

Weekly Insights

10 March 2023

Global Trade slows but economic activity ticks up in the Middle East

- *Middle East PMIs rise in Feb, alongside a fresh increase in input costs*
- *Saudi Arabia grew by 8.7% in 2022, the fastest growth in over 10 years & highest among G20 nations*
- *Industrial production in Saudi Arabia eased for the 10th straight month in Jan; manufacturing remains a bright spot*
- *Global Trade Growth Loses Momentum in Q4 2022; but China's re-opening likely to provide support from Q1*
- *Global air cargo demand has been waning while air passengers, in contrast, has seen an acceleration in recovery*

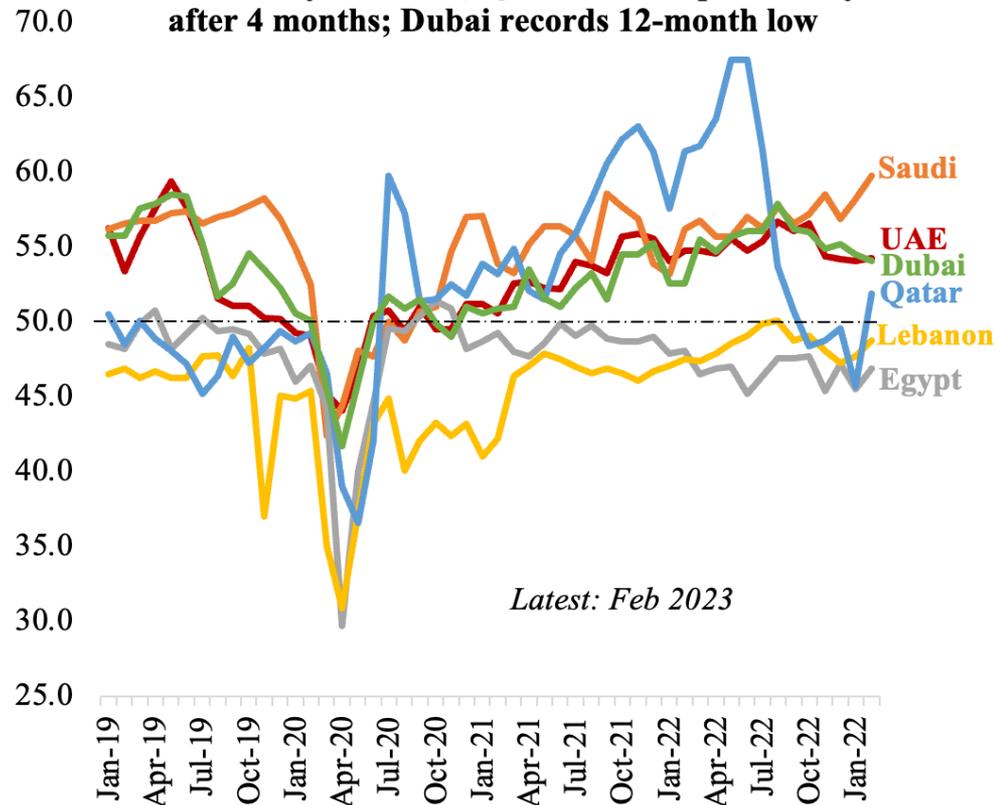
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— & ASSOCIATES —

Middle East PMIs rise in Feb, alongside a fresh increase in input costs

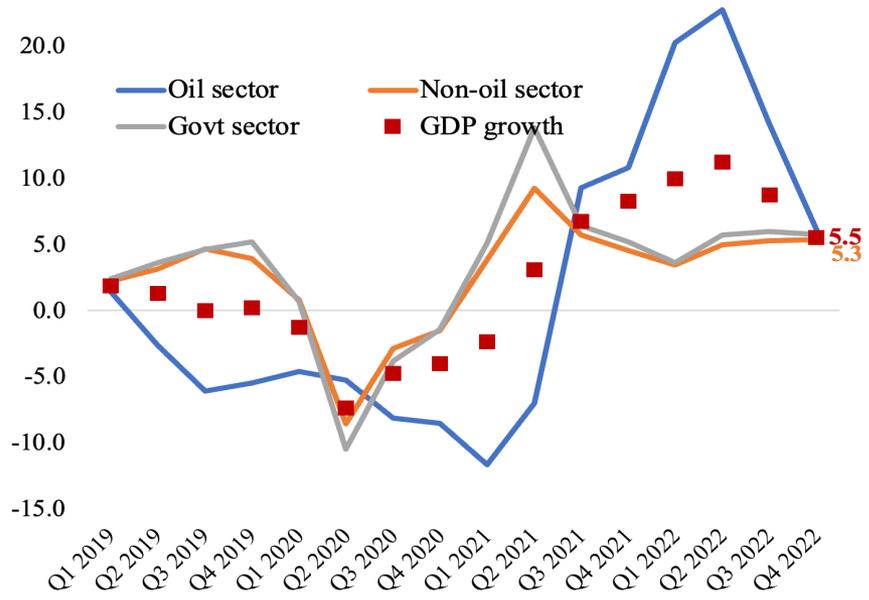
- **Most PMI readings in the Middle East increased in Feb:** only Dubai reported a slight decline in the headline reading (while remaining above-50).
- **Qatar moved into expansionary zone after 4 months,** as new projects were initiated after the World Cup frenzy.
- **Both Egypt and Lebanon showed an improvement** the overall reading (in spite of being below-50), indicating that the pace of declines (in output, new orders or other sub-indices) was slower.
- **A few interesting observations from the PMIs:**
 - ✓ **New increases in input costs** (a 32-month high in case of Lebanon and Dubai's fastest rise since Jul 2022). Some panelists trace it back to costs of imported raw materials and/ or shipping costs.
 - ✓ **Output costs patterns varied:** while firms in Qatar raised costs for the 9th time in 10 months, those in Dubai reduced output charges for the 7th consecutive month.
 - ✓ **Vendors cut their delivery times** as supply chain performance improved: UAE recorded the fastest pace since Sep 2019, while Saudi posted the strongest pace in 3 months. Egypt saw delivery times lengthen, but largely owing to import controls than other factors.

Middle East PMIs tick up in Feb, though Egypt & Lebanon stay below-50; Qatar turns expansionary after 4 months; Dubai records 12-month low



Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

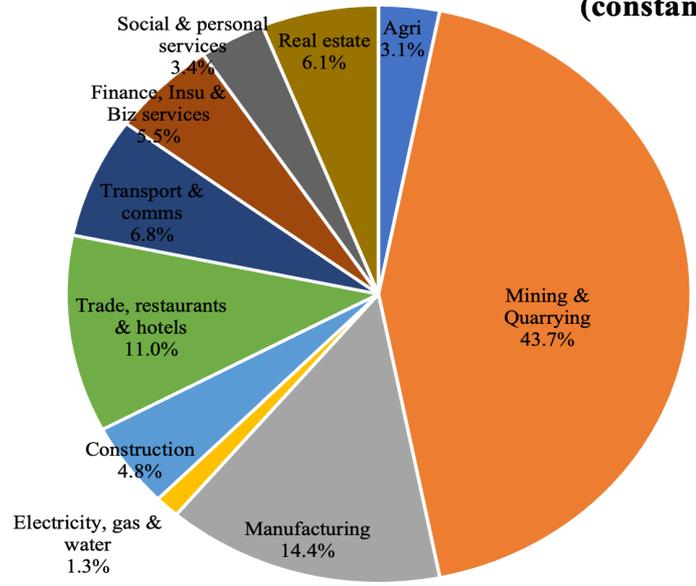
Saudi Arabia grew by 8.7% yoy in 2022 (2021: 3.9%), with oil & non-oil sectors up 15.4% & 5.4% respectively



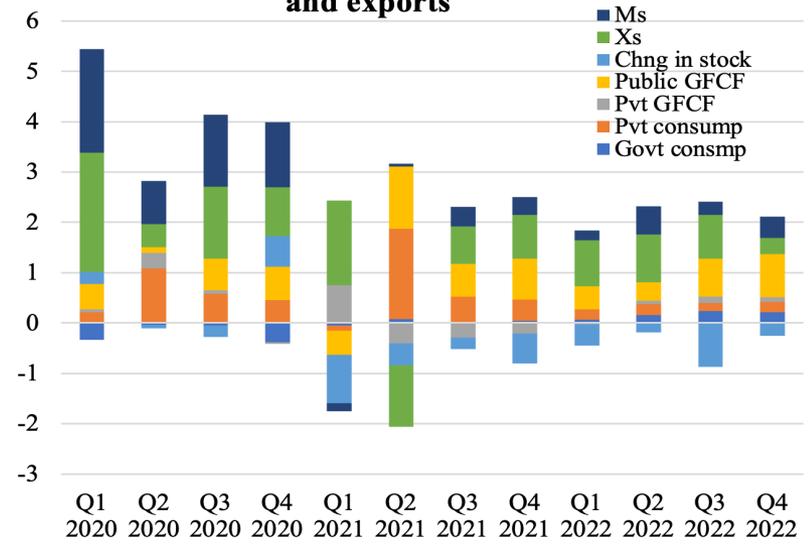
Saudi Arabia grew by 8.7% in 2022, the fastest growth in over 10 years & highest among G20 nations

- While both **oil and non-oil sectors supported economic growth in 2022**, easing oil production growth will leave an impact in 2023. The government’s **ambitious project pipeline will support non-oil sector growth**.
- **Private consumption and public investment contributed most to GDP growth in 2022** alongside net exports
- Mining & quarrying accounts for the lion’s share of activity by sector (43.7%), but it is important to note the **prominent role of manufacturing** (14.4% in 2022).

Share of economic activity in KSA, by sector, 2022 (constant prices)



Contributions to GDP in 2022: growth driven by public investment, private consumption and exports

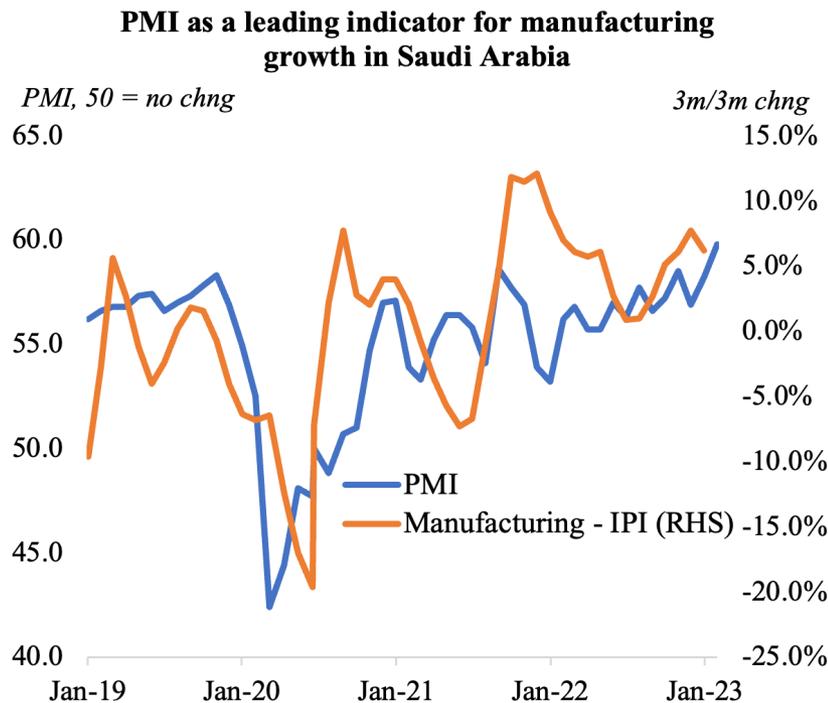
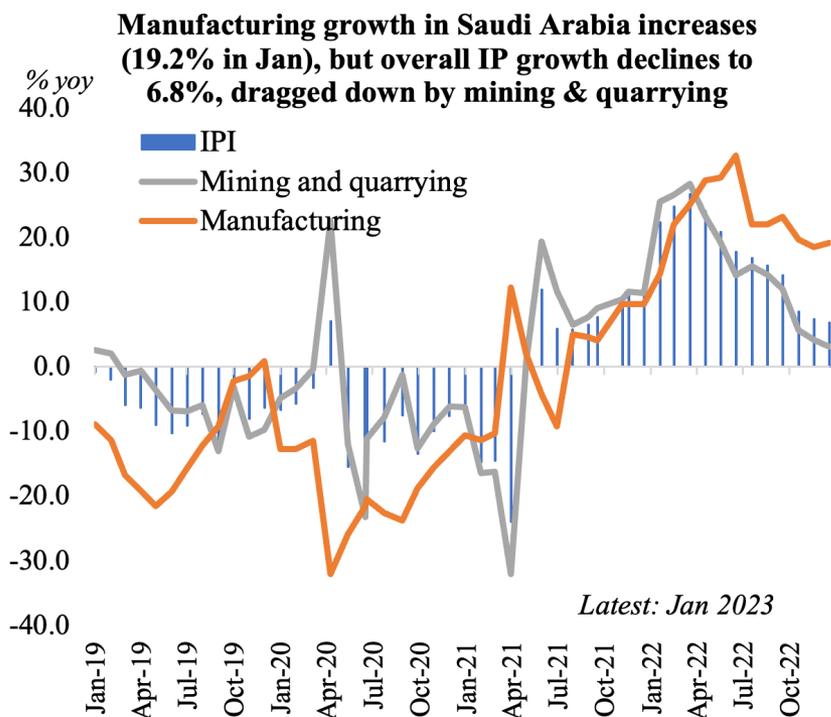


Source: GaStat. Charts by Nasser Saidi & Associates.



Industrial production in Saudi Arabia eased for the 10th straight month in Jan 2023; manufacturing remains a bright spot

- **Industrial production in Saudi Arabia grew by 6.8% yoy in Jan**, following Dec's 7.3% uptick and a full year gain of 17.5% in 2022. **Manufacturing has been the main driver of gains**, ever since OPEC+ decision to undertake production cuts, though its weightage in the IP index is just 22.6%.
- **Manufacturing grew by 19.2% in Jan** (Dec: 18.5%, 2022: 22.3%) and the recent surge in non-oil sector PMI indicates a sustained pace of increase in the coming months thanks to the uptick in output, new orders & new export orders. The 3m-rolling average of PMI displays this strength.
- **The increase in industrial investments will also support overall IP growth**: it touched SAR 32bn in 2022, with the creation of 51,723 job opportunities (of which about 43% were Saudi citizens).

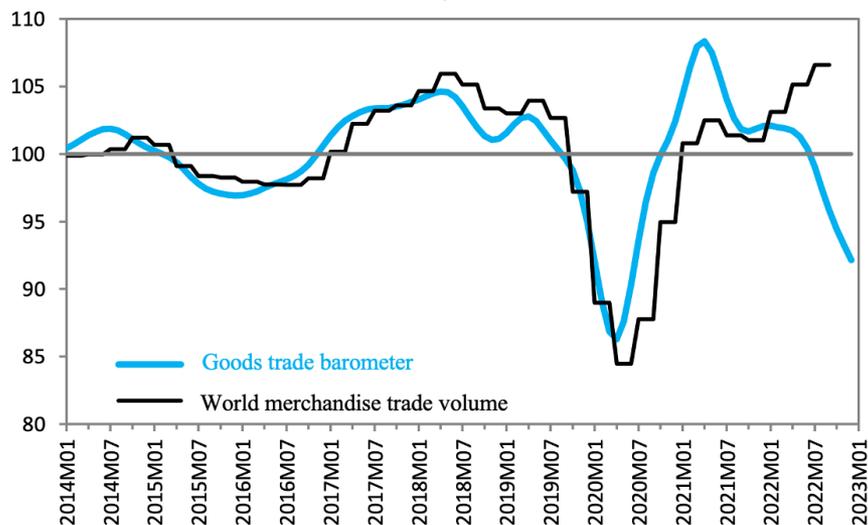


Source: IHS Markit, GaStat. Charts by Nasser Saidi & Associates.

Global Trade Growth Lost Momentum in Q4 2022; but China's re-opening likely to provide support from Q1 onwards

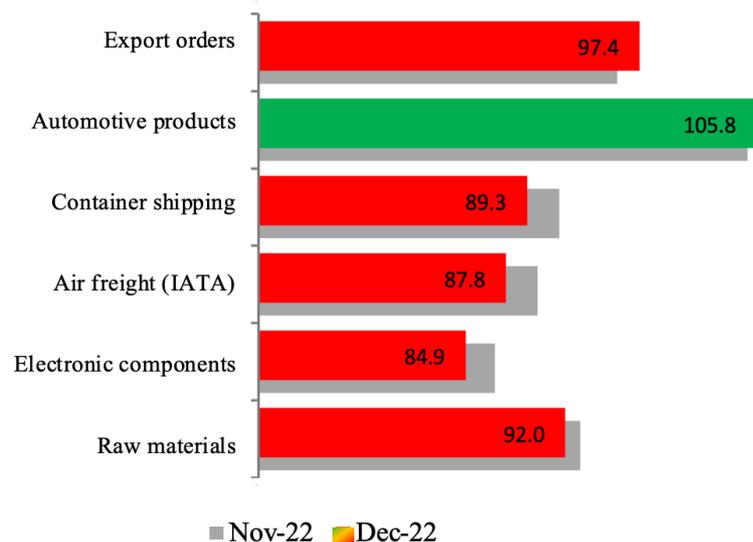
- **WTO's Goods Trade Barometer** declined further in Dec (to 92.2 from Sep's 96.2), indicating a **potential decline in qoq trade volume growth in Q4 2022**.
- Among the various forward-looking indicators, **only automotive products have shown an increase**: this is largely due to the increase in sales/ production in US, Europe & Japan offsetting China's plunge.
- However, **weakness is broad-based and visible across other components** including raw materials, shipping, freight (*detailed in the next slide*) and electronic components.
- **Improvements are just around the corner**, with China's reopening: a surge in China's consumption will boost global export demand. This is already evident in Jan's global manufacturing PMI data: though **export orders remained below trend in Dec**, it has moved into **expansionary zone in Jan**. Even the NY Fed's **index of supply chain pressure indicates a return to "normal"**, with the Feb 2023 reading at a negative -0.26 standard deviations, the lowest reading since Aug 2019.

Goods trade barometer declines further to 92.2 in Dec (Sep: 96.2)
Index history, trend = 100



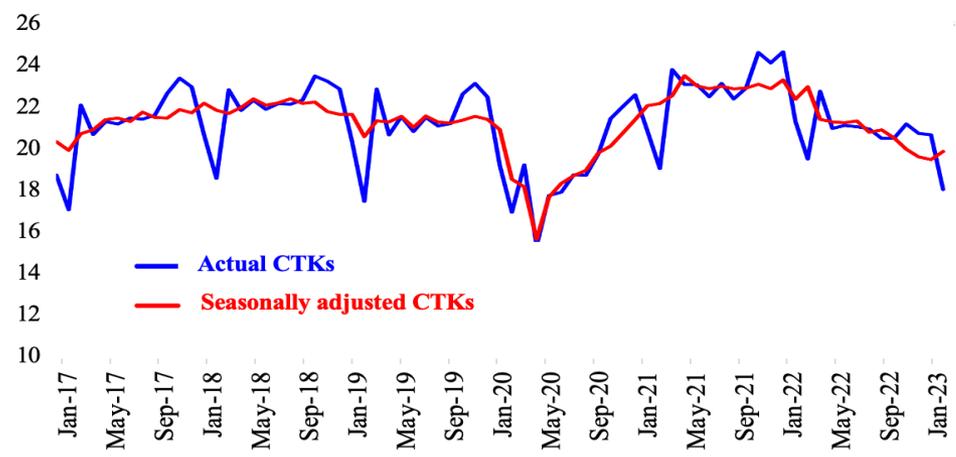
Source: Goods Trade Barometer, Mar 2023, WTO.

Drivers of goods trade
Component index values, trend=100

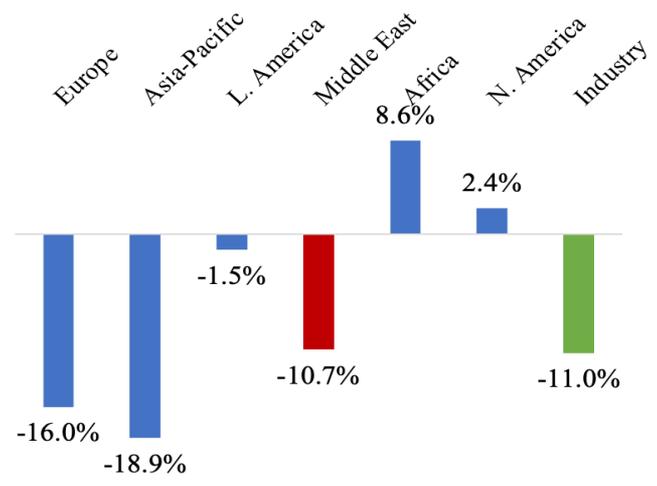


Air cargo demand has been waning. Even a recovery in global trade is likely to benefit maritime transport more than air cargo. Air passengers, in contrast, has seen an acceleration in recovery (% yoy) thanks to a steady increase in international traffic. Ticket sales in the Middle East surged in Q4, staying above global average (thanks to the Qatar World Cup)

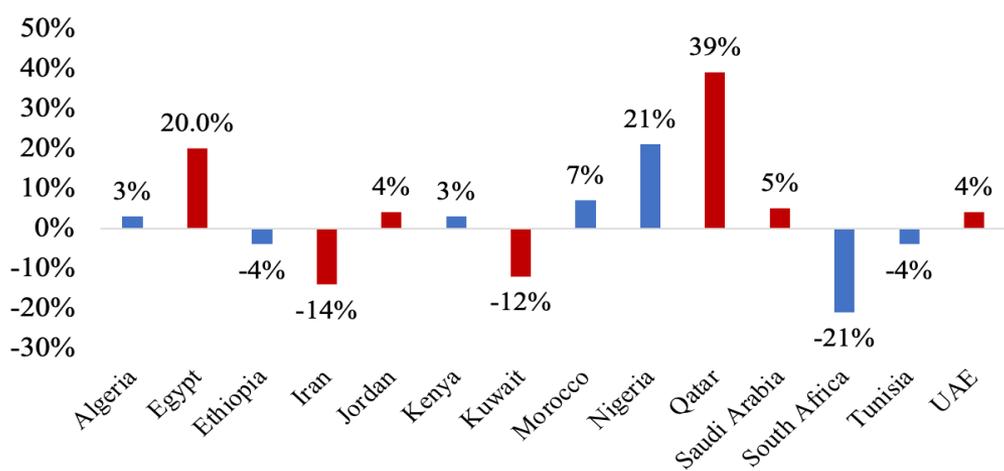
Challenging environment for global cargo tonne-kilometers (CTKs): actual air cargo demand contracted for 11th straight month in Jan



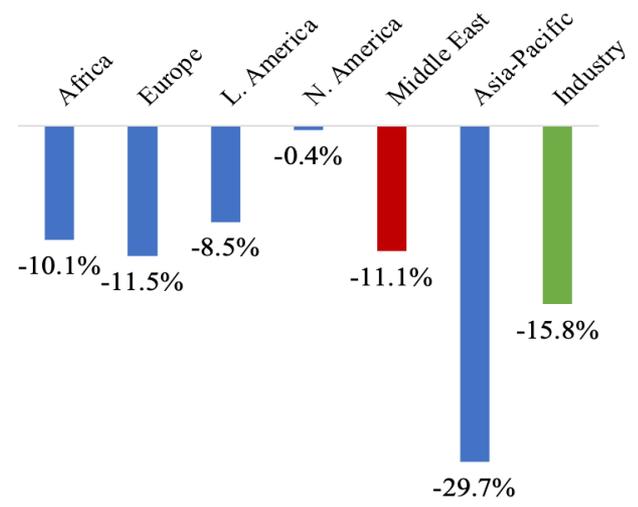
Growth in CTKs (% chng in Jan 2023 vs Jan 2019)



Passenger Traffic by country in Middle East & Africa (% chng in Q4 2022 vs Q4 2019)



Growth in RPKs (% chng in Jan 2023 vs Jan 2019)



Source: IATA Air Passenger and Air Cargo Monthly Analysis, Q4 Quarter



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