



Saudi population growth slows; expats jump

Preliminary results from the census conducted earlier this year put the Kingdom's population at 27.1 million. This is well above the official estimate for mid-year 2009, of 25.4 million, owing to a far greater expatriate population than had been assumed. Since the last census, in 2004, the expatriate population has grown twice as fast as the number of Saudi nationals.

Of the 27.1 million person total population arrived at in the census, which was conducted in April, 18.7 million were Saudi nationals and 8.4 million expatriates. The previous census was held in September 2004, when the total population was 22.7 million, split between 16.5 million nationals and 6.1 million expatriates. Between the two censuses, the number of Saudi nationals rose by 19 percent, while the number of expatriates increased by 38 percent. If the population grows over the next decade at the same pace as it has since the 2004 census, by 2020 the Kingdom's population will be 37.2 million, with 22.8 million Saudi nationals and 14.4 million expatriates.

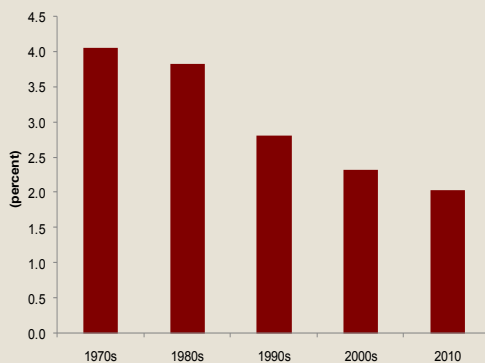
Growth in the national population was slower than anticipated by the government. The most recent estimates from the Central Department of Statistics and Information, for mid-2009, are 18.5 million Saudi nationals and 6.8 million expatriates, resulting in a total of 25.4 million. These were based on an assumption that the national population growth rate would slow slightly from 2.5 percent in 2004 to 2.4 percent in 2009. In fact, the actual average annual growth rate for the six years to 2010 for Saudi nationals was 2.1 percent.

The slowdown in the growth of the local population has important implications for government policy. As the graph to the left shows, the growth rate of the Saudi national population has fallen significantly in recent years. At the time of the oil boom of the mid-1970s, the national population was growing at 4.2 percent per year; twice the level of the past six years. National population growth remained rapid through the 1990s, during which it averaged 2.8 percent per year. As a result, around 30 percent of Saudis are aged between 15 and 29. This generation is now entering the labor force and the creation of suitable jobs is one of the main challenges the Kingdom faces.

Lower population growth suggests that the bulge in new labor market participants will lessen in 15-20 years. In absolute terms the number of new entrants to the labor force will remain high, with the national population currently growing by almost 400,000 per year, but they will decline as a proportion of the total labor force.

Population growth is likely to drop further. It is still some way above the global average; the UN estimates that global population growth was 1.2 percent per year between 2005 and 2010. Social factors,

Annual growth in Saudi national population



For comments and queries please contact the author:

Paul Gamble
Head of Research
pgamble@jadwa.com

or:

Brad Bourland, CFA
Chief Economist
jadwaresearch@jadwa.com

Head office:
Phone +966 1 279-1111
Fax +966 1 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com



such as a reduction in the average household size, which was 5.84 people according to the 2010 census, and economic factors, such as the higher costs of raising children, will contribute to the slowdown.

These factors have already made an important contribution to lowering the birth rate. While data on birth and death rates are not available, we assume that the major improvements in healthcare have lengthened lives and thereby reduced the death rate, meaning that the birth rate has probably fallen at a faster pace than the overall decline in the population growth rate in recent years.

The jump in the number of expatriates is well above that which had been estimated by the Central Department of Statistics and Information. Its mid-2009 estimate of 6.8 million was based on an assumed gradual fall in the annual rate of growth of the number of expatriates since the 2004 census, from 2.5 percent to 2.1 percent. Instead, the expatriate population grew by an annual average of 5.4 percent since 2004.

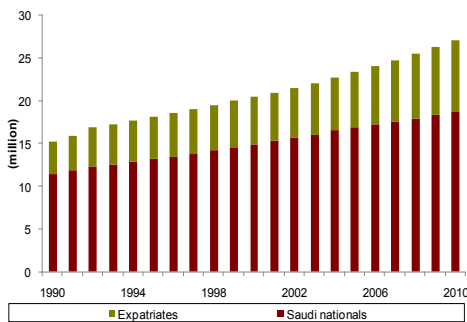
Despite the surge in the expatriate population, it is likely that the census underestimates the actual number. For example, those expatriates that remain in the Kingdom after their visas have expired are likely to have shied away from census data collectors. Males account for 70.4 percent of expatriates, a reflection that few non-Saudis are accompanied by their families. It is likely that the bulk of the 2.5 million expatriate women work as maids. For Saudis, the male-to-female population ratio is 50.9 to 49.1.

Non-Saudis now account for 31.1 percent of the population, compared to just 11.3 percent in 1974, the first year for which a breakdown is available. We think that the jump in foreigners is related to the huge increase in government investment spending, which requires large numbers of construction and related workers. Given the high government spending planned over the next few years (expenditure of \$385 billion is contained in the 2010-2014 five-year development plan) we anticipate further rapid growth in the expatriate population.

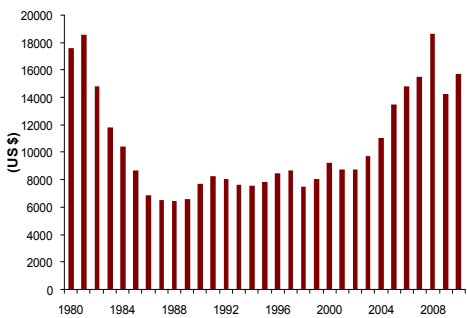
A greater population than was previously thought means that companies may have underestimated the market size, particularly of expatriate males. With population growth in this segment unlikely to ease much in the coming years, growth in demand for accommodation, goods and services to serve this, generally low-income, section of the population will be particularly strong.

Having a higher population than had been previously estimated changes the Kingdom's GDP per person. Based on the earlier population estimates we had forecast that total GDP per person in 2010 would be \$16,347. Using the new numbers we now expect it to be \$15,734. This ranks Saudi Arabia around fortieth in the world, with a GDP per person four times higher than China and around 15 times greater than India, but behind countries in Western Europe and North America. GDP per person for the other GCC members in 2010 is expected to range from \$17,900 in Bahrain to \$75,200 in Qatar.

Population breakdown



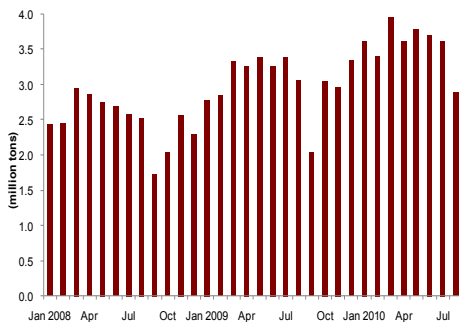
GDP per person





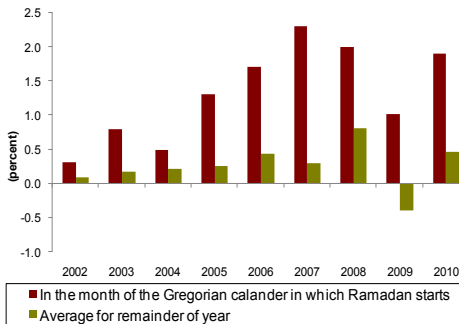
In brief: Economy

Cement sales



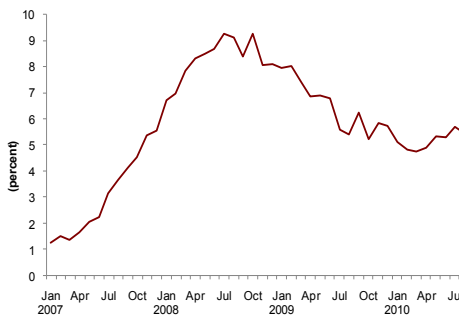
Early data for August show that Ramadan had its usual effect of dampening economic activity. Cement sales were 21 percent lower in August than in July. This year Ramadan largely overlapped with August, which distorts year-on-year comparisons, as last year most of it was in September. As a result, cement sales were down by 5.7 percent in year-on-year terms. Nonetheless, we view the data as encouraging. The decline for the month in the previous two years during which the bulk of Ramadan occurred was much greater, at 34 percent in 2009 and 32 percent in 2008. Furthermore, production of clinker (the material from which cement is milled) hit a four-month high in August.

Monthly food price inflation



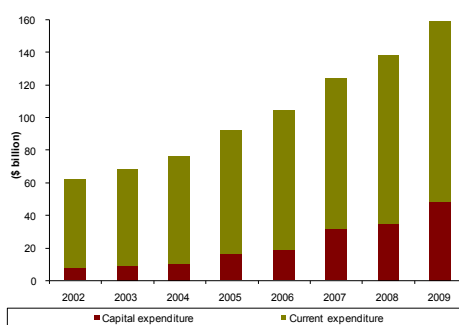
Inflation maintained its upward trend in August, climbing to 6.1 percent, from 6 percent in July. This was entirely due a jump in food prices, which is normal in the month in the Gregorian calendar in which Ramadan starts. Over the years from 2002 to 2009, food price inflation has averaged 5.4 times higher in the month that Ramadan begins than for the remainder of the year. This year the trend was clearly evident again, though the jump was slightly less than in previous years. Food prices were up by 1.9 percent in August, compared to an average monthly growth of 0.5 percent over the previous seven months of the year.

Inflation excluding food



Inflation excluding food prices in August fell for the first time since March, to 5.4 percent, from 5.7 percent in July. Aside from food and rents, all components of the cost of living index fell in August in month-on-month terms. Rental inflation remained relatively subdued, at 0.4 percent month-on-month, resulting in the year-on-year rate staying at a three-year low of 8.9 percent. However, the recent slowdown in rental inflation may only be temporary, as the month-on-month increase averaged 0.5 percent in the third quarter of last year before picking up again.

Breakdown of government expenditure



Salaries for military employees are to be raised by up to 30 percent pending approval from the Council of Ministers. Details of the new pay scales for individual ranks are available and show that those on lower incomes will get the largest rise in percentage terms. Data on the total cost of the pay package has not been published. Raising military salaries will increase employees' spending power and should boost the economy and potentially the stock market. It does, however, bring the risk of inflationary pressures (the public-sector pay rise in 2005 probably contributed to the subsequent take-off in inflation). The new pay deal will also add to the government wage bill, though this can be absorbed comfortably with high oil prices and a large stock of foreign reserves.



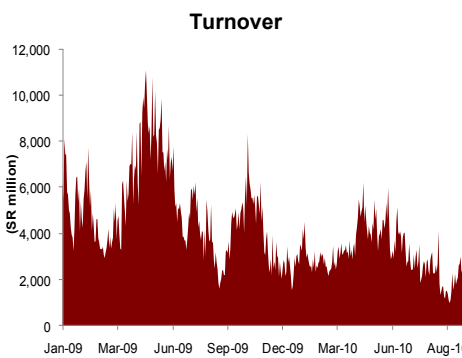
In brief: Stock market



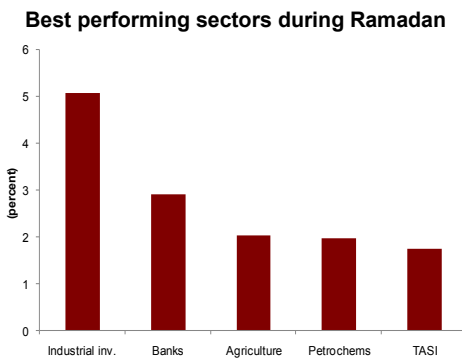
The TASI has performed well so far in September, supported by gains in global markets and the seasonal recovery that tends to occur from the end of Ramadan. By September 27, the TASI was up by 5.7 percent. If this performance is maintained it will be the largest monthly gain for the market since September 2009, when the market also experienced a post-Ramadan bounce. Over the last 10 years the TASI has risen more in the final weeks of Ramadan and in the five weeks immediately following Eid al-Fitr than average. This probably reflects stronger investor sentiment stemming from the revival of trading and broader economic activity following the lull during Ramadan. However, this impact cannot be disentangled from the role improving global markets have had in lifting the TASI so far this month.



The TASI has actually underperformed most global markets so far in September, though it has definitely been helped by their gains. Diminished concerns about a double dip recession resulting from better economic data and actions by some leading governments to support their economies have lifted investor confidence. By September 27, the US S&P500 was up by 8.9 percent, the FTSE100 up by 6.7 percent, the Nikkei225 up by 8.8 percent and MSCI emerging markets index up by 9.3 percent. In terms of performance over the year to date, the TASI retains a slight advantage over the leading global markets, but is just below that of emerging markets. It is notable that performance is very similar across these markets despite the very different economic fundamentals.



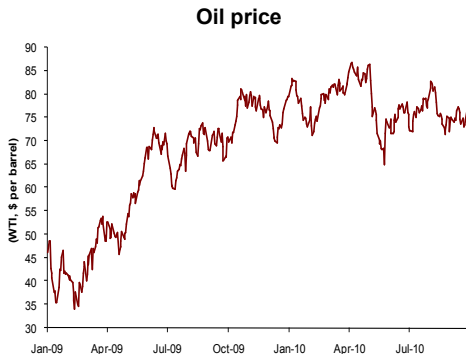
Volumes hit long-term lows during the final weeks of Ramadan. It is normal for stock market trading to slow significantly during Ramadan, though trading this year was well down on last year, reflecting the ongoing investor caution. At its lowest point, on August 30, total turnover fell below SR1 billion for the first time in seven years. For most of the second and third weeks of Ramadan, there were less than 50,000 trades per day and at its low point the total volume of shares traded was below 50 million. In contrast, during the previous Ramadan, there were only a few days when there were less than 70,000 trades per day, the low-point for daily turnover was SR1.6 billion and volumes stayed above 60 million.



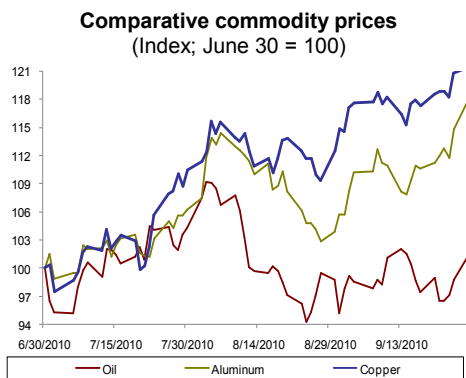
Ramadan may have had an impact on sectoral performance over the past few months. Only four sectors outperformed the 1.7 percent gain in the TASI over the course of Ramadan. Investors could favor two of these, banks and agriculture and food, over Ramadan as it is the time of highest consumer expenditure (often funded by borrowing) and greatest expense on food. The industrial investment sector rose the most, as shares of mining company Ma'aden benefitted from important progress in the financing and execution of its projects. The other sector that outperformed the market during Ramadan was petrochemicals. With four of the largest sectors recording the highest gains it is probable that market moves were also influenced by foreign investors, which tend to prefer the larger listed companies.



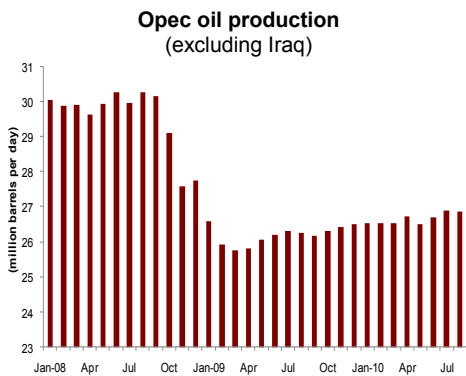
In brief: Oil market



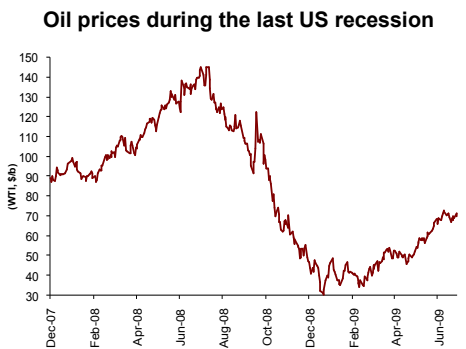
Oil prices have remained within a tight range so far in September. WTI has fluctuated between \$71 and \$77 per barrel this month, around the mid-point of where it has been trading all year. Two opposing forces have offset each other during the month. One is improved sentiment about the global economy, with recent fears about a double-dip recession subsiding after some reasonable economic data. The other is that oil stocks are well above their seasonal average. Crude oil stocks in the US stayed fairly constant during August and September, whereas they had declined in these months in each of the previous six years.



The stability of oil prices contrasts with the recent performance of other commodities. While prices of some agricultural commodities, notably wheat, have been pushed up by poor harvests and export bans, prices of industrial commodities have also risen. Since the end of June copper prices have risen by 22 percent and aluminum prices are up by 17 percent. Like oil, prices of these commodities are influenced heavily by the health of the global economy. The lack of movement in oil prices may reflect the high level of stocks, the ability of suppliers to exert greater influence on the price, or the possibly that financial investors have helped to stabilize the price, as oil contracts are more actively traded than those based on aluminum or copper.



Opec producers appear comfortable with the current level of prices and are not expected to change their oil production quotas at their meeting on October 14. Compliance to the quotas agreed in December 2008 has been on a gradual downward trend (though according to independent estimates, Opec production fell slightly in August) without having a material impact on prices. Wariness about the possibility of a double dip recession should prevent a cutback in production, while a formal increase in production could trigger a price fall, particularly given the high level of stocks. We therefore think that Opec will maintain quotas at their current level and emphasize that compliance to the quotas should not fall too much further.



The performance of oil prices during the last US recession was almost the same as that during the previous, and much shallower, recession of 2001. The National Bureau of Economic Research, the body that determines the timing of US recessions, recently announced that the recession that began in December 2007 ended in June 2009. Over that period, oil prices fell by 28 percent. Over the recession from March to November 2001, oil prices dropped by 29 percent and the oil price at the end of that recession was over three times lower than at the end of the recent recession, at \$19.5 per barrel compared to \$69.8 per barrel at the end of June 2009. It is notable that oil prices climbed for seven months after the US economy entered recession and that oil consumption in the OECD peaked in 2006, well before the US recession began.



Key data

	2003	2004	2005	2006	2007	2008	2009	2010F	2011F
Nominal GDP									
(SR billion)	804.6	938.8	1182.5	1335.6	1442.6	1786.1	1409.1	1601.1	1731.6
(\$ billion)	214.6	250.3	315.3	356.2	384.7	476.3	375.8	427.0	461.8
(% change)	13.8	16.7	26.0	12.9	8.0	23.8	-21.1	13.6	8.1
Real GDP (% change)									
Oil	17.2	6.7	6.2	-0.8	-3.6	4.2	-6.7	2.7	3.9
Non-oil private sector	3.9	5.3	5.8	6.1	5.5	4.6	3.5	4.7	5.2
Government	3.1	3.1	4.0	3.1	3.0	3.7	4.4	4.0	3.6
Total	7.7	5.3	5.6	3.2	2.0	4.2	0.6	3.9	4.5
Oil indicators (average)									
WTI (\$/b)	31.1	41.5	56.6	66.1	72.3	99.7	62.0	75.0	80.0
Saudi (\$/b)	26.9	34.7	49.5	60.5	68.1	93.4	60.5	71.3	74.8
Production (million b/d)	8.8	9.0	9.5	9.2	8.7	9.2	8.1	8.2	8.4
Budgetary indicators (SR billion)									
Government revenue	293	392	564	674	643	1101	510	625	671
Government expenditure	257	285	346	393	466	520	596	604	628
Budget balance	36	107	218	280	177	581	-87	22	42
(% GDP)	4.5	11.4	18.4	21.0	12.2	32.5	-6.1	1.4	2.4
Domestic debt	660	614	475	366	267	237	225	220	205
(% GDP)	82.0	65.4	40.2	27.4	18.5	13.3	16.0	13.7	11.8
Monetary indicators (average)									
Inflation (% change)	0.6	0.3	0.7	2.3	4.1	9.9	5.1	5.3	4.2
SAMA base lending rate (% , year end)	1.75	2.50	4.75	5.20	5.50	2.50	2.00	2.00	2.75
External trade indicators (\$ billion)									
Oil export revenues	82.0	110.4	161.6	188.2	205.3	281.0	163.1	191.1	197.1
Total export revenues	93.0	125.7	180.4	210.9	233.1	313.4	192.2	226.1	234.8
Imports	33.9	41.1	53.8	63.0	81.5	100.6	86.4	95.0	104.6
Trade balance	59.1	84.6	126.6	147.8	151.6	212.7	105.8	131.0	130.3
Current account balance	28.0	51.9	90.0	98.9	93.3	132.3	22.8	41.6	35.8
(% GDP)	13.1	20.7	28.5	27.8	24.3	27.8	6.1	9.7	7.7
Official foreign assets	97.1	127.9	195.5	273.4	359.8	502.0	474.2	515.5	544.6
Social and demographic indicators									
Population (million)	22.0	22.7	23.4	24.1	24.8	25.5	26.3	27.1	27.9
Unemployment (male, 15+, %)	8.2	8.5	8.8	9.1	9.0	8.8	8.5	8.2	8.0
GDP per capita (\$)	9745	11041	13503	14806	15523	18651	14276	15734	16531

Sources: Jadwa forecasts for 2010 to 2011. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. Central Department of Statistics and Jadwa estimates for oil, social and demographic indicators.



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