# Economic Update

NBK Economic Research Department I 8 October 2019

Saudi Arabia GDP

# Saudi non-oil growth accelerates in the second quarter of the year


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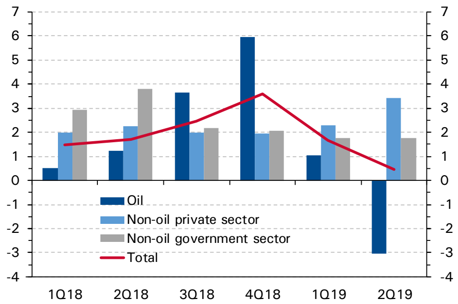
- Recently released official data shows that in 2Q19 the Saudi non-oil economy expanded at the fastest rate (+2.9% y/y) since 2015, with growth driven by increased private (+3.4% y/y) and government sector activity (+1.8% y/y). (Chart 1.) Private sector growth was in line with improvements in other, higher frequency indicators of non-oil activity such as the Purchasing Managers' Index (PMI) and private sector credit growth. (Chart 2.)
- Headline growth, however, slowed considerably in 2Q19 (to 0.5% y/y from 1.7% in 1Q19) due to a contraction in oil sector output (-3.0% y/y), related to OPEC+ production cuts; Saudi Arabia has cut crude production far more aggressively than required. (Chart 3.) Real oil sector output fell by less than crude output (-3.7% y/y to an average of 9.75 mb/d) only due to the contribution of higher natural gas production.
- At the sub-sector level, non-oil growth was led by output gains in the financial services (+5.4% y/y), transport & communications (+6.4% y/y), trade (+5.8% y/y) and construction (+4.9% y/y) sectors. Manufacturing, which includes refining, contracted (-2.3% y/y). (Chart 4.) Growth in government services, the largest contributor to non-oil GDP (23.5%), was weak (+0.8% y/y).
- Note that the improvement in non-oil growth in 2Q19 is also perhaps overstated, since 2Q18 was a softer than usual quarter, with wholesale and retail trade, government services, construction and manufacturing all weak over those three months.
- Looking ahead, real GDP growth for full year 2019 is expected to be flat, a marked slowdown from 2.3% in 2018 and a downward revision compared to our forecast in July of 1.0%. While the oil sector is expected to contract by 3.8% y/y (from 2.9% in 2018), the non-oil sector should grow by 2.5% y/y (vs. 2.3% in 2018), in line with our July forecast.

**Chart 1: Real GDP growth**

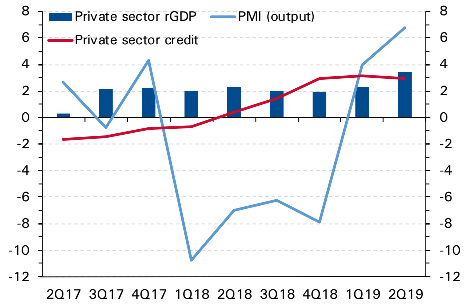
(% y/y)




Source: Saudi General Authority for Statistics (GASTAT)

**Chart 2: Private sector GDP, PMI & credit growth**

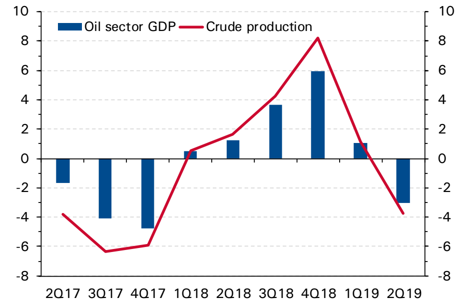
(% y/y)




Source: GASTAT, Markit, Saudi Arabian Monetary Agency (SAMA)

**Chart 3: Oil GDP and crude output growth**

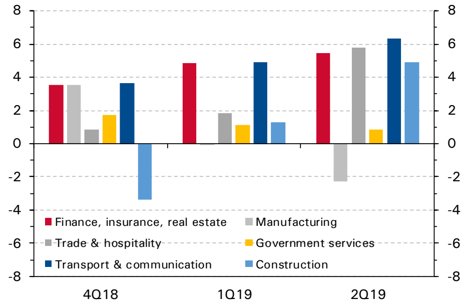
(% y/y)




Source: GASTAT, Joint Organizations Data Initiative (JODI)

**Chart 4: Non-oil GDP growth by sub-sector**

(% y/y)




Source: GASTAT