

Weekly Insights

8 Sep 2023

GCC PMIs & GDPs paint a positive picture, despite a slower pace, with inflation softening

- *Middle East PMIs moderate in Aug: GCC stays expansionary, but Lebanon moved into contractionary territory, below-50*
- *Saudi Arabia grew by 1.2% yoy in Q2 2023 (Q1: 3.8%), aided by non-oil sector growth (6.1%) as oil sector contracts (-4.3%)*
- *Qatar's real GDP grew by 2.7% yoy in Q1 2023; a 3.9% decline in qoq terms*
- *Inflation is softening in the GCC*
- *Saudi Arabia's deposit-credit growth gap is narrowing*
- *UAE's monetary base has rapidly expanded, up 20% ytd at end-Jun 2023*

NASSER SAIDI

— & ASSOCIATES —

Middle East PMIs moderate in Aug: GCC stays expansionary, but Lebanon moved to below-50

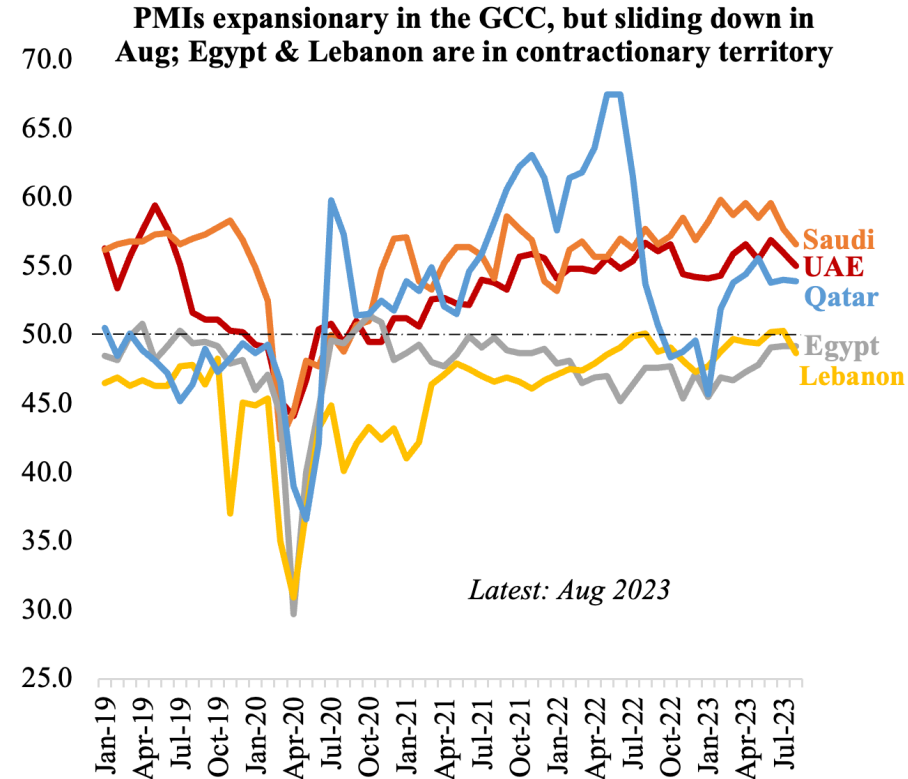
- **A contrasting tale in Saudi Arabia and the UAE:**

- Non-oil sector PMI in Saudi Arabia fell to a 11-month low of 56.6 in Aug. In UAE, PMI eased to 55 in Aug, but new orders expanded, propped up by **increased consumer spending**.
- **Export sales** slowed in Saudi Arabia while UAE reported robust domestic sales and export orders.
- **Input cost inflation in Saudi Arabia accelerated to the fastest in a year**, and selling prices rose marginally (given competitive pressures). Meanwhile, **UAE reduced output charges** (lowest since Mar), though some firms reported hiking prices to account for higher costs & increased demand.

- **Qatar's PMI slipped to 53.9 in Aug** (Jul: 54), while reporting a boost in manufacturing and financial services new orders; employment grew steadily for the sixth straight month.

- **Lebanon PMI slipped below-50 back again to contractionary territory 48.7** (Jul: 50.3), with deteriorating output and new orders. Political and economic uncertainty continues, and input costs are rising given exchange rate movements. **A faint ray of optimism:** future output index touched its highest point since Mar 2020.

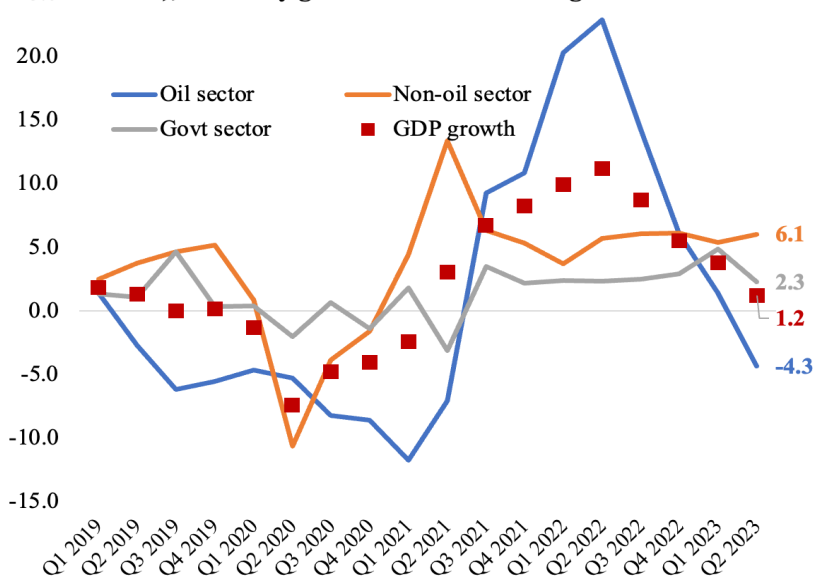
- **Egypt PMI stayed unchanged at 49.2 in Aug**, its joint-highest level in 2 years. While activity and new orders dropped modestly, **employment and inventories moved to above-50**. Many firms expect a recessionary period ahead: **12-month ahead business sentiment is among the weakest** since the series began in 2012.



Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

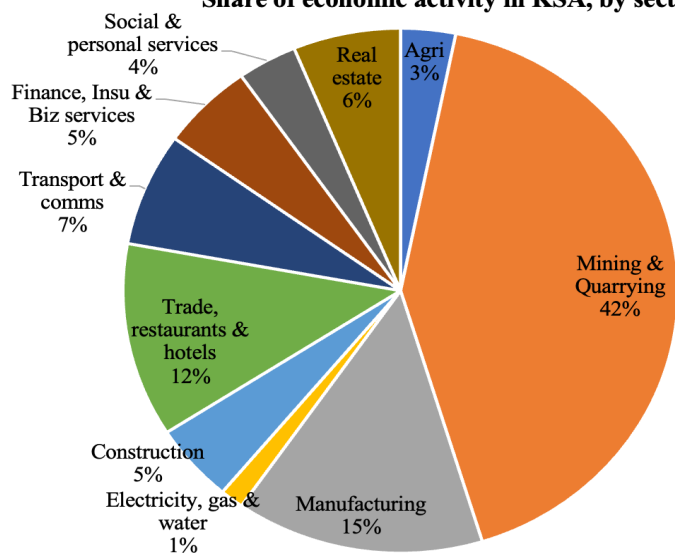
Saudi Arabia grew by 1.2% yoy in Q2 2023 (Q1: 3.8%), aided by non-oil sector growth (6.1%) as oil sector contracts (-4.3%)

% yoy **Saudi Arabia grew by 1.2% yoy in Q2 2023 (Q1 2023: 3.8%), driven by growth in the non-oil & govt sectors**

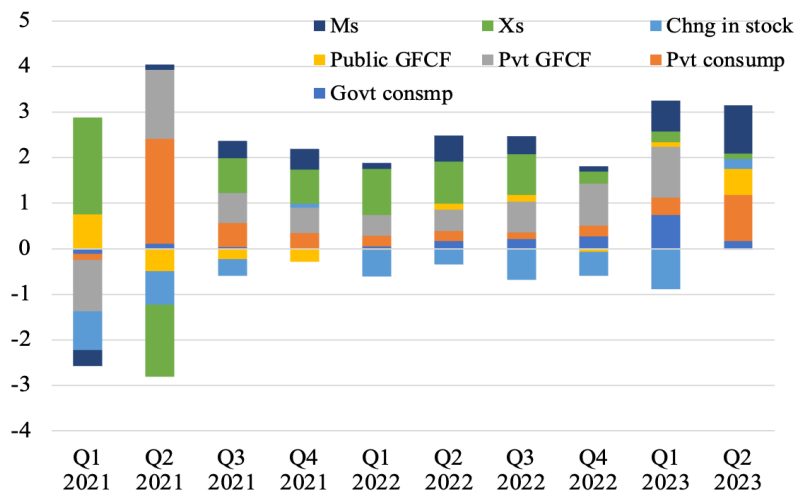


- Saudi Arabia’s real GDP grew by 1.2% in Q2 2023, slightly higher than the preliminary reading, with non-oil sector posting a 6.1% growth (versus oil sector’s 4.3% drop). Latest IMF report, projects growth of 1.9% for this year, given lower oil output & prices.
- With voluntary oil production cuts extended till rest of the year, **expect lower growth in the oil sector & overall**; strong domestic demand & pipeline of megaprojects will support non-oil activity (construction & real estate together accounted for 11% of total in Q2).
- In terms of **contribution to growth by expenditure method, private consumption & public investment top the list in Q2**. In contrast to recent quarters, **private sector investment’s contribution has reduced**, as has of exports.

Share of economic activity in KSA, by sector, Q2 2023



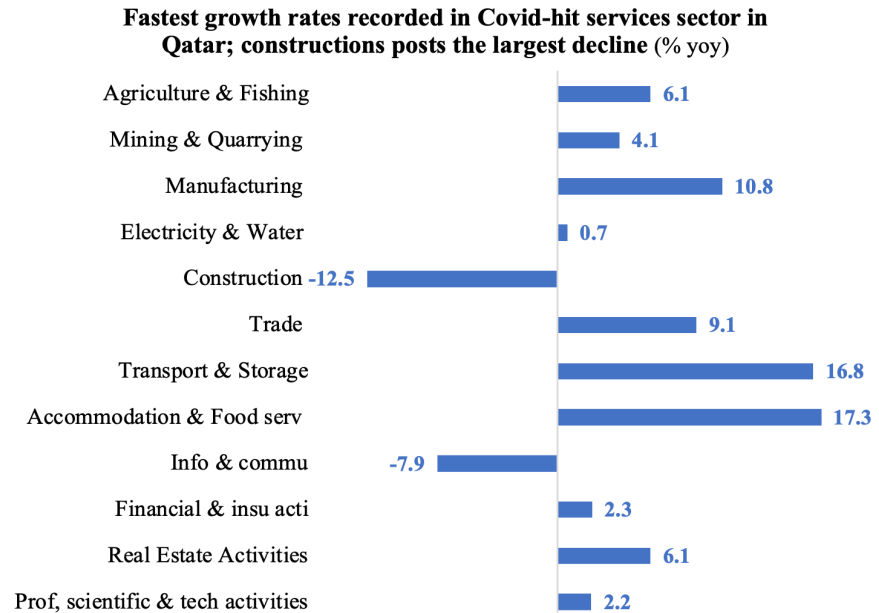
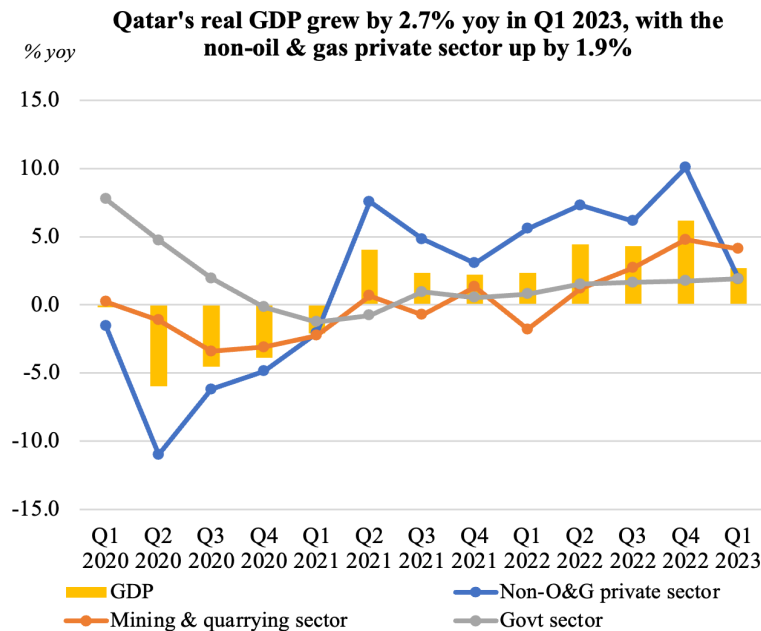
Contributions to Q2 2023 GDP growth: driven by private consumption, public investment & imports



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

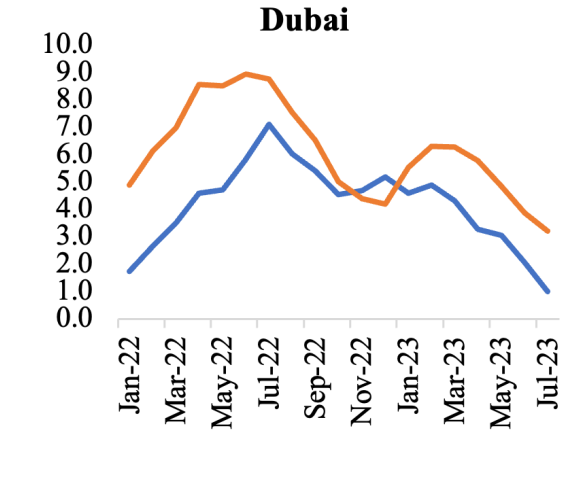
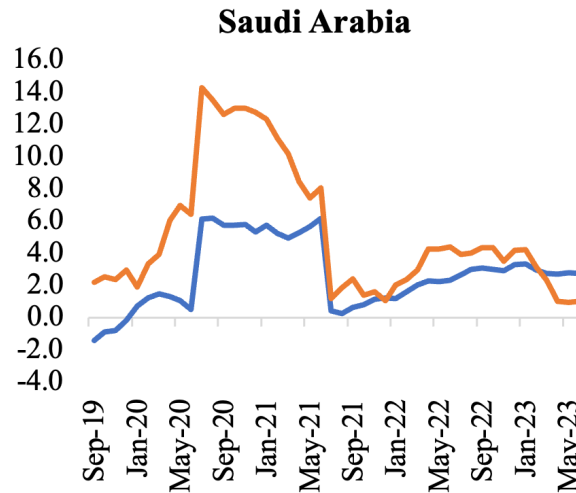
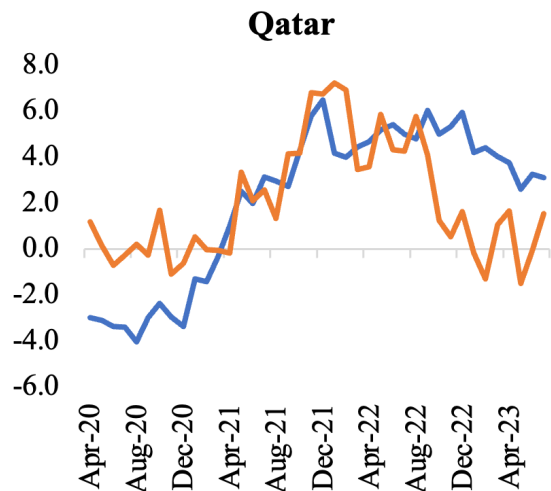
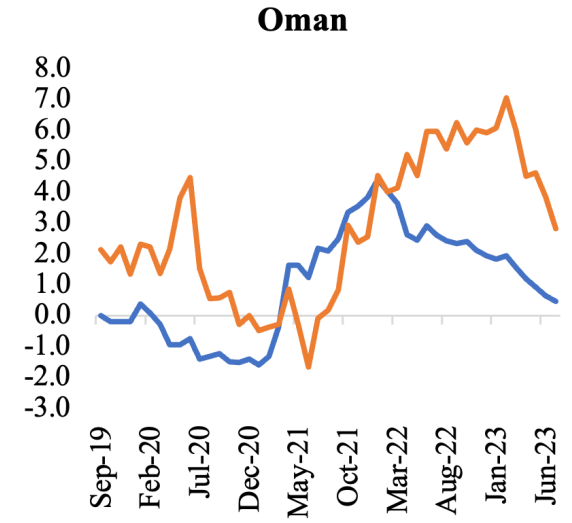
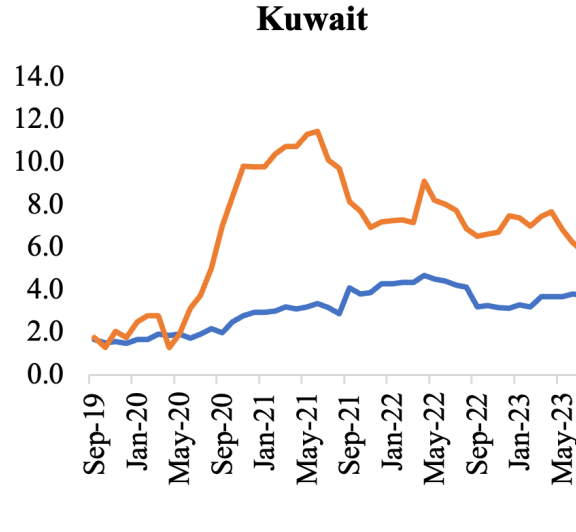
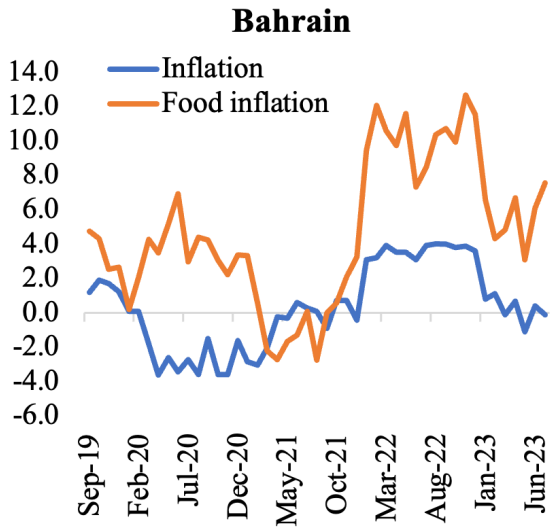
Qatar's real GDP grew by 2.7% yoy in Q1 2023; but a 3.9% decline in qoq terms

- **Real GDP in Qatar surged in Q1 2023**, rising by 2.7% yoy to QAR 170.1bn. Non-mining and quarrying sector growth rose by a modest 1.9% in contrast to the gains in the mining & quarrying sector (4.1%). A breakdown of activity by sector shows that the **biggest gains in Q4 were recorded in accommodation & food services (17.3% yoy)**, transport & storage (16.8%) and manufacturing (10.8%). For now, there seems to be **sustained tourism and services sector growth** post-World Cup.
- **There was a 3.9% qoq decline in Q1 GDP**, after the World Cup driven activity in Q4 2022, with non-hydrocarbon activity down by 6.3%; accommodation & food services activity fell sharply by 13.6% qoq while information & communication and trade fell by 20.6% and 16.1% respectively.
- Looking ahead, the **government's investments in LNG expansions/ projects and the long-term LNG contracts** (with China, Bangladesh & others) are **likely to support growth** in the coming years; domestic demand will also aid activity.
- **PMI readings so far this year underscores strength of the non-oil sector**: average for H1 2023 (52.5) was slightly higher than the long-run trend since 2017 (52.3). This is particularly important as LNG prices have fallen by around 55% this year, implying lower government revenues and spending. **Construction activity was down by 12.5% yoy in Q1 2023**, indicating the lack of spending on infrastructure projects post-World Cup.



Source: Planning and Statistics Authority, Qatar. Charts by Nasser Saidi & Associates

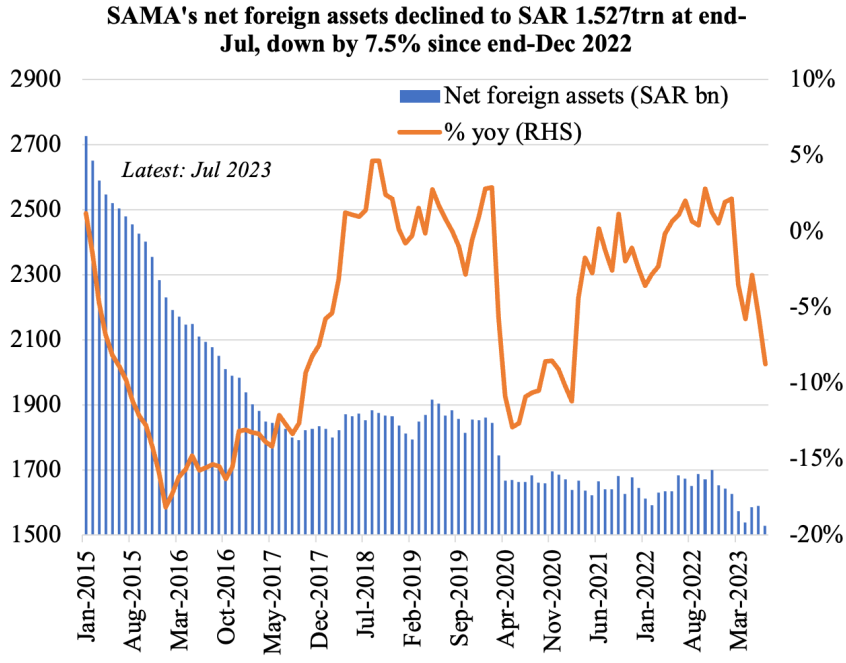
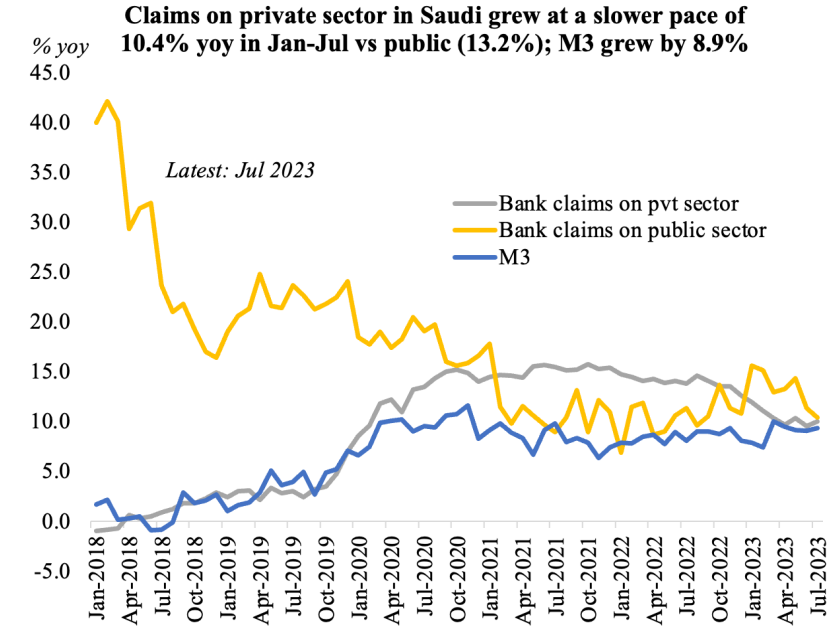
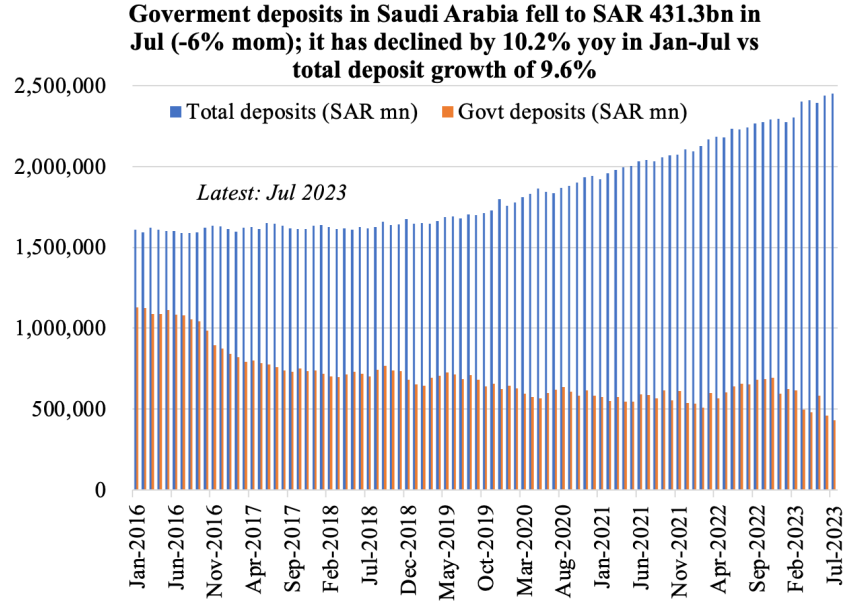
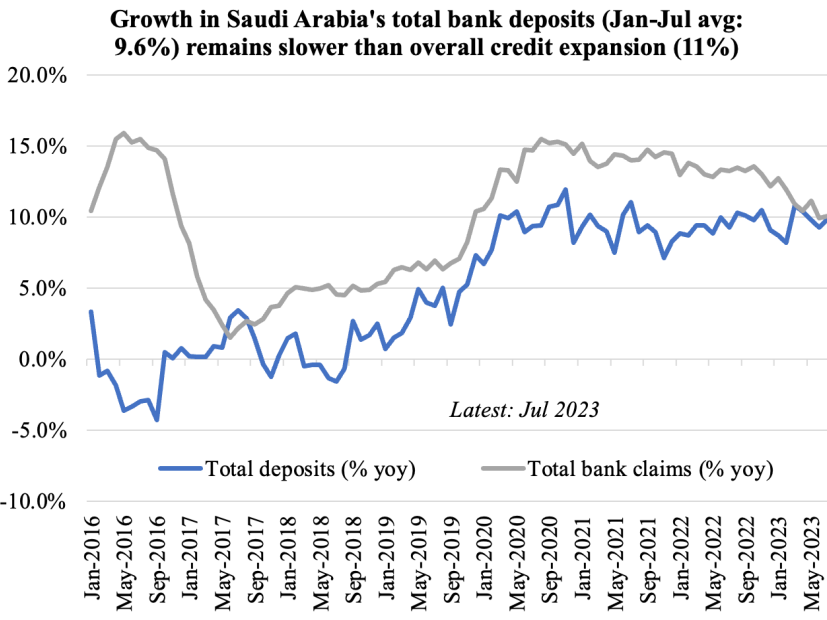
Inflation is softening in the GCC. In the UAE & Saudi Arabia, services & housing costs contribute most to overall inflation; with increased hiring & rising demand for housing, inflation could remain higher for longer (especially if supply does not increase in line with demand)



Source: Refinitiv Eikon; Charts by Nasser Saidi & Associates

Note: Data as of Jul 2023.

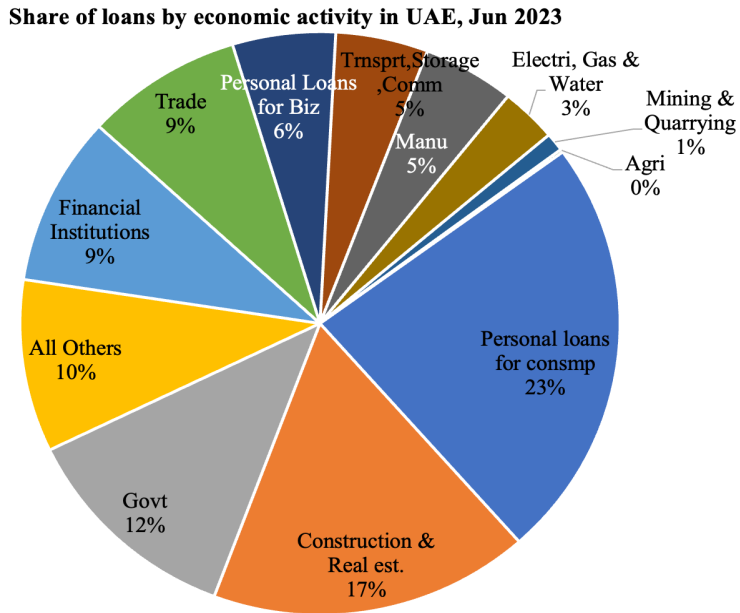
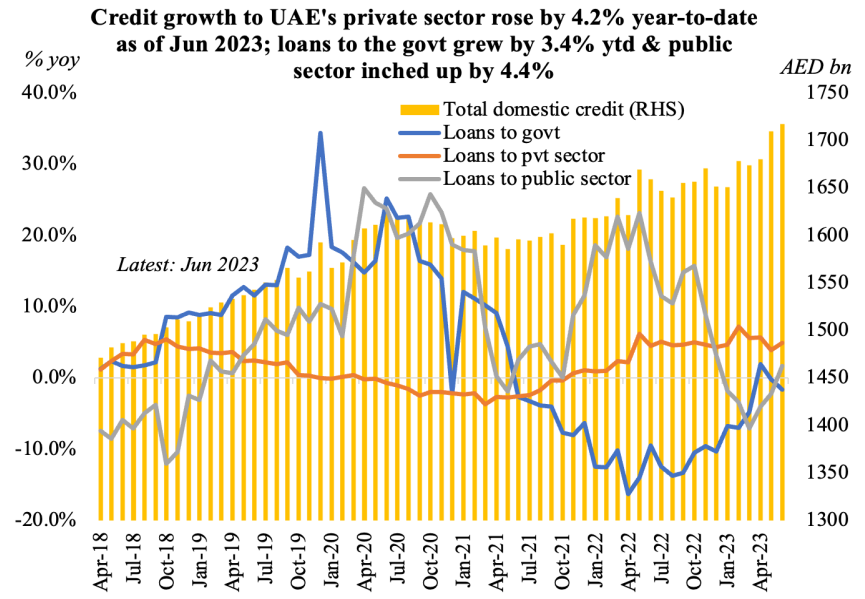
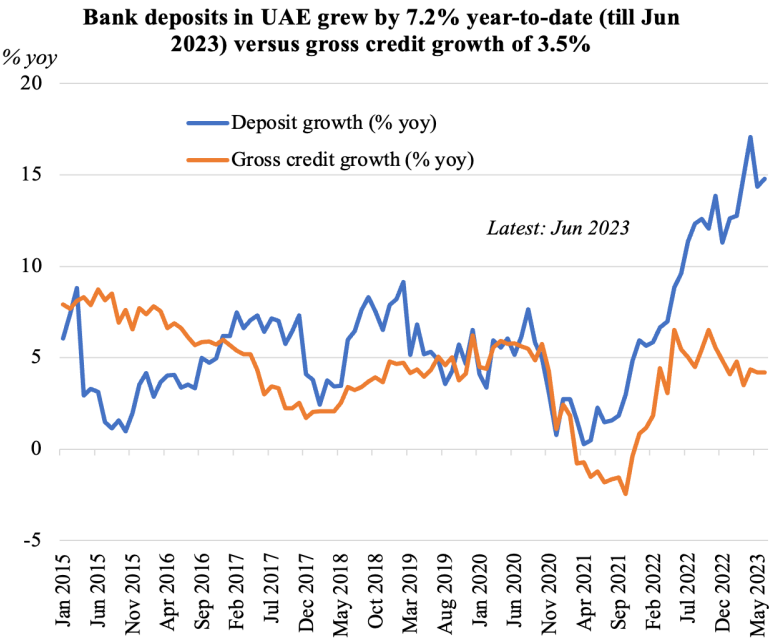
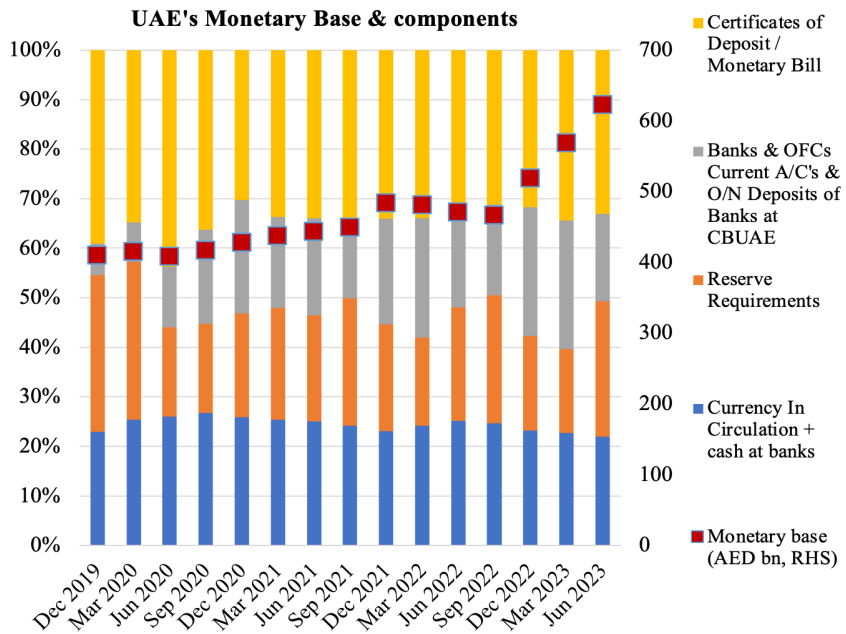
Saudi Arabia's deposit-credit growth gap is narrowing; govt deposits declined by 10.2% yoy in Jan-Jul 2023 while net foreign assets shrank to USD 407bn in Jul – the sharpest drop since 2009



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



UAE's monetary base rapidly expanded, up 20% ytd at end-Jun 2023. Deposit growth continues to outperform credit growth (with govt deposits up 7.3% ytd); more than 2/3rds of the credit goes to businesses & industrial sector



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



Prepared by:

Dr. Nasser Saidi
Founder & President
nsaidi@nassersaidi.com

Aathira Prasad
Director, Macroeconomics
aathira@nassersaidi.com

NASSER SAIDI

— & ASSOCIATES —