

Weekly Insights

4 Oct 2024

Business activity & sentiment slows in Q3, but remains strong; a spread of conflict raises uncertainty

- *Extension of the conflict in the Middle East into Lebanon & beyond*
- *Impact of Israel-Gaza-WB conflict in the Middle East & beyond*
- *Average PMIs in the Middle East end mostly lower in Q3 2024 vs Q2*
- *Total deposits in Saudi Arabia recover in Aug & credit growth surges*
- *Unemployment rate of Saudi citizens declined to 7.1% in Q2 '24*
- *Net FDI inflows into Saudi Arabia stood at SAR 21.2bn in H1 2024*
- *Summer demand burst leads to double-digit gains in air passenger & cargo in Aug*

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— & ASSOCIATES —

Extension of war in the Middle East into Lebanon & beyond

- **A major humanitarian crisis is unfolding.** The ongoing massive, destructive violence wrought on Lebanon has exacted a **heavy human toll** with over 1,400 killed and **more than 1.2mn persons forcibly displaced** (20% of the population). In 2023, Lebanon was already hosting **the largest number of refugees per capita globally**.
- **BBC:** The number of weekly Israeli attacks on Lebanon more than tripled in the week before the IDF launched its ground invasion.
- The war on Lebanon has also **destroyed core infrastructure and public utilities, water, power, roads:** negatively affecting the ability to produce.
- **Destruction of farmland will have a near permanent impact** on the agricultural sector (much of which is based in the South and the Bekaa) and its exports: the main source of income for the inhabitants of the South.
- **Immediate impact of the conflict felt on everyday activity** (lower consumption, business activity) **and tourism** (which accounted for some 25% of GDP in 2023) and its direct receipts: affecting negatively an economy that is already reeling from a severe economic and political crisis. Severe damage to medical facilities and buildings, electricity, water and waste infrastructure and closure of schools => **longer-term implications**
- **Widening of conflict will be devastating** including through further loss of GDP (construction, tourism, hospitality), exports, FDI inflows, food insecurity & emigration. **Further escalation into a wider war** (with strikes on essential infrastructure) could see economy contract by up to 25%.
- **War could also result in an interruption of remittances** (increasingly in cash), which has been a major source of income for the impoverished population (remittances represent some 30% of GDP) and of the **foreign exchange** required to pay for imports. Foreign trade, travel and tourism will be directly affected, as will utilities (water, electricity) and transport (air, ports, road) and the retail sectors (which is already negatively affected by low purchasing power). **All this amid a political stalemate in a country reeling from 5 years of the deepest banking & financial crisis!**

Israel is fighting on multiple fronts



Source: BBC.

Impact of Israel-Gaza-West Bank conflict in the Middle East & beyond

Gaza & West Bank

Estimated 86% contraction in Gaza in H1 (WB, IMF); unemployment rate 50% in Jun 2024 (ILO); close to 100% of Gaza lives in poverty

Human toll: deaths, displacement, acute food insecurity. Health & mental stress
Massive destruction of housing, transport, infrastructure, health, education facilities

Long-term scarring effects: education & health infrastructure; devastation of services; croplands affected; environmental impact

Effects in West Bank: GDP falls by 25%; exacerbated pre-existing fiscal crisis; record-high unemployment; more than doubling of short-term poverty rate

Middle East

Conflict extends into direct ongoing attacks in Lebanon & some attacks in Iran, Syria, Iraq & Yemen

Lower tourism & hospitality (Lebanon, Egypt, Jordan); Loss Suez traffic revenue

Impact on oil & food prices (former declining, supporting oil-importing nations)

Reduction of cross-border capital / FDI flows during times of conflict/ uncertainty

Refugees/ displaced persons => strain on hosting nations' finances & infrastructure

Beyond Middle East

Diversion of trade (Red Sea, Suez Canal); higher shipping & insurance rates; higher oil prices

Pressure on global supply chains: potential for higher inflation

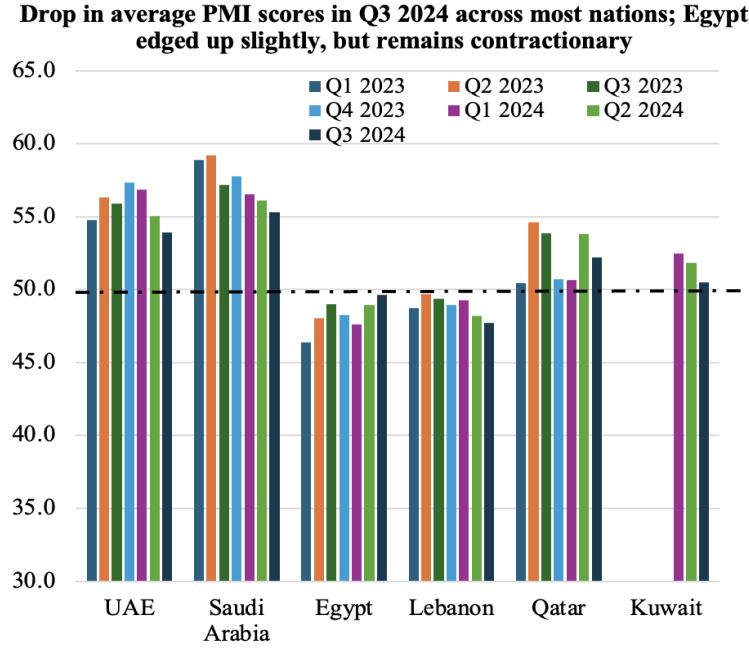
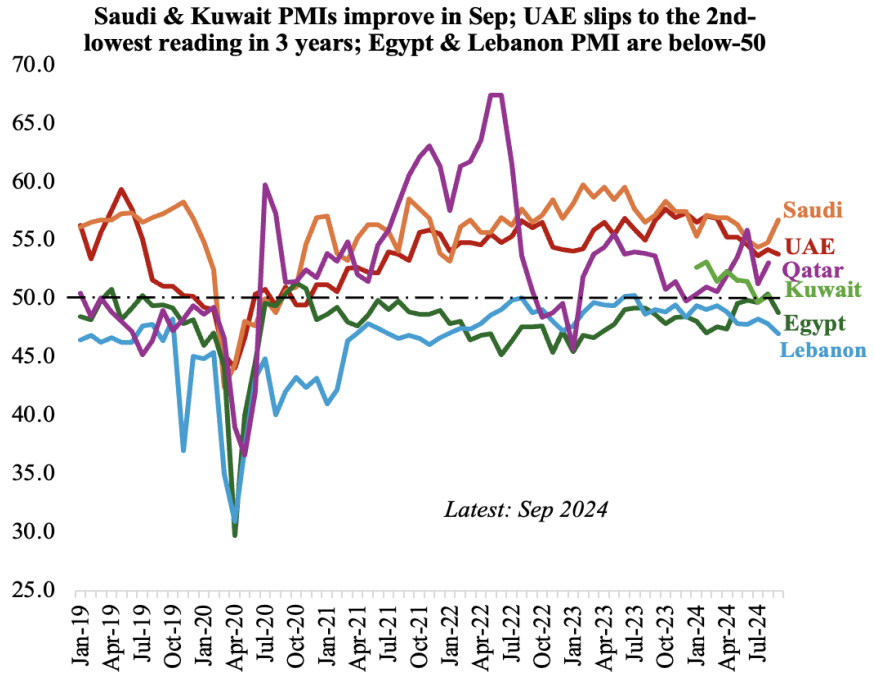
Trade tensions & imbalances could potentially affect current & financial a/c's of Balance of Payments

Rise in risk aversion & portfolio reallocations during flight-to-safety (quality) episodes

Higher geostrategic & geopolitical risk: Higher sovereign risk premia

Average PMIs in Middle East end mostly lower in Q3 vs Q2 2024

- **The latest PMI for Lebanon explicitly mentions the impact of the escalation in conflict:** respondents cited the conflict between Israel and Hezbollah for the reduction in new orders, new sales and overall business; new export orders fell the most in 3.5 years. **While other nations' do not specifically refer to the conflict, its undertones are seen in higher costs including from shipping costs.**
- **Egypt moved back to contractionary territory** in Sep: domestic demand remained weak given economic conditions, but export orders stayed strong for the fifth month in a row. However, increased buying levels and employment (in construction and wholesale & retail sectors) are positive for Q4.
- **UAE PMI slipped to 53.8 in Sep**, the second-lowest reading in 2 years, with new orders and activity growing albeit at softer rates. As activity softened, **employment** showed the weakest growth since Dec 2022. **Saudi Arabia's PMI rose to a 4-month high**, as output and new orders rose, supported by strong domestic demand. The rate of purchasing growth fell to its lowest level in three years. **Kuwait's PMI moved to expansionary territory**, thanks to a renewed increase in new orders and employment.
- **In contrast with other GCC nations, firms in the UAE opted to increase output charges** – it rose the most since early 2018. In Saudi selling prices were down for the third month in a row while in Kuwait respondents cited that price discounting and marketing not only increased activity, but it was also driving optimism for the year ahead. **Input prices have been rising across the Middle East:** the most cited reasons were purchase, transportation, technology and material costs, alongside wages (though Kuwait reported that staff costs rose only slightly); in Egypt, where cost inflation was at a 6-month high, respondents also cited currency weakness.

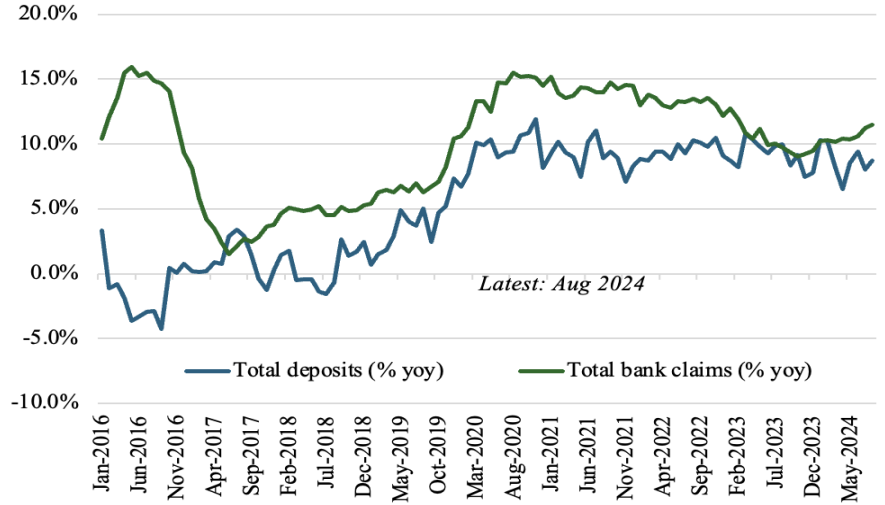


Source: LSEG Workspace. Chart by Nasser Saidi & Associates

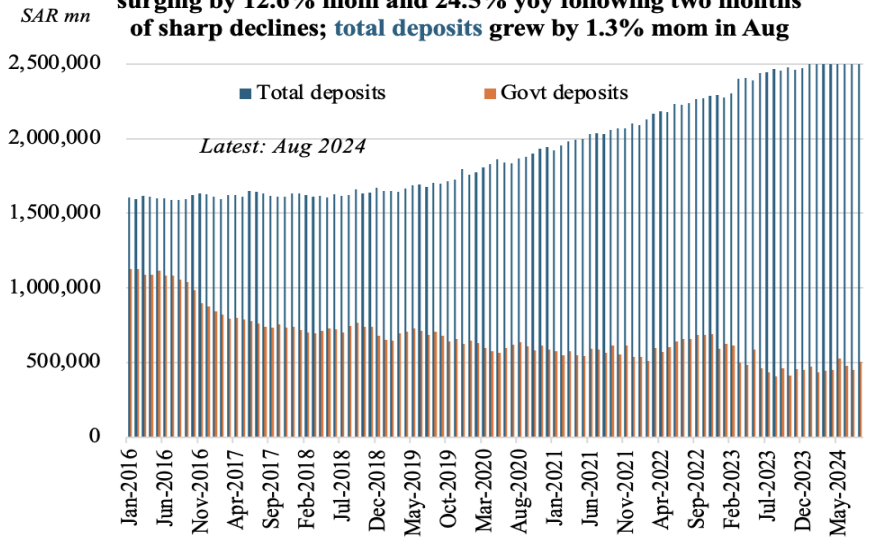


Total deposits in Saudi Arabia recover in Aug, as government deposits surge 12.5% mom; credit growth surges, with double-digit gains in private sector claims (since Dec 2023); SAMA net foreign assets grew (in yoy) for the 6th straight month while commercial banks' NFA remained negative for 2nd month in a row

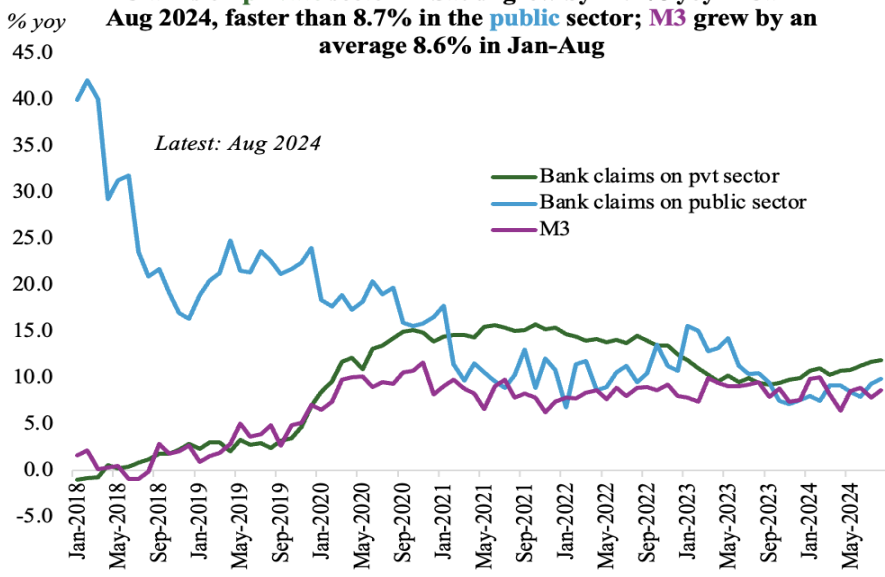
Saudi Arabia's total bank deposits grew by an average 8.7% yoy in Jan-Aug 2024. Credit growth was up by a faster 10.6%



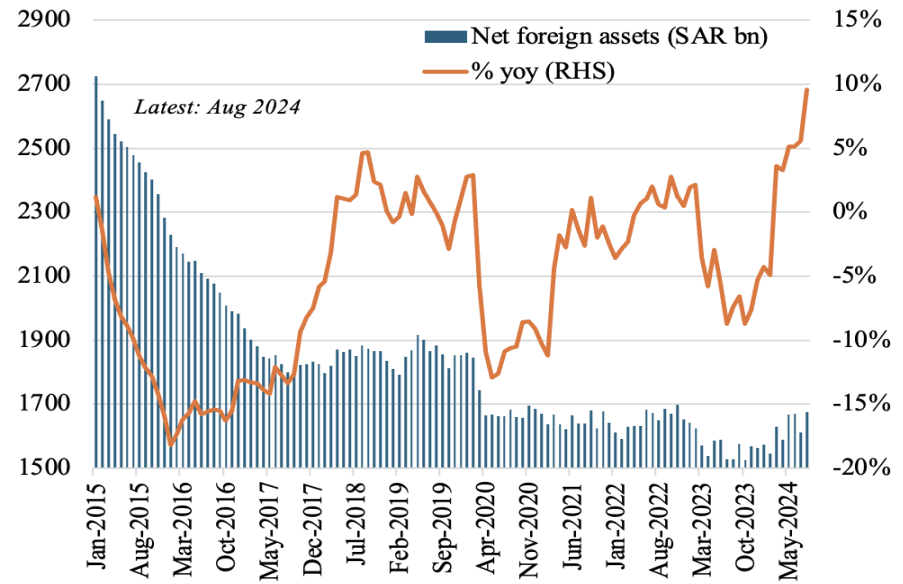
Government deposits in Saudi Arabia recovered in Aug, surging by 12.6% mom and 24.5% yoy following two months of sharp declines; total deposits grew by 1.3% mom in Aug



Claims on private sector in Saudi grew by 11.1% yoy in Jan-Aug 2024, faster than 8.7% in the public sector; M3 grew by an average 8.6% in Jan-Aug

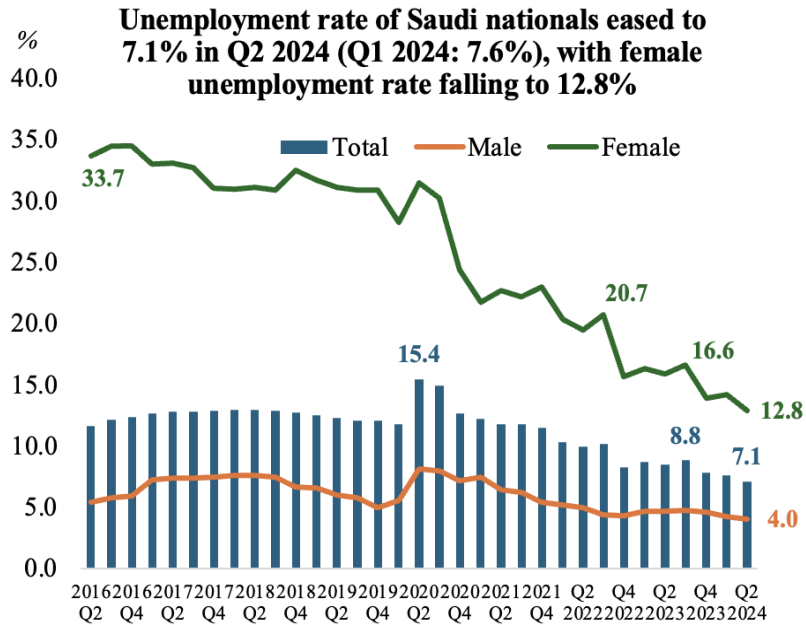


SAMA's net foreign assets rebounded in Aug, rising 3.9% mom to SAR 1.674trn; in yoy terms, it grew by 9.6%

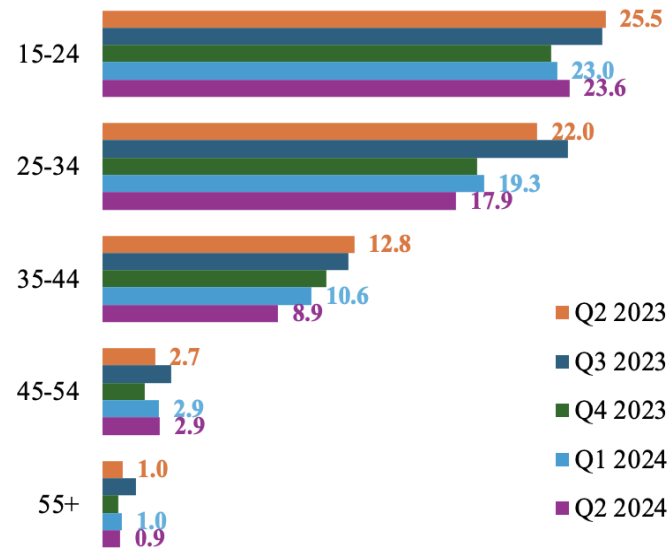


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

Unemployment rate of Saudi citizens declined to 7.1% in Q2 '24

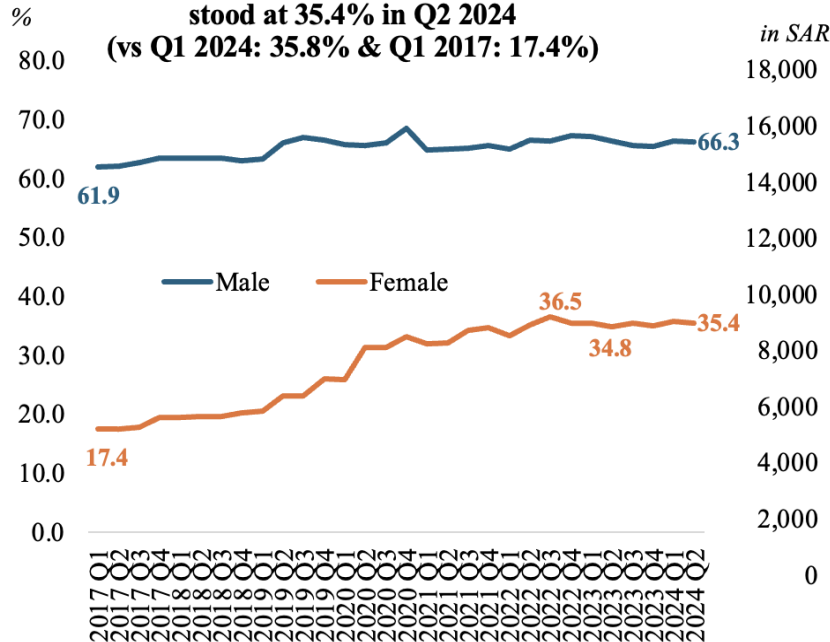


Saudi female unemployment rate fell across major age groups in Q2 2024 except in 15-24

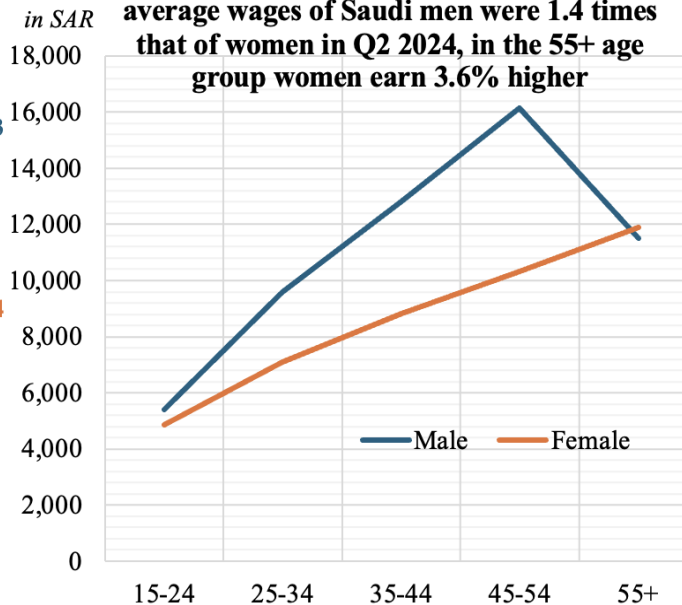


- Unemployment rate in Saudi Arabia (inclusive of expats) inched up to 3.3% in Q2 2024 (Q1: 3.5%). Saudi citizens U rate edged lower to 7.1% (Q1: 7.6%).
- Saudi female U rate fell to a record-low of 12.8% in Q2 (Q1: 14.2%), with only 15-24 group recording a rise in unemployment rate.

Saudi female labour force participation rate stood at 35.4% in Q2 2024 (vs Q1 2024: 35.8% & Q1 2017: 17.4%)



Saudi nationals monthly wage gap was the largest in the 45-54 age group. Though average wages of Saudi men were 1.4 times that of women in Q2 2024, in the 55+ age group women earn 3.6% higher

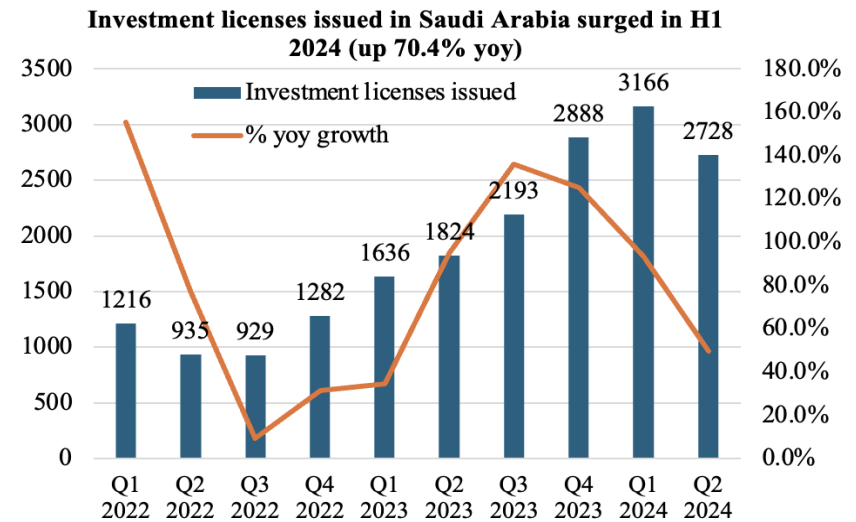
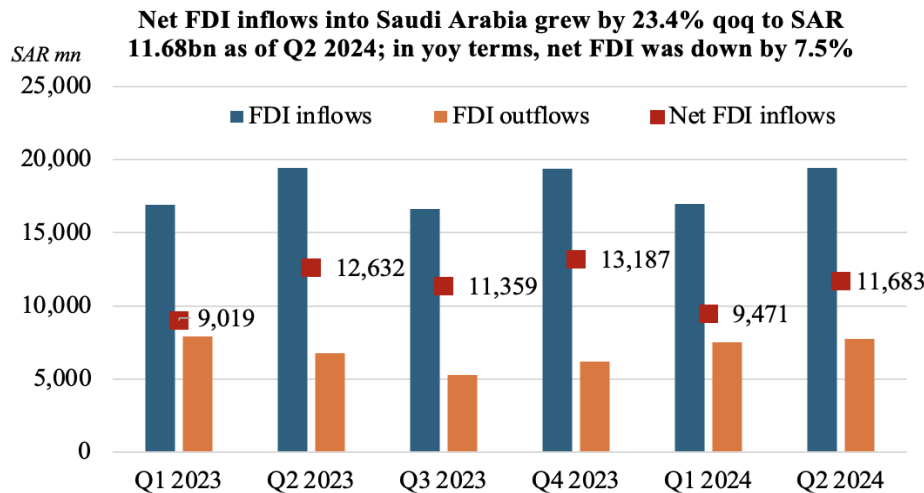


- Saudi female labour force participation ticked lower to 35.4% (Q1: 35.8%) - lower than the high 36.5 in Q3 2022.
- Females' wages for citizens averaged SAR 8,076 in Q2; wages of 55+ group was the highest (SAR 11,903) & 3.6% higher than the male counterpart! Overall male-female wage gap is high: Saudi women earn 36.8% less on average vs men. The gap is most in the 45-54 age group.

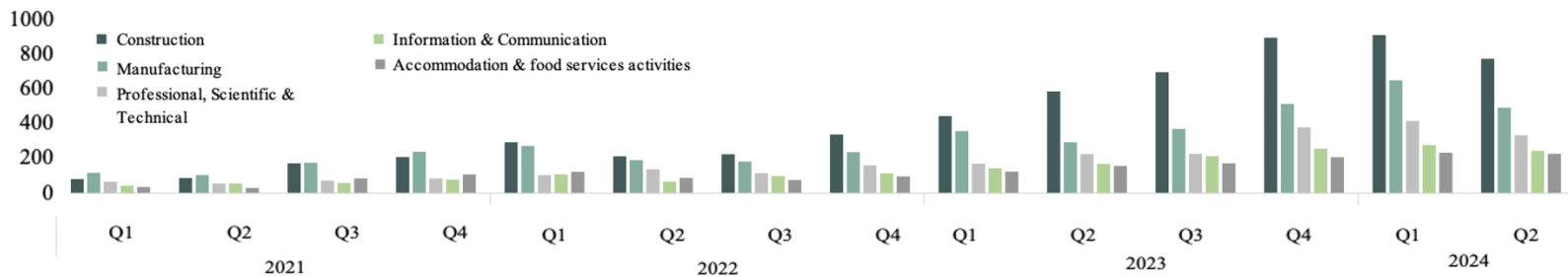
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Net FDI inflows into Saudi Arabia stood at SAR 21.2bn in H1 2024; vs ambitious SAR 109bn target in 2024 (in National Investment Strategy)

- **Net FDI inflows grew by 23.4% yoy to SAR 11.7bn in Q2 2024** (Q1: SAR 9.5bn); it was however 7.5% lower compared to Q2 2023. Overall FDI inflows into the country touched SAR 36.41bn in H1 this year, very similar to SAR 36.35bn in H1 2023.
- While the regional HQs program is expected to attract additional investment, **passing of the new (more investor friendly) investment law in Aug should support investment flow in H2**. Meeting the 2024 target of SAR 109bn is likely to be a tall order.
- Various reform measures has seen a **steady increase in the number of foreign investment licenses** in H1 2024 (+70.4% yoy to 5984).
The **sector with most investment licenses issued has been construction** – in line with the various mega & giga projects in the Kingdom.



Investment Licenses by top 5 economic activities*: Q1 2021 to Q2 2024



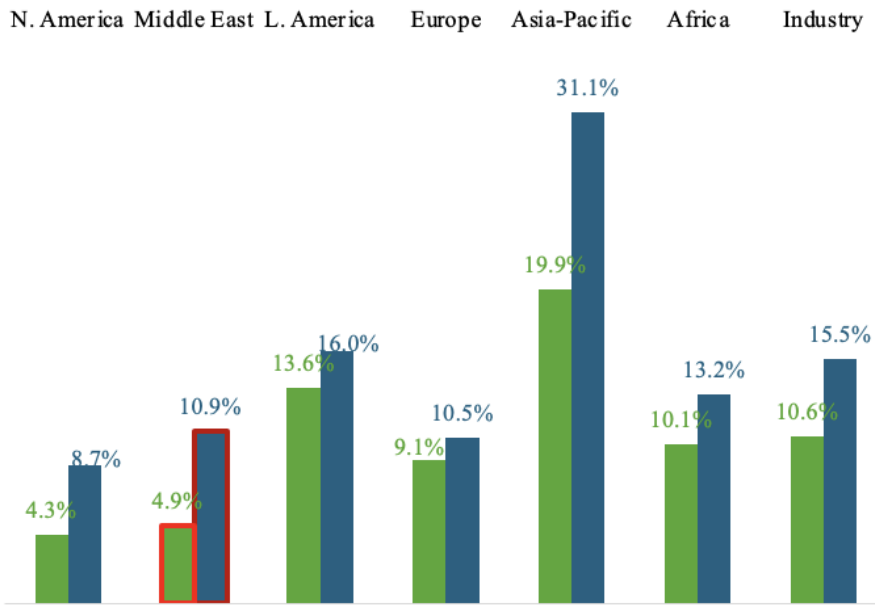
Source: General Authority for Statistics, Ministry of Investment Saudi Arabia (MISA). Chart by Nasser Saidi & Associates.

*Excluding investment licenses granted under the "Tasattur" anti-concealment campaign for the period (Q12022 –Q2 2024)

Summer demand burst leads to double-digit gains in air passenger & cargo in Aug

- **A seasonal summer lull in the Middle East** vs international passenger traffic growth which was robust (10.6% yoy in Aug). Middle Eastern airlines saw a deceleration vs Jul; their **international** revenue passenger-kilometers (**RPKs**) grew by 4.9% yoy & 10.9% ytd.
- Asia Pacific was the fastest growing region globally, and while **the Asia-Middle East link continues to grow in importance** (i.e. highest levels of international traffic), the route grew the least in Aug (6.2%).
- **Cargo tonne-kms (CTKs)** grew by 11.4% yoy in Aug, posting **double-digit growth rates for 9 months in a row**. It grew by a faster 13.0% ytd (record demand), with expansions across all regions; **Middle East carriers grew by 13.5%, behind only Asia-Pacific (+14.6% gain)**
- **Middle East-Europe trade route expanded the most** (+28.9% yoy, continuing the double-digit growth which began in Sep 2023) while Middle East-Asia clocked in a 13.5% uptick.
- **Some further good news for airlines. Oil prices have been falling including that of jet fuels** - a significant contributor to operating costs; while global manufacturing PMIs indicate a contraction, supply chain disruptions are leading some sea-cargo users to switch to air (given former's capacity limitations & sea freight rates).

Growth in International Revenue Passenger-Kms (RPKs)
 (% chng in Aug 2024 *year-on-year* & *year-to-date*)



Growth in Cargo Tonne-Kms (CTKs)
 (% chng in Aug 2024 *year-on-year* & *year-to-date*)



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

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