



## Strong economic growth in the third quarter

The latest economic growth data released last week confirm that the healthy performance of the Saudi economy continued into the third quarter of 2012. In real terms (that is, adjusted for price movements) the economy was 5.87 percent larger in the third quarter of 2012 than in the same quarter of 2011. This strong performance was mainly driven by a solid growth in the non-oil government sector.

At 5.87 percent, year-on-year growth in the third quarter was higher than the 5.5 percent GDP expansion in the second quarter. This however was lower than the growth registered at the same period last year. The main growth drivers have also changed. The private sector was the main growth driver in the second quarter of this year contributing 3.2 percentage point (ppt), its contribution shrank to 2.4ppt in the third quarter. The government contribution jumped to 2.8ppt in the third quarter compared with 0.9ppt in the previous quarter. Finally, the oil sector contribution was the lowest at 0.7ppt.



### Real GDP growth (percent change, year-on-year)

	2011		2012		
	Q3	Q4	Q1	Q2	Q3
<b>By major sector</b>					
Oil sector	5.5	6.2	7.2	5.8	2.3
Non-oil sector	8.5	8.6	5.7	5.5	7.4
Private	8.8	10.3	6.3	6.4	5.1
Government	7.9	5.5	4.2	3.6	12.2
<b>By economic activity</b>					
Agriculture	4.4	5.2	1.4	1.4	1.1
Mining and quarrying	6.0	5.6	7.6	6.0	2.1
Manufacturing	9.0	20.6	8.4	6.9	2.5
Utilities	6.7	2.5	9.0	8.0	8.4
Construction	12.3	13.3	9.1	9.3	8.1
Wholesale and retail trade	7.0	8.1	6.6	7.8	7.2
Transport and communication	11.7	10.9	9.0	9.1	8.7
Finance	6.0	1.5	1.8	2.0	3.0
Personal services	9.2	9.2	8.1	8.9	7.9
Government services	7.3	4.6	2.8	2.2	13.4
<b>GDP</b>	<b>7.53</b>	<b>7.45</b>	<b>5.94</b>	<b>5.51</b>	<b>5.87</b>

Non-oil GDP growth was driven by the **government sector**. The overall non-oil public sector expanded by 12.2 percent year-on-year, the highest sectorial growth in the third quarter. Most of this growth was sourced from higher government services which expanded by 13.4 percent year-on-year. While such strong performance reflects improved government services, it is also surprising that this growth

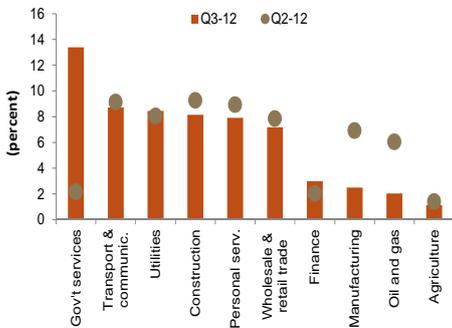
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**Real GDP growth by sector**  
(year-on-year change)

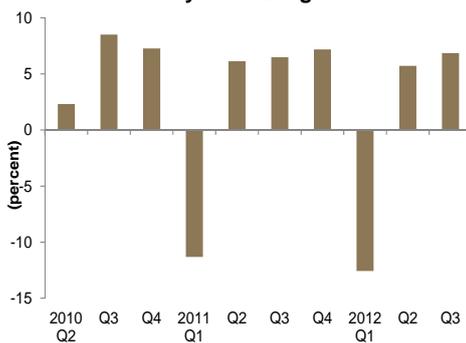


occurred in the third quarter where economic activity tends to be slower relative to the rest of the year. We, however, expect this expansion in services to translate into higher non-oil revenues for the government budget which is due to be released within the next two weeks.

Growth in **non-oil private sector** was in line with its regular seasonal trend. The overall growth in this sector slowed to 5.1 percent year-on-year in the third quarter compared with 6.4 percent in the previous quarter. The slower growth also reflects a large base effects as the private sector expanded by 8.8 percent year-on-year in the same period last year. Despite the moderation in activity, the private sector growth remains robust supported by public sector investment, strong domestic demand and rising bank lending.

While all sectors registered a positive year-on-year growth in the third quarter, their performance vary. **Transport and communication** sector was the next fastest growing sector, at 8.7 percent year-on-year. Transport and communication growth stems from the need to move a high volume of goods around the Kingdom (both imports and construction materials) and the ongoing rise in mobile telecom and data services. **Utilities** and **construction** both registered a solid growth in line with their seasonal trend at 8.4 and 8.1 percent year-on-year, respectively. For the latter, we expect an even stronger growth in the fourth quarter, while the utility growth rate is expected to slow down. The **retail and wholesale** sector also maintained a solid expansion (7.2 percent), though at a slower pace during the summer months than the rest of the year. Toward the end of the year, the retail sector is likely to register a stronger growth as indicated by rising cash withdrawals from ATMs and point of sales transactions in the last few months. Finally the **manufacturing** sector growth rate slowed to the lowest level for which data is available, expanding by 2.5 percent year-on-year. We assume this slowdown may reflect weaker petrochemical demand from abroad.

**Quarterly real GDP growth**

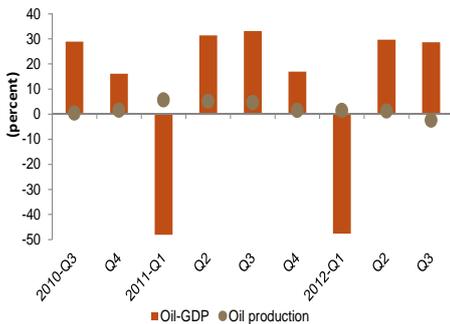


**Real GDP growth**  
(percent change, quarter-on-quarter)

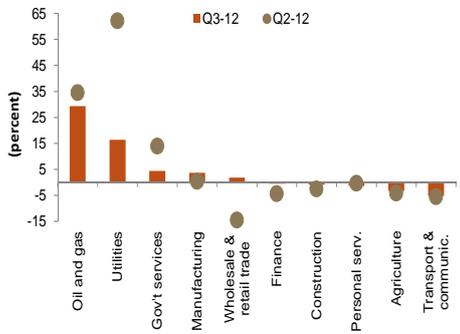
	2011		2012		
	Q3	Q4	Q1	Q2	Q3
<b>By major sector</b>					
Oil sector	33.1	16.9	-47.6	29.7	28.7
Non-oil sector	-1.7	3.2	4.2	-0.2	0.1
Private	-0.4	0.3	12.5	-5.3	-1.7
Government	-4.2	8.9	-11.4	12.1	3.7
<b>By economic activity</b>					
Agriculture	-3.1	-8.6	19.4	-4.2	-3.3
Mining and quarrying	33.9	26.6	-53.1	33.5	28.9
Manufacturing	8.1	-9.6	9.0	0.3	3.7
Utilities	16.0	-31.9	-15.6	62.2	16.4
Construction	0.1	-3.5	16.1	-2.6	-0.9
Wholesale and retail trade	2.5	8.4	13.6	-14.5	1.8
Transport and communication	-4.8	7.0	13.5	-5.6	-5.2
Finance	-1.4	-3.3	12.0	-4.4	-0.5
Personal services	-0.5	-0.5	10.4	-0.4	-1.4
Government services	-6.0	13.9	-16.2	13.9	4.4
<b>GDP</b>	<b>6.49</b>	<b>7.19</b>	<b>-12.56</b>	<b>5.71</b>	<b>6.85</b>



**Oil production and oil-GDP**  
(quarter-on-quarter change)



**Real GDP growth by sector**  
(quarter-on-quarter change)



In quarter-on-quarter terms, the economy expanded by 6.85 percent compared with 5.7 percent in the previous quarter. Most of this growth was generated by the oil sector which expanded 28.7 percent. The dynamics of quarterly oil sector growth, however, remains puzzling as we highlighted in our previous reports. While one would expect that oil production is the main driver of performance of the oil sector, the reason for such strong growth in the third quarter is unclear and not related to oil production. According to the latest data from the Joint Oil Data Initiative, Saudi oil production contracted by 2.3 percent quarter-on-quarter in the third quarter. As the growth in the oil production slows in the fourth quarter mostly due to base-effect as well as lower production, the boost to real GDP from the oil sector is expected to fade away.

The non-oil sector slightly expand by 0.1 percent quarter-on-quarter most of which was driven by a strong performance in the non-oil public sector with a 3.7 percent growth rate. The non-oil private sector contracted by 1.7 percent. The utility sector registered the highest quarterly growth at 16.4 percent. This is expected given the seasonal increase in residential and commercial power demand due to higher use of air conditioning in the third quarter. At the same time, the construction and transport and communication sectors contracted in the third quarter due to the high temperature.

Year-to-date growth is in-line with our forecasts at 5.8 percent. We expect the economic performance to be mixed in the fourth quarter. On the one hand, oil production is likely to remain at the current level with a downside risk which will limit the year-on-year growth rate. On the other hand, we expect both government and private sectors to maintain their solid performance which will push growth upward. In fact, leading indicators point toward a strong performance in the fourth quarter for construction, retail, transport and communication sectors. Furthermore, year-on-year growth in bank lending hit a three-year high in October and business surveys point to further rapid expansion of the private sector. While local fundamentals are solid, with considerable uncertainty over the path of the global economy we maintain our forecast for total real GDP growth for 2012 at 5.8 percent.

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