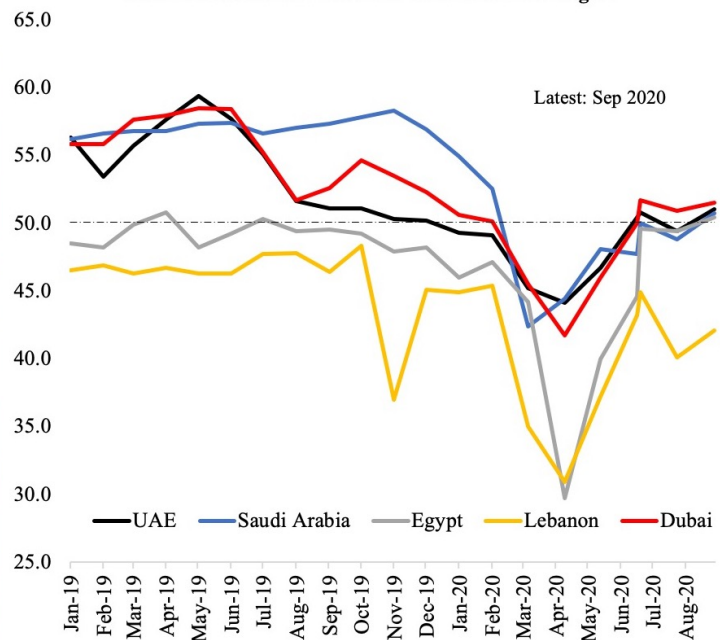
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Heatmap of non-oil private sector PMIs

	UAE	Saudi Arabia	Egypt	Lebanon	Dubai
Jan-19	56.3	56.2	48.5	46.5	55.8
Feb-19	53.4	56.6	48.2	46.9	55.8
Mar-19	55.7	56.8	49.9	46.3	57.6
Apr-19	57.6	56.8	50.8	46.7	57.9
May-19	59.4	57.3	48.2	46.3	58.5
Jun-19	57.7	57.4	49.2	46.3	58.4
Jul-19	55.1	56.6	50.3	47.7	55.2
Aug-19	51.6	57.0	49.4	47.8	51.7
Sep-19	51.1	57.3	49.5	46.4	52.6
Oct-19	51.1	57.8	49.2	48.3	54.6
Nov-19	50.3	58.3	47.9	37.0	53.5
Dec-19	50.2	56.9	48.2	45.1	52.3
Jan-20	49.3	54.9	46.0	44.9	50.6
Feb-20	49.1	52.5	47.1	45.4	50.1
Mar-20	45.2	42.4	44.2	35.0	45.5
Apr-20	44.1	44.4	29.7	30.9	41.7
May-20	46.7	48.1	40.0	37.2	46
Jun-20	50.4	47.7	44.6	43.2	50
Jul-20	50.8	50.0	49.6	44.9	51.7
Aug-20	49.4	48.8	49.4	40.1	50.9
Sep-20	51.0	50.7	50.4	42.1	51.5

Source: Refinitiv Datastream, Nasser Saidi & Associates

PMIs indicate a slow restart in the Middle East region



Source: Refinitiv Datastream, Nasser Saidi & Associates

oil private sector PMI's indicate a slow restart: Sep's modest improvement followed Aug when four of the countries moved into the contractionary territory (i.e. below the 50-mark). Significantly, demand growth has been picking up and the significant price discounting on offer has led to an increase in sales.

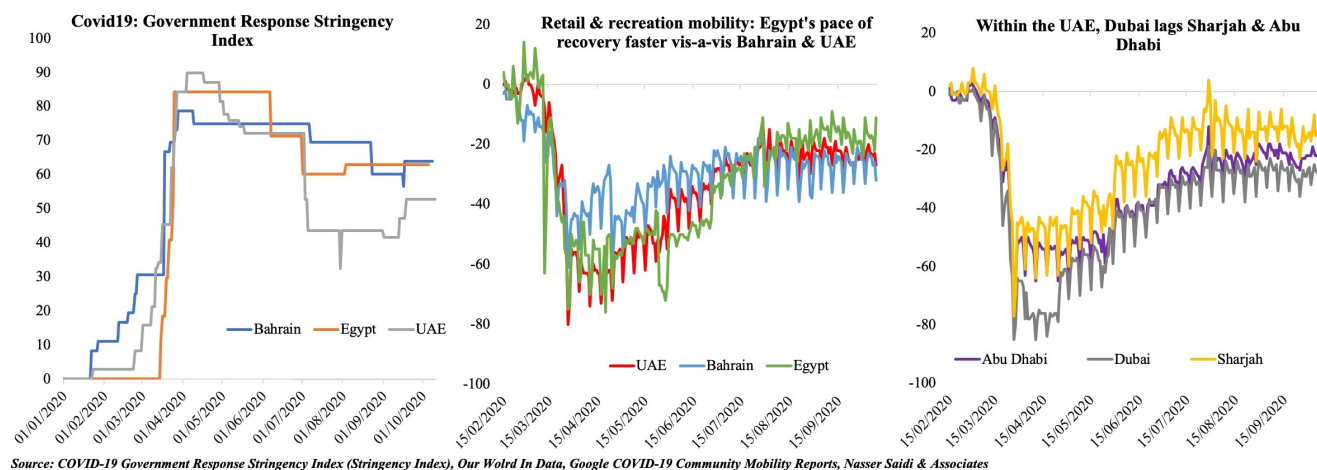
Job cuts are still occurring, as businesses adjust to reduce operating costs. The ILO estimates that Arab states witnessed a 2.3% drop in working hour losses in Q1 this year, followed

by 16.9% and 12.4% respectively in Q2 and Q3. Job postings are slowly ticking up, though anecdotal evidence suggests that potential employees are willing to accept a significant pay cut to undertake similar work. This will lead to a wider disparity in public-private sector wages, not to mention the impact it would have on wider gender disparities (during Covid19, women are already more likely than men to witness a larger drop in mobility to lose jobs in the informal economy or see a reduction in working time).

Furthermore, with lack of access to finance/ liquidity, not all businesses will recover or survive in the next few months, should uncertainty remain. This could result in a structural change brought about due to Covid19 (e.g. the increase in number of online shopping platforms which are relatively less labour-intensive versus actual physical stores). Being faced with limited financial capabilities (due to job losses or salary cuts and depletion of savings), expatriates could also decide to return to their home countries (negatively affecting consumer spending in the region).

3. Stringency Index vs. Retail and Recreation sector activity

The Middle East has seen a resurgence in Covid19 cases in the recent weeks, and many nations are in the process of reimposing partial lockdowns or shorter nationwide lockdowns: the first panel in the figure below shows that the Government Response Stringency Index^[1] has increased for the UAE in the past month (in line with the increase in cases). This is the best way forward, if we are to take into consideration the IMF's recent World Economic Outlook analysis which found that early adoption of stringent and short-lived lockdowns curbed infections and could be preferable to mild and prolonged measures. The enforcement of lockdowns and social distancing policies was an important factor contributing to a recession: however, such short-term costs of lockdowns may lead to medium-term gains if the virus is contained.



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ility indicator for retail and recreation show that none of the three nations – Bahrain, Egypt, or UAE – have yet returned fully to the pre-Covid19 baseline. Among the three, Egypt, which had declined the most initially, recovered faster in comparison. More interestingly, within the UAE, recovery in retail sector mobility in Sharjah (-14% from baseline in Oct) and Abu Dhabi (-21% from baseline) has outpaced Dubai (-23%). This could potentially be due to higher confidence in these emirates – given mass testing in Sharjah, border controls in Abu Dhabi and a relatively longer lockdown period – compared to Dubai.

What next? Note that a second (or even third) wave of Covid19 is unfolding, as we enter the cold winter months: given the likelihood of resurgence of Covid19, partial recovery – as indicated by PMIs – may be temporary. If further virus containment measures are introduced, though it will dampen economic activity in the short-term, medium-term gains might be achieved. Initial restrictions will likely affect the customer-facing service sectors more than others, but risks to other sectors will increase if further restrictions are imposed. Overall, an air of uncertainty is unlikely to boost confidence among firms, negatively affecting investment decisions and economic activity. Governments need to signal willingness to continue stimulus measures if required and take decisions to introduce “circuit-breakers” if necessary.

[\[1\]](#) The Stringency Index is a composite measure based on nine

response indicators that include school closures, workplace closures, and travel bans; the index ranges from 0 to 100 with 100 being the strictest. This index does not track the effectiveness of the response. More: <https://www.bsg.ox.ac.uk/research/research-projects/coronaviruses-government-response-tracker>

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