جدوى للإستثمار
Jadwa Investment

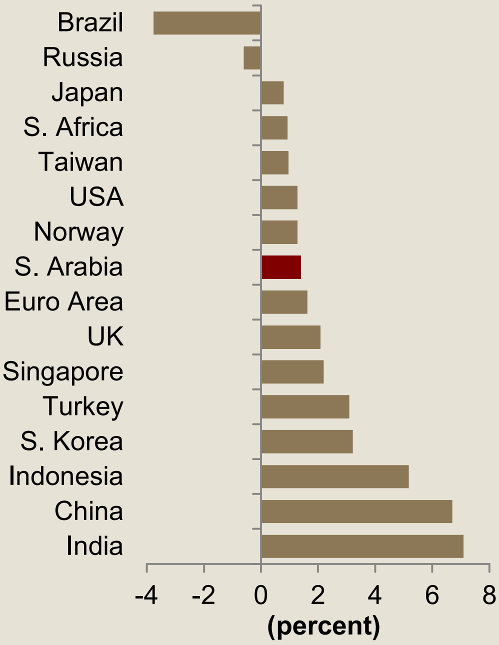
October 2016

Quarterly GDP Update: Q2 2016

Real GDP growth
(percent)

	Quarterly Change (Q/Q)	Annual Change (Y/Y)
2016 Q2	-1.3	1.4
2016 Q1	0.7	1.5

Comparative economic growth
(2016 Q2, year-on-year change)



For comments and queries please contact:

Fahad Alturki
Head of Research
falturki@jadwa.com

Rakan Alsheikh
Research Analyst
ralsheikh@jadwa.com

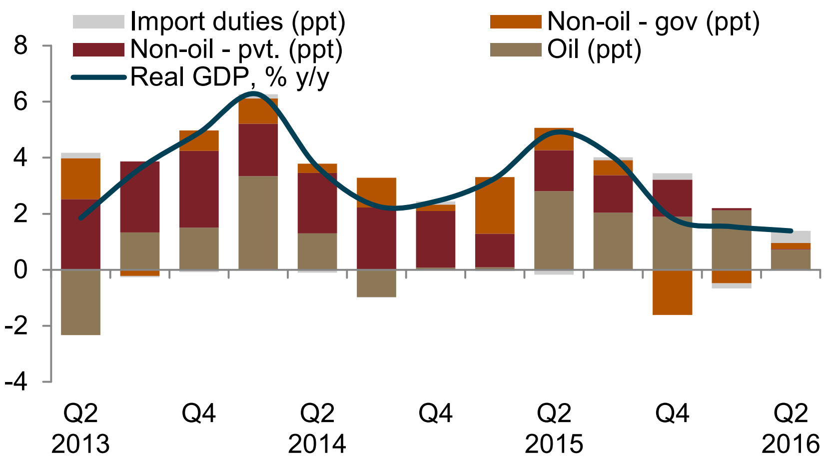
Head office:
Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Q2 real GDP trends down, forecast revised

- In real terms, the Saudi economy was 1.4 percent larger in the second quarter of 2016 than in the same quarter of 2015.
- Year-on-year growth continued to slow for the fourth consecutive quarter.
- This was mainly due to a deceleration in annual GDP growth for both the oil sector and the non-oil private sector.
- Meanwhile, annual growth in non-oil government sector GDP turned positive following two consecutive quarterly contractions.
- Within the non-oil private economy, transport and finance were the fastest growing sectors in Q2. While utilities, construction, wholesale & retail, and non-oil manufacturing all saw negative annual growth for the second consecutive quarter.
- We expect continued growth in oil production during the second half of 2016, while the slowdown in non-oil GDP will moderate.
- We therefore have revised our 2016 full-year GDP forecast to 1.1 percent, down from our earlier forecast of 1.7 percent.

The General Authority for Statistics (GAS) has released GDP data for the second quarter this year showing a real economic growth of 1.4 percent compared with 4.9 percent in the second quarter of 2015 and 1.5 percent in the first quarter of this year. Economic growth continued to decelerate for the fourth consecutive quarter. Slower growth was recorded in the oil sector and the non-oil private sector, while the non-oil government sector reversed two consecutive quarterly contractions to record positive annual growth. The slower growth in the oil sector was mainly due to a very high level of oil production growth over the same period last year. Despite being a factor behind the lower overall GDP growth, the oil sector remained the largest contributor towards overall GDP, at 0.7 percentage points

Figure 1: Overall Economic Growth trends lower in Q2



The oil sector remained the largest contributor towards overall GDP.

(ppt) (Figure 1). Half the sectors in the non-oil private economy posted positive annual growth, with the other half recording their second consecutive quarterly contraction, pushing annual private sector GDP growth to its lowest level in at least six years, at 0.07 percent. The private non-oil sector contributed only 0.03ppt towards overall growth. Meanwhile, the government's contribution improved to 0.2ppt in the second quarter compared with -0.5ppt in the previous quarter.

Non-oil GDP growth expanded by 0.2 percent year-on-year.

Non-oil GDP growth expanded by 0.2 percent year-on-year compared with -0.7 percent in the previous quarter and 5.7 percent in the same period last year. The recovery in government sector GDP during Q2 2016 was the main factor behind the improved performance in non-oil GDP, particularly since growth in the non-oil private sector continued to slow. The generally lower spending by the government continued to have some knock-on effects on the private sector in Q2, with delays in payments leaving some sectors particularly exposed.

Within the non-oil private sector, the same trend witnessed over the first quarter continued…

...with four sectors recording positive growth…

...while another four shrinking.

Within the non-oil private sector, the same trend witnessed over the first quarter continued, with four sectors recording positive growth, while another four shrinking (Table 1, Figure 2). Transport, finance, community services, and agriculture posted positive annual growth, while growth in utilities, construction, non-oil manufacturing, and wholesale & retail was negative. **Transport** was the only sector to record an acceleration in annual growth during the second quarter to reach 3.8 percent in Q2, compared with 0.3 percent during the previous quarter. We see the acceleration in growth in this sector reflecting the general improvement in non-oil activity during Q2, as more movement of people and goods is consistent with a broader uptick in economic activity. Looking ahead, the general slower activity in the non-oil economy during 2016 could eventually impact growth in transport.

Finance, insurance, and business services was another sector posting positive growth in activity during Q2, at 2.4 percent. However, the sector showed a slowing trend from 3.3 percent in the previous quarter. It appears that the slower growth was mainly due to

Table 1: GDP growth composition

	PERCENTAGE CHANGE (Q/Q)				PERCENTAGE CHANGE (Y/Y)				
	2015 Q2	2016 Q1	2016 Q2 Q/Q	2016 Q2 Contribution (ppt)	2015 Q2	2016 Q1	2016 Q2 Y/Y	2016 Q2 Contribution (ppt)	2016 H2 Y/Y
By type of institution									
Oil Sector	6.5	0.0	2.1	0.9	0.2	5.1	1.6	0.7	3.3
Non-Oil Sector	4.1	2.9	-5.2	-3.0	5.7	-0.7	0.4	0.2	-0.1
Private Sector	3.7	1.6	-3.0	-1.2	3.0	0.2	0.1	0.0	0.1
Government Sector	4.9	5.9	-10.0	-1.8	11.8	-2.6	1.3	0.2	-0.8
By kind of economic activity									
Agriculture	1.3	22.2	-2.5	-0.1	0.6	0.3	0.6	0.0	0.5
Mining and quarrying	5.3	-0.6	2.4	1.0	-0.1	3.6	0.8	0.3	2.2
Of which: crude petroleum & natural gas	5.3	-0.8	2.5	1.0	-0.1	3.6	0.9	0.3	2.2
Manufacturing	8.2	5.7	-6.4	-0.8	3.3	5.9	2.2	0.3	4.1
Electricity, gas and water	9.7	-36.0	180.1	1.0	-2.1	-0.2	-3.7	-0.1	-2.8
Construction	5.0	-1.2	-3.6	-0.2	6.6	-1.9	-3.1	-0.2	-2.5
Wholesale & retail trade	2.7	-2.7	-8.9	-0.8	2.7	-0.8	-0.7	-0.1	-0.8
Transport & communication	3.7	1.7	-2.4	-0.1	4.4	0.3	3.8	0.2	2.0
Finance	4.3	2.3	-1.9	-0.2	1.3	3.3	2.4	0.2	2.9
Personal services	2.8	4.8	-0.5	0.0	2.8	1.0	1.6	0.0	1.3
Government services	5.1	7.0	-12.2	-1.8	13.5	-3.2	1.0	0.1	-1.3
Real GDP	4.9	0.7	-1.3	-1.3	3.3	1.5	1.4	1.4	1.5

Growth in the ownership of the dwellings sub-sector was robust at 5.3 percent in Q2.

a negative contribution from the **financial services** sub-sector (42 percent of finance sector GDP), while growth in **the ownership of the dwellings** sub-sector (58 percent of finance sector GDP) was robust at 5.3 percent in Q2. We see the slowing growth in credit, amidst rising cost of funding, contributing to negative growth of -0.7 percent in financial services. Looking ahead, we believe that any upcoming international bond issuance would positively impact liquidity in the financial system, allowing credit extension to continue, thus ensuring growth in the finance sub-sector. Further, the anticipated implementation of land fees appears to have contributed to an uptick in real estate development activity, as growth in ownership of the dwellings subsector rose to 5.3 percent, its highest since Q4 2013. We see real estate development playing a growing part in the finance sector over the next few quarters, particularly from private real estate developers, as the progress in land reforms continue.

Electricity, gas, and water saw the largest year-on-year decline in Q2...

Electricity, gas, and water saw the largest year-on-year decline in Q2, falling by -3.7 percent. This is in part due to the higher tariffs on electricity and water which impacted consumption patterns. Also, growth in the sector was impacted by a limited number of projects coming online during Q2. Nevertheless, we believe that the long-term prospects for the sector are positive, given the large number of ongoing projects to increase capacity in power generation and water desalination, including the anticipated completion of the largest water desalination plant in the world, in Yanbu, before the end of 2016.

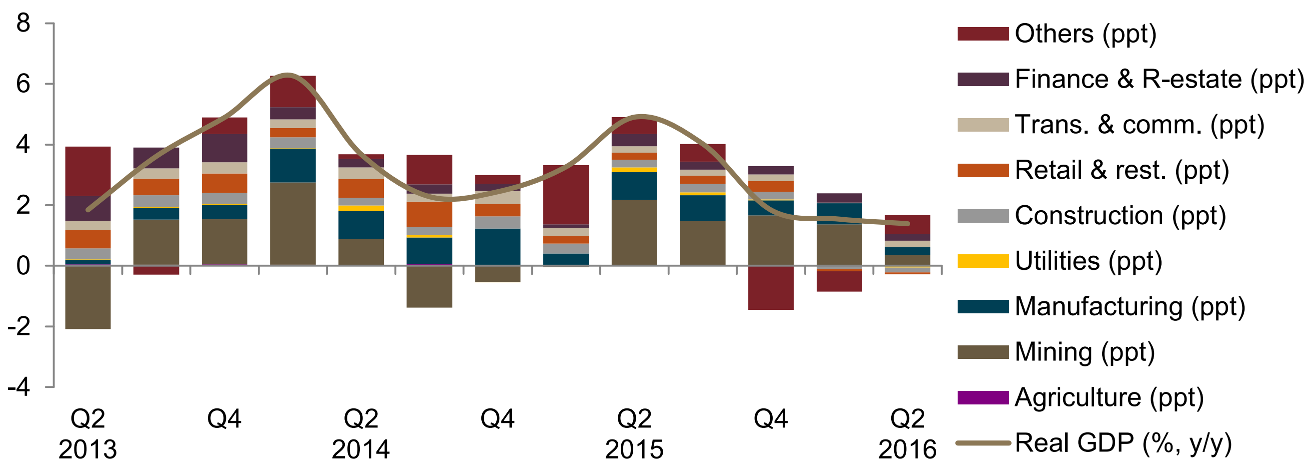
...followed by construction.

Construction saw the second largest decline in Q2 at -3.1 percent. This is due to the sector's exposure to capital spending cuts by the government. Official data showed that in 2015, the government reduced its capital spending by 40 percent, and we forecast a further 36 percent reduction to occur in 2016, as the government continues with its fiscal consolidation plans. That said, activity in building infrastructure, commercial, and a rising number of private residential projects (see first paragraph above) should be the main drivers for growth in construction activity beyond 2016. The National Transformation Program (NTP 2020) allocated SR52 billion (20 percent of total program commitments) for the Ministry of Housing, with the strategic aim of working with private developers to boost the provision of housing in the face of rapidly growing demand for residential units, which should eventually boost construction activity.

Annual growth in non-oil manufacturing came out negative for the second consecutive quarter.

Year-on-year growth in **non-oil manufacturing** was -1.4 percent. The negative growth, for the second consecutive quarter, in the manufacturing sector came as exports of manufactured goods,

Figure 2: Sectoral contribution to real GDP growth



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Wholesale and retail sector growth came out negative at -0.7 percent year-on-year.

GDP data for H1 2016 showed that the economy expanded by 1.5 percent, year-on-year.

In quarter-on-quarter terms, the economy shrunk by 2.1 percent.

We have revised our overall real GDP growth forecast for 2016 and 2017 to 1.1 percent, and 0.6 percent respectively…

...down from our earlier forecast of 1.7 percent and 2.4 percent.

particularly petrochemicals and plastics, declined due to the weaker global demand (down 23.6 percent, year-to-July). **Wholesale and retail sector** growth came out negative at -0.7 percent year-on-year. Indicators of consumer spending suggest that there is a notable slowdown in the sector, with year-to-date cash withdrawals from ATMs and point of sale transactions trending down year-on-year (Figures 5 and 6). We see that the sector is likely to remain impacted by slowing consumer spending, particularly following the reductions to allowances of workers in the public sector.

GDP data for the first half (H1 2016) showed that the economy expanded by 1.5 percent, year-on-year, its lowest since H1 2013 (Figure 3). Oil sector growth during H1 2016 was 3.3 percent, slowing from 4.6 percent in H2 2015 (Figure 4). Meanwhile, non-oil sector GDP growth was negative for the first time in at least six years, at -0.1 percent. Within the non-oil economy, the government sector was down 0.8 percent, but showed an improvement over the -3.2 percent recorded during the H2 2015. Private sector growth was still positive at 0.1 percent, but showed a slowing trend from 3.4 percent during H2 2015.

In quarter-on-quarter terms, the economy shrunk by 2.1 percent, though this reflects a strong seasonal trend during Q2. The decline was due mostly to the non-oil sector, which fell by 5.2 percent, pushed down by a fall in both government GDP (-10 percent), and private sector GDP (-3 percent). Meanwhile, the oil sector grew by 2.1 percent.

We expect economic performance to remain on the same trajectory 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 a positive performance, albeit at a slower pace, as the slowdown in credit growth is expected to moderate with the anticipated international sovereign bond issuance. Year-to-July bank lending maintained robust growth, year-on-year, although it is expected to be lower in 2016 than in recent years (Figure 7). However, business surveys point toward an expansion in the non-oil private economy in 2016 (Figure 8). While local fundamentals are still reflecting a growing economy, any further measures to reduce the fiscal deficit could potentially lead to negative growth in non-oil economic activity (Figure 9). Furthermore, with considerable uncertainty over the path of the global economy, we have revised our overall real GDP growth forecast for 2016 and 2017 to 1.1 percent, and 0.6 percent respectively, down from our earlier forecast of 1.7 percent and 2.4 percent (Figure 10).

Figure 3: Semi-annual real GDP growth
(year-on-year change)

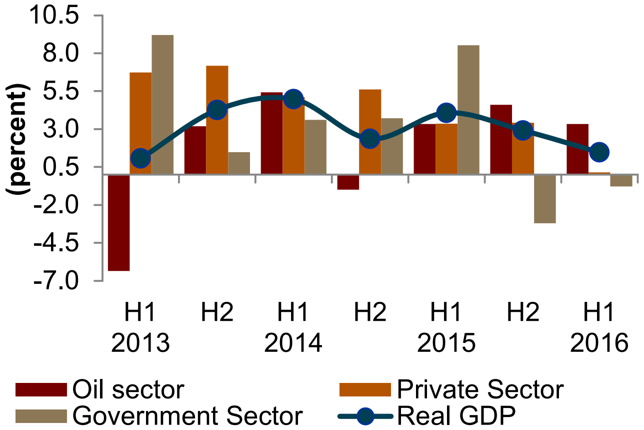


Figure 4: Oil sector GDP and crude oil production
(year-on-year change)

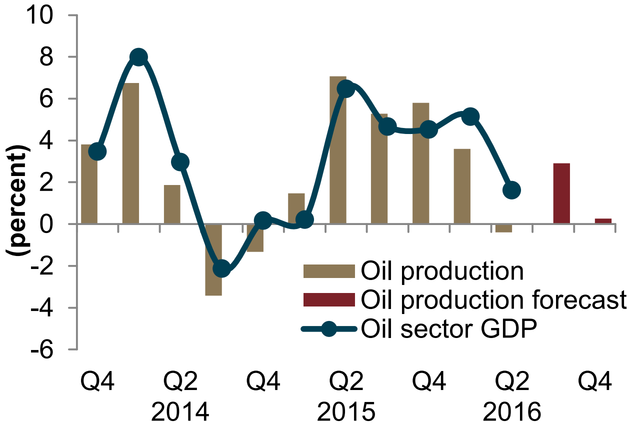
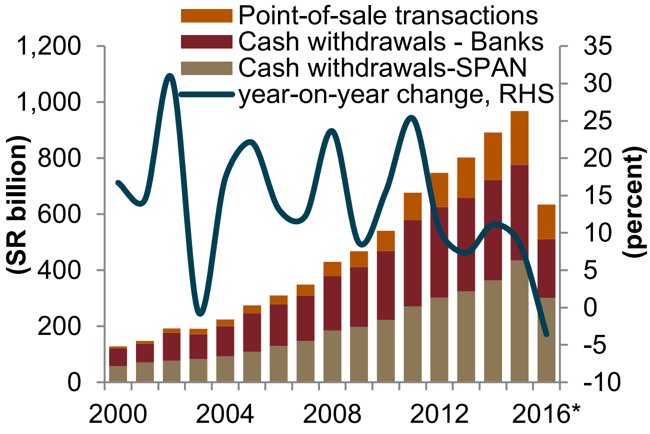


Figure 5: Cash withdrawals and POS transactions are negative, year-on-year…



Note: *2016 data is year-to-August, with year-on-year change for comparable period last year

Figure 6: ...pulling down growth in the wholesale and retail sector...

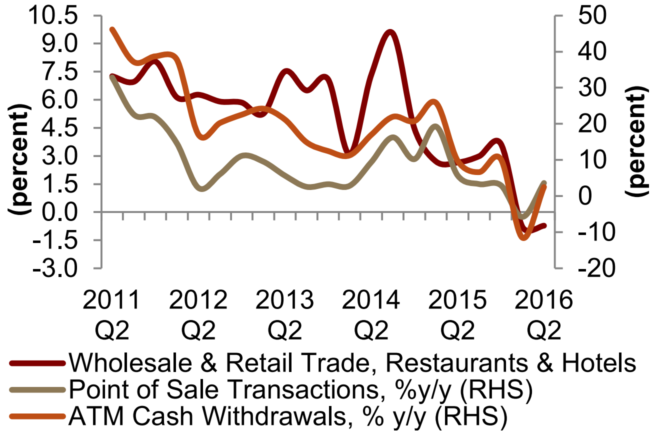


Figure 7:...while credit to the private sector remains resilient...

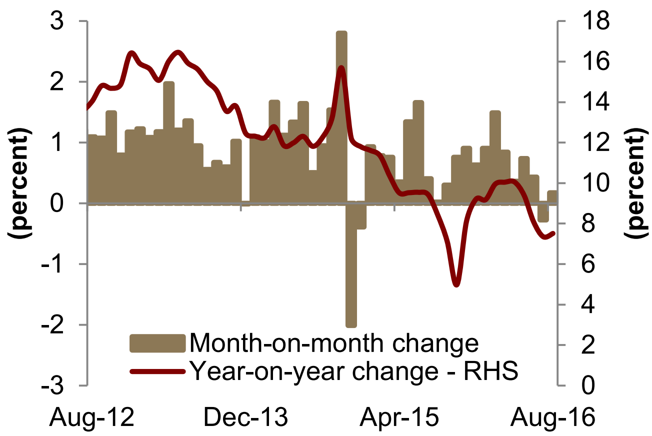


Figure 8: ...ensuring an expanding non-oil economy... (Purchasing Mangers' Index)

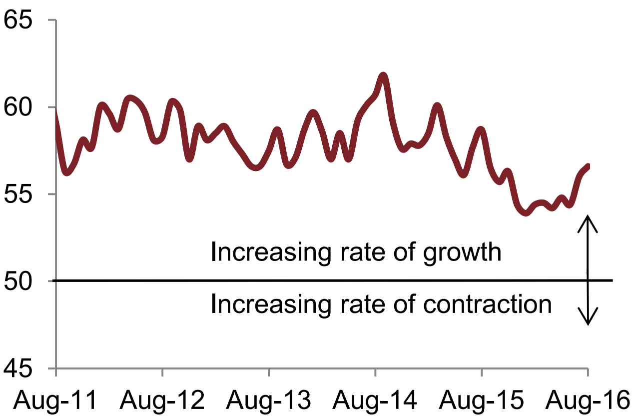


Figure 9: …though considerably lower than before. (year-on-year change in GDP by kind of activity)

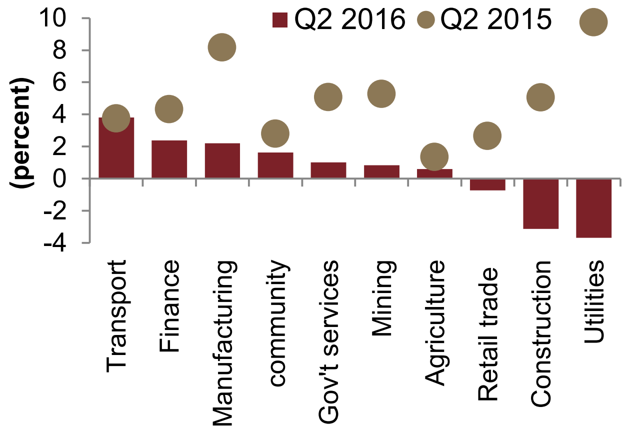
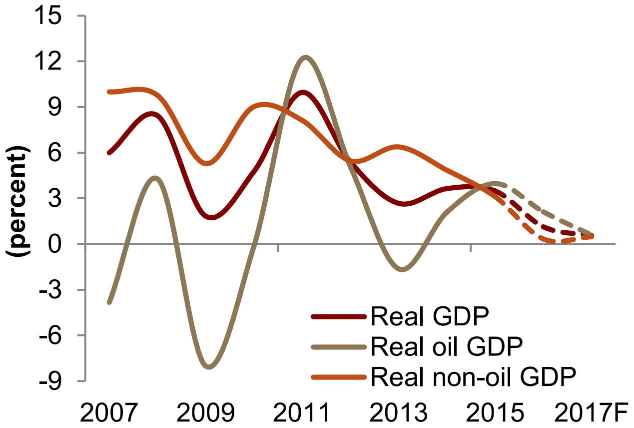


Figure 10: Real GDP growth forecast (year-on-year change)



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