MENA Advisors

GCC quarterly growth update

Rory Fyfe
Managing Director

Ali Jaffery
Director of Modelling

info@mena-advisors.com

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- Saudi Arabia: Growth firming in oil and non-oil sectors and likely to continue firming (we expect 2% growth in 2018) as higher oil prices lead to a loosening of fiscal policy and as oil production is set to rise

- UAE: PMIs point to stronger growth since April, especially in Dubai. We expect growth to strengthen further (1.8% in 2018) as central government rolls out a growth-focused fiscal stimulus package and as Abu Dhabi eats into some of its spare capacity in oil production

- Qatar: Non-oil growth picked up in Q1 2018 and continued investment, fiscal easing, higher oil prices and positive base effects, after the hit to the economy in 2017 from the blockade, should raise growth to around 2.4% this year

After three years of slowing growth, GCC economies are broadly expected to pick up due to both higher oil prices and higher oil production.

Saudi Arabia: Growth to pick up to 2.0% in 2018, up from -0.9% in 2017

Recent data reveal some firming momentum in the economy. The release of Q1 2018 headline GDP saw growth rise to 1.2% y/y ending the country's four quarter recession in 2017. The pick up mainly reflected high oil GDP growth (owing partly to a favourable base year effect) but non-oil GDP remained relatively robust in the quarter as well. Oil GDP growth was up 0.6% y/y in Q1 2018 compared to a 4.7% contraction in Q4 2017. This was mainly due to a positive base year effect as Saudi over-complied with the OPEC agreement in Q1 2017 leading to low production in that quarter and hence a more positive growth number in Q1 2018. Growth in the non-oil sector was 1.5%, up from 1.1% in Q4 2017 and the third consecutive quarter of positive non-oil growth.

In addition, recent PMI data show the economy is rebounding from the implementation of VAT earlier this year. The non-oil PMI average 62.6 (over 50 implies an expansion) in 2017 but the reading dropped sharply in January to 55.1 on weaker consumer sentiment after the implementation of the VAT. But since then, as oil prices have gained and sentiment has improved, the PMI has averaged 57.1 from February to June.

Our outlook is that this gradual firming will continue as the oil price gains will allow the government to ease fiscal policy while households and firms should respond with an increased willingness to spend and invest. This fiscal easing is on top of the USD20bn worth of private sector stimulus that the authorities announced at the end of 2017. That stimulus has not yet come through as the Q1 deficit narrowed and historically government spending picks up in the second half of the year. Adding to this will be higher oil output from Saudi Arabia to try to offset major outages in Veneuzuela and lower Iranian oil exports as a result of the re-imposition of international sanctions. Saudi Arabia has approximately 2 mb/d of spare capacity and market expectations are pointing to an output increase of 0.5-0.6 mb/d in the second half of the year for. Overall, we expect growth to rise to 2.0% in 2018, rebounding from recessionary territory of -0.9% in 2017.

UAE: Growth to rise to 1.8% in 2018, up from 0.8% in 2017

None of the emirates in the GCC have yet published their first quarter real GDP results but PMI data show the economy strengthening in a similar fashion to the Saudi economy. The non-oil PMI and a quarterly economic composite indicator released by the Central Bank reveal some weakness in the first quarter of the year, likely owing to VAT implementation. However, PMI data has accelerated since April, particularly in Dubai where the PMI rose from 57.1 in April to 64.1 in May and 61.4 in June. The UAE-wide PMI stands at 57.1 as of June compared to 55.1 in April.

Like Saudi Arabia, higher oil production, oil prices and fiscal stimulus should support growth in the UAE. Last month the central government announced a three-year USD13.6bn (3% of GDP) stimulus programme in June to boost growth. The stimulus included targeted measures to increase contracts to the private sector, create 10k new Emirati jobs and ease licensing requirements in some sectors. Moreover, in Dubai, the authorities have implemented their own pro-growth measures including waiving fees for the aviation sector, reducing fines on property registration and freezing private school fees. In addition, the UAE is one of the few other OPEC members with spare capacity and is also expected to increase oil production to offset declines from other members. Our outlook for the UAE is for growth to rise to 1.8% in 2018, up from 0.8% in 2017.

Qatar: Growth to rise to 2.4% in 2018, up from 1.6% in 2017

Qatar looks set to be the strongest growing country in the GCC in 2018. The blockade was a small drag on growth over the last year but the economy seems to be progressing nonetheless. Investment is going ahead in the run up to the World Cup in 2022 helping, to drive growth of around 4.9% in the non-hydrocarbon economy in Q1 2018 with growth likely to pick up further later in the year due to positive base effects (lower growth in Q2/Q3 2017 as a result of the blockade), higher oil prices and continued investment. The oil and gas sector remains a drag on the overall growth rate, contracting by 2.3% y/y in Q1 2018, although this should stabilise during the remainder of the year thanks to investment by Total in a new acreage and as LNG plants come back online following downtime for maintenance.

Qatar has recently begun to publish a PMI series which has shown relatively steady positive momentum so far during 2018, averaging 52.0. Qatar's PMI remains lower than its neighbours even though growth is higher, suggesting that concerns about the blockade may still be hanging over the outlook for the economy. Nonetheless, we still expect growth to pick up to around 2.4% in 2018 on the continued strong performance in the non-hydrocarbon sector and as oil and gas production stabilises.