



Strong economic growth in the first half

New data show that economic growth in the first half of the year was strong, at 26.1 percent year-on-year in nominal terms. Nominal data is not adjusted for price movements, so higher oil prices meant that oil was by far the fastest growing sector, at 39.5 percent. Non-oil growth was 12.9 percent, with the non-oil private sector growing by 8.4 percent. There was little change in non-oil private sector growth between the first and second quarters despite the announcement of SR500 billion of new government spending and the easing of regional unrest. Data adjusted for inflation was not published.

The growth in the oil sector was largely the result of higher prices. We estimate that the price earned by the Kingdom for its average barrel of export crude rose to \$104.6 per barrel in the first half of this year from \$76.4 per barrel in the corresponding period of 2010, an increase of 37 percent. Oil production was up by 10 percent over the same period.

While this equates to higher growth than that in the official data, our oil price estimates are complicated by the unusually large divergence that has opened between the key oil price benchmarks of Brent and WTI. In addition, the official data is subject to revision (the growth numbers for the first and second quarters of 2010 have been revised slightly). It is also notable that published data suggest the year-on-year growth rate for both prices and production was far stronger in the second quarter than in the first quarter, which is not reflected in the GDP data.

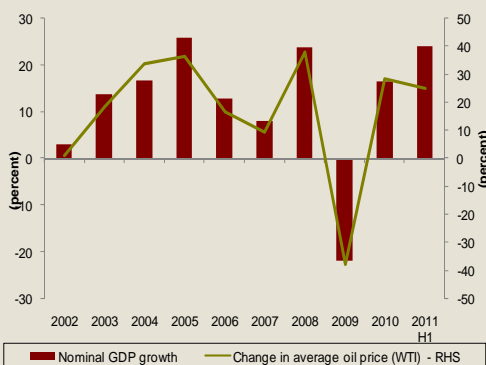
Nominal GDP growth, 2011 (percent)

	First quarter	Second quarter	First half
Oil sector	38.3	39.5	38.9
Non-oil sector	11.4	14.5	12.9
Private sector	8.2	8.5	8.4
Public sector	16.9	24.2	20.5
GDP	24.6	27.5	26.1

Non-oil growth was driven by the government sector. Non-oil public sector growth was more than double the rate of non-oil private sector growth and rose significantly in the second quarter. This is due to the greater government spending unleashed by new spending packages in February and March bolstering an already high increase in budgeted spending. The government services component of GDP was up by 27 percent year-on-year in the second quarter and was 49 percent above the level in the same quarter of 2009.

Given this surge in government activity, and the leap in consumer spending that followed the award of a bonus for public-sector

Nominal GDP and oil prices



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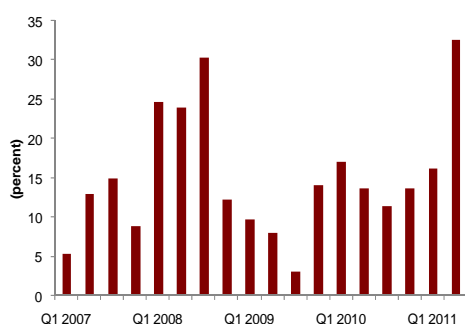
workers late in the first quarter, the pattern of growth in the non-oil private sector was surprising. Non-oil private sector growth only rose from 8.2 percent in the first quarter, when the stock market plunged and regional uncertainty was at its peak, to 8.5 percent in the second quarter. Indeed, the only sector that saw a notable pick-up in growth in the second quarter was utilities, which was probably the least affected by the events elsewhere in the economy.

Manufacturing was the fastest growing private sector in the first half, rising by 22.5 percent, driven by a 38 percent increase in petroleum refining. Refining accounts for around 20 percent of the manufacturing sector and its value is heavily influenced by the oil sector. Non-refining manufacturing expanded by 14.8 percent, due largely to higher prices for petrochemicals, plastics and related products and greater output of construction materials.

Nominal GDP growth by sector, 2011 (percent)

	First quarter	Second quarter	First half
Agriculture	1.6	1.9	1.8
Oil	38.9	40.2	39.5
Manufacturing	22.0	23.0	22.5
Electricity, gas and water	3.2	6.4	5.5
Construction	9.8	8.6	9.2
Wholesale & retail trade	8.3	8.7	8.4
Transport & communication	8.6	8.7	8.7
Finance	3.9	4.4	4.2
Personal services	7.1	7.4	7.3
Government services	18.3	27.2	22.7
GDP	24.6	27.5	26.1

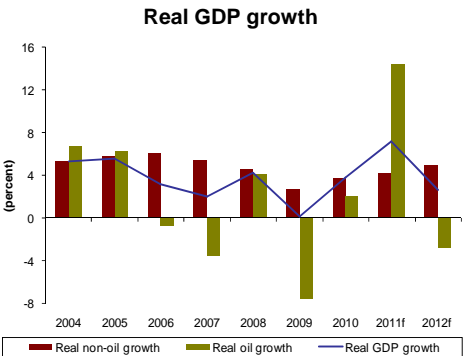
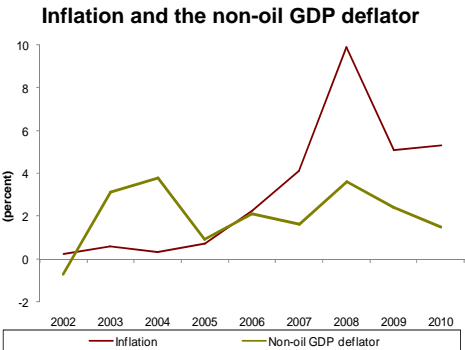
Cash withdrawals from ATMs
(year-on-year change)



Construction was the next fastest growing private sector, at 9.2 percent, though growth slowed from the first to the second quarter, an indication that the house-building program announced in March did not spur an immediate jump in activity. The dynamics of retail sector growth were puzzling. The year-on-year growth rate barely improved in the second quarter despite cash withdrawals from ATMs and point of sales transactions jumping to record highs. The weakness in the finance sector was also notable. This sector is broken into ownership of dwellings and "other". The "other" part, which contains financial services, insurance and other business services, was up by just 1.8 percent, the same growth rate as for the struggling agriculture sector.

The non-oil private sector actually contracted by 5.2 percent in the second quarter, though the data is distorted by seasonal factors. For each of the three years of data available, the non-oil private sector has shrunk in the second quarter, though the fall this year was almost the same as that in 2010 despite the government stimulus. The drop in the retail sector, of 14.5 percent, is the largest in any of the three years for which data is available.

The breakdown of growth by expenditure is consistent with the themes described above. Trade was the main driver of growth, stemming from a 35 percent rise in exports of goods and services. This was due primarily to higher oil receipts, though exports of non-oil goods and services were also both strong in the first half; up by 17.3 percent and 19.5 percent, respectively. In contrast, imports



were up by only 0.3 percent (imports of goods were 5.4 percent higher and those of services down by 7.7 percent).

Nominal GDP growth by expenditure, 2011
(percent)

	First quarter	Second quarter	First half
Government consumption	25.5	26.8	26.2
Private consumption	4.6	6.4	5.5
Investment	17.6	8.6	13.2
Exports	34.8	35.7	35.2
Imports	5.7	-4.2	0.3
GDP	24.6	27.5	26.1

Growth in government expenditure posted a 26.2 percent rise, greatly exceeding that of the private sector, which was up by only 5.5 percent. In neither case was there much of a pickup in growth from the first to the second quarters, despite the payments associated with the government spending packages unveiled in the first quarter. Growth in investment more than halved from the first to the second quarter, though the average for the first half was a fairly healthy 13.2 percent.

The measure of economic growth most commonly used is GDP in real terms, which strips out the effects of price movements. It is not possible to derive accurately what kind of real growth rate the nominal GDP data is equivalent to, as each sector is deflated by an index of prices specific to that sector and in recent years the non-oil deflator has been much lower than the rate of consumer price inflation. Nonetheless, with inflation averaging 4.8 percent in the first half, real non-oil private sector growth was probably between 3.5 and 5 percent. This is in line with our assumption, though we had anticipated a weaker first quarter and stronger second quarter, so the new data may suggest less momentum was carried into the second half of the year. We maintain our forecast for non-oil private sector growth of 4.2 percent this year.

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