



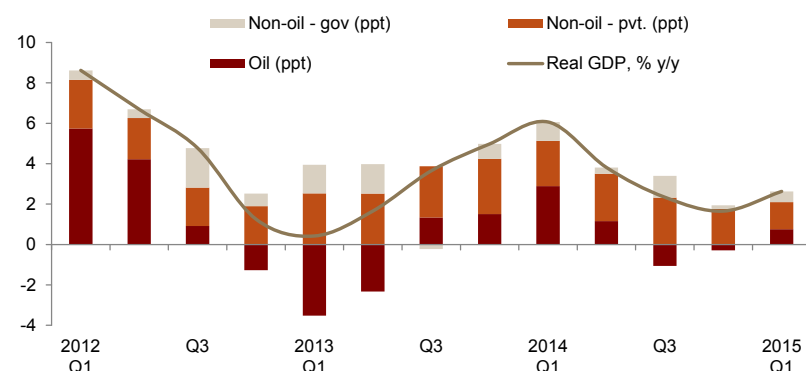
Quarterly GDP update: Oil sector pushes up overall growth in Q1-15

- In real terms, the Saudi economy was 2.4 percent larger in the first quarter of 2015 than in the same quarter of 2014. Year-on-year growth accelerated for the first time in four quarters.
- The acceleration was mainly attributed to the oil sector, which grew following two consecutive quarterly declines.
- We assume that year-on-year economic growth will reach similar levels in the second quarter owing to continued growth in oil production. Other sectors of the economy should continue to benefit from solid local fundamentals.

The Central Department of Statistics and Information (CDSI) has released GDP data for the first quarter this year showing a real economic growth of 2.4 percent compared with 1.6 percent in the fourth quarter last year and 6.4 percent in the first quarter of 2014. In fact, growth reversed a slowing trend featured in the last three consecutive quarters. The reversal was mainly due to an increase in oil sector growth, which benefitted from elevated levels of oil production during the first quarter. In addition, all sectors of the non-oil economy grew, with the exception of the electricity, gas, and water sector. While the oil sector reversed its negative contribution towards overall GDP growth to reach 0.8 percentage points (ppt) (Figure 1), the private non-oil sector was once again the main growth driver in the first quarter contributing 1.3ppt. The government contribution improved to 0.5ppt in the first quarter compared with 0.2ppt in the previous quarter.

Non-oil GDP growth expanded by 3.3 percent year-on-year compared with 3.4 percent in the previous quarter and 5.5 percent in the same period last year. While private sector was the main driver of the non-oil sector, its contribution and growth level have continued

Figure 1: Oil sector growth returns positive



Real GDP growth (percent)

	Quarterly change	Annual change
2015-Q1	1.2	2.4
2014-Q4	2.7	1.6

Comparative economic growth (2015-Q1, year-on-year change)



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The private non-oil sector recorded the highest sectorial growth, expanding by 3.3 percent year-on-year.

Non-oil public sector expanded by 3.1 percent, the second highest sectorial growth.

The oil sector grew by 1.8 percent, reversing its declining trend in the previous three quarters.

As expected, construction sector was the fastest growing sector (7.1 percent, year-on-year)

to fall slightly as the sentimental impact of the oil price drop took shape. Nonetheless, the private non-oil sector recorded the highest sectorial growth, expanding by 3.3 percent year-on-year in the first quarter compared with 5.5 percent for the same period last year. Despite the slower growth, we expect the private sector to maintain the current level of growth supported by strong domestic demand, rising bank lending and public sector investment.

The non-oil public sector expanded by 3.1 percent year-on-year, the second highest sectorial growth in the first quarter. Most of this growth was sourced from higher government services which expanded by 3.2 percent year-on-year. We also expect this expansion in services to translate into higher non-oil revenues for the government budget. However, contribution of government services to overall economic growth is likely to fall slightly over the rest of the year as the high level of demand for government services early in the year is likely to moderate.

The oil sector grew by 1.8 percent (Figure 4), reversing its declining trend in the previous two quarters. This was heavily influenced by the move in oil production, which increased by 0.7 percent over the same period. Despite this increase, the share of the oil sector in overall real GDP fell slightly to 41.7 percent compared with 42 percent a year earlier. As oil production is likely to increase gradually during the summer months owing to rising domestic demand, we see a continuation of elevated levels of oil production persisting through the second and third quarters.

While most sectors registered a positive year-on-year growth in the first quarter, their performance varied (Figures 2, 3 and 5). As expected, the **construction** sector was the fastest growing sector (7.1 percent), reversing a slowing trend in the previous three quarters. This is due to huge activity in building infrastructure, commercial and, increasingly residential projects. The large government spending allocated to boosting the provision of housing in the face of rapidly growing demand and the commitment to

Figure 2: GDP growth composition

	Percentage change (q/q)				Percentage change (y/y)			
	Q1-14	Q4-14	Q1-15		Q1-14	Q4-14	Q1-15	
			Q/Q	Contribution (ppt)			y/y	Contribution (ppt)
Oil Sector	-1.6	-1.3	0.8	0.3	6.9	-0.7	1.8	0.8
Non-Oil Sector	2.1	5.8	1.9	1.1	5.5	3.4	3.3	1.9
Private Sector	8.2	-1.1	6.8	2.6	5.5	4.7	3.3	1.3
Government Sector	-9.8	23.0	-7.9	-1.5	5.4	1.0	3.1	0.5
By sector								
Agriculture	24.1	-11.8	23.7	0.4	1.6	1.6	1.3	0.0
Mining and quarrying	-1.4	-1.5	1.5	0.6	6.6	-1.4	1.6	0.6
<i>Of which: crude petroleum & natural gas</i>	-1.6	-1.3	1.3	0.5	6.7	-1.4	1.5	0.6
Manufacturing	9.3	0.0	5.4	0.6	6.8	7.1	3.3	0.4
Electricity, gas and water	-33.3	-55.6	-38.7	-0.4	2.1	3.0	-5.3	-0.0
Construction	8.4	-4.6	9.6	0.5	7.4	5.9	7.1	0.3
Wholesale & retail trade	4.9	5.3	5.2	0.5	4.6	3.8	4.0	0.4
Transport & communication	10.4	10.4	7.0	0.4	6.4	7.2	3.9	0.2
Finance	4.8	4.1	3.1	0.3	5.7	2.9	1.1	0.1
Personal services	10.0	0.3	7.1	0.1	6.4	6.4	3.6	0.1
Government services	-12.7	27.0	-10.0	-1.6	5.3	0.1	3.2	0.5
Real GDP	0.3	2.7	1.2	1.2	6.4	1.6	2.4	2.4



Year-on-year growth slowed in manufacturing, transport and communication, and finance.

The slower growth was partially due to a sentimental impact associated with lower oil prices as well as a large base effect.

Wholesale and retail sector growth reached 4 percent, year-on-year.

Electricity, gas, and water was the only sector to record a year-on-year decline, falling by 5.3 percent.

In quarter-on-quarter terms, the economy expanded by 1.2 percent.

infrastructure development will keep construction one of the fastest growing sectors for the next few years.

Year-on-year growth in **manufacturing, transport and communication, and finance** all slowed compared to the same period last year. The lower growth in the manufacturing sector came as exports of manufactured goods, particularly petrochemicals and plastics, declined due to the weaker global demand (down 25.3 percent, year-to-April). The manufacturing sector expanded by 3.3 percent in the first quarter this year compared with 6.8 percent for the same period last year. For transport and communication and finance, the slower growth was partially due to a sentimental impact associated with lower oil prices as well as a large base effect. The transport and communication and finance sectors grew by 3.9 percent, and 1.1 percent, respectively, in the first quarter this year compared with 6.4 percent and 5.7 percent for the same period last year.

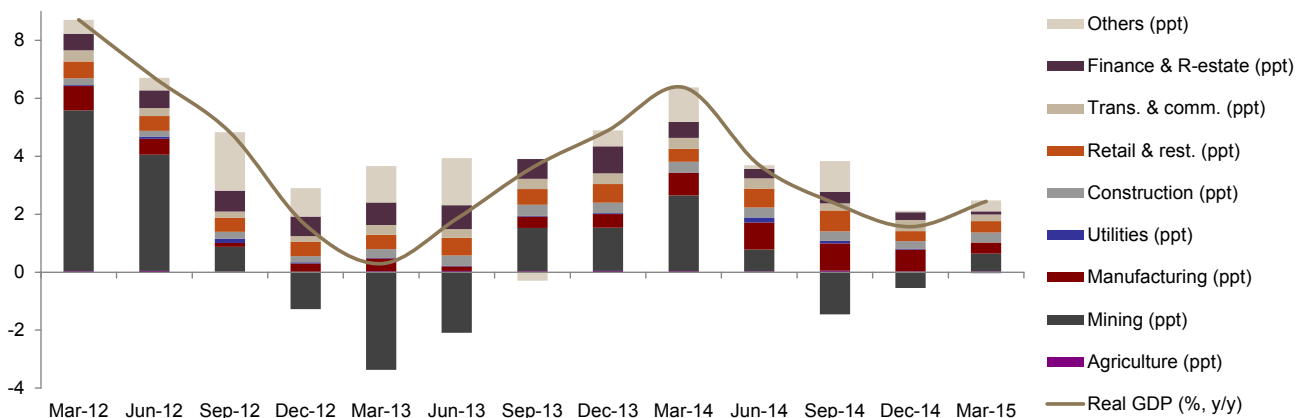
Wholesale and retail sector growth reached 4 percent year-on-year. This is lower than the 4.6 percent reached during the same period last year, but still reflects robust growth in the sector. The two-month salary bonus in February has likely benefitted the sector as indicated by rising cash withdrawals from ATMs and point of sale transactions, up 19.3 percent and 25.8 percent year-on-year in the first quarter respectively. We see that the sector is likely to maintain a robust growth over the coming quarters as well, continuing to benefit from strong domestic consumption.

Electricity, gas, and water was the only sector to record a year-on-year decline, falling by 5.3 percent. We, however, think that the long-term prospects for the sector are positive, given the large contracts under implementation to increase capacity in power generation and water salination.

In quarter-on-quarter terms, the economy expanded by 1.2 percent compared with 2.7 percent in the previous quarter. Most of this growth was generated by the non-oil private sector which expanded by 6.8 percent, with the oil sector also growing by 0.8 percent, while the government sector fell by 7.9 percent.

In quarter-on-quarter terms, agriculture was the fastest growing sector in the first quarter as it recorded 23.7 percent growth, owing to a seasonal trend. The second was the construction sector which expanded by 9.6 percent quarter-on-quarter, benefitting also from a seasonal trend. For most other sectors of the economy, quarterly output was mostly driven by seasonal factors as well. The utility

Figure 3: Sectoral contribution to real GDP growth





We expect the economic performance to be on the upside for the remainder of the year.

We maintain our forecast for total real GDP growth for 2015 at 3.3 percent.

sector recorded the largest drop in output in the first quarter (-38.7 percent). This is expected given the seasonal decrease in residential and commercial power demand during the winter months.

We expect the economic performance to be on the upside for the remainder of the year. The contribution of oil production to annual economic growth is likely to remain on the positive side. We also expect the private sector to maintain solid performance, albeit at a slower pace, as credit growth is expected to moderate and interest rates rise. Year-to-May bank lending maintained positive growth, year-on-year although it is expected to be lower in 2015 than in recent years (Figure 6). However, leading indicators point toward a solid performance in 2015 for the construction and retail sectors, and business surveys point to a continued expansion in the private sector (Figure 7). 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 2015 at 3.3 percent.

Figure 4: Oil production and real oil GDP
(year-on-year)

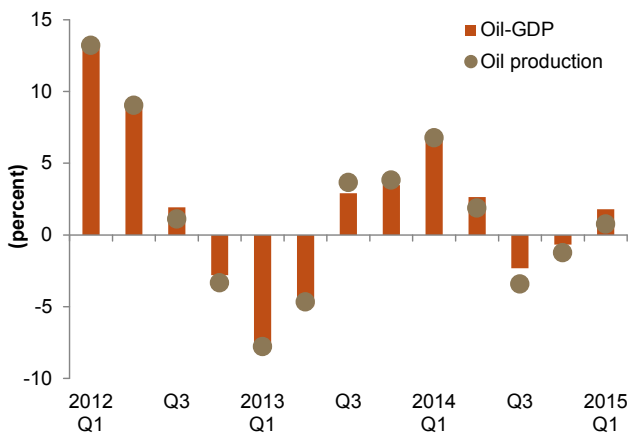


Figure 5: Quarterly real GDP growth
(year-on-year)

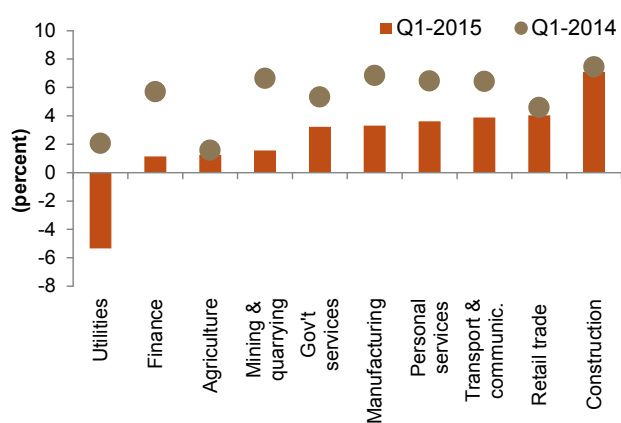


Figure 6: Credit to private sector

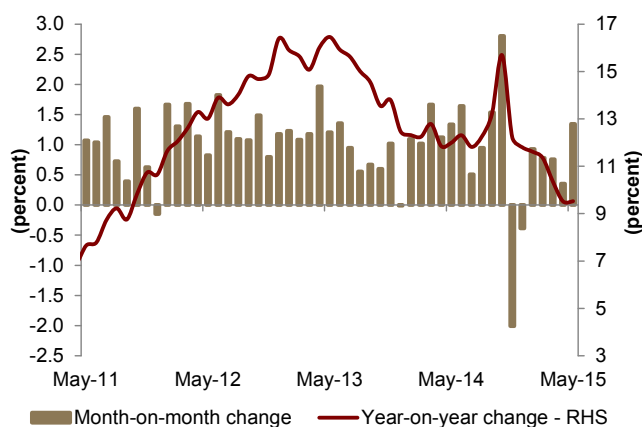
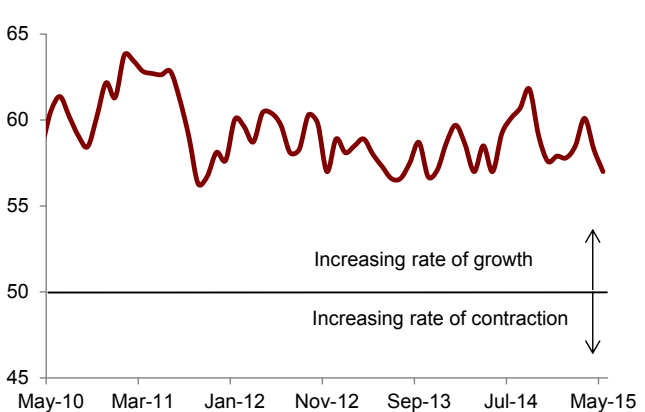


Figure 7: Purchasing Manager Index



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