



# MENA ECONOMICS UPDATE

## Saudi Arabia's recession deepens

- **Oil output cuts fuelled Saudi Arabia's economic downturn in the first half of 2023 and the drag from the oil sector appears to have intensified more recently. Taking together with signs that activity in the non-oil sector is cooling, the Kingdom's recession looks to have deepened in Q3.**
- The flash estimate of Q2 GDP showed that the Kingdom's economy contracted by 0.1% q/q, which followed a 1.4% q/q decline in Q1 and confirmed that the economy is in a technical recession. Year-on-year growth eased from 3.8% in Q1 to 1.1%. (See Chart 1.) The breakdown of the data showed the downturn was driven by the oil sector on the back of the OPEC+ oil output cuts. This more than offset another strong outturn from the non-oil economy, which expanded by nearly 2% q/q.
- **More timely data suggest that the Kingdom's recession has deepened. Saudi Arabia volunteered to cut its oil output an additional 1mn bpd in July, reducing production to just over 9mn bpd** – translating into a 16.0% y/y decline. (See Chart 2.) Officials have announced that this voluntary cut will be rolled over until the end of September (with the option of a further extension left open).
- Admittedly, oil prices have rebounded in the past couple of months to \$87pb at the time of writing (an 18% increase compared to the \$74pb at the end of June). But even if prices remained at this level for the rest of Q3, this wouldn't fully offset the hit to government oil receipts from lower output. This will constrain policymakers' ability to loosen fiscal policy further. Equally, last week's dividend announcement by Aramco showed that policymakers are doing all that they can to maintain a supportive fiscal stance.
- **Even so, activity in the non-oil economy appears to be coming off the boil.** Admittedly, growth in point of sale transaction has held up well so far in Q3. (See Chart 3.) But, July's PMI reading slipped to a seven month low and, on past form at least, would be consistent with non-oil GDP growth of around 1% q/q. (See Chart 4.)
- Local deliveries of cement – a proxy for construction activity – have been declining in recent months (see Chart 5) and weekly job postings in the economy have slowed to their weakest in a year. The Ipsos/Refinitiv survey of consumer confidence also declined to its lowest level this year in August. (See Chart 6.) Alongside weaker private sector credit growth, particularly mortgage lending, this adds to signs that households are feeling the hit of tighter monetary conditions.
- Putting all of this together, the voluntary oil output cut and softening non-oil activity means that the Saudi economy looks set for another quarter of negative GDP growth in Q3. **We currently expect that the Saudi economy will stagnate in 2023, a marked slowdown compared to GDP growth of 8.7% in 2022.** However, the risks are clearly to the downside and an outright contraction over this year as a whole will become more likely if the Kingdom opts to rollover its voluntary oil production cut beyond Q3.



Chart 1: Saudi Arabia GDP

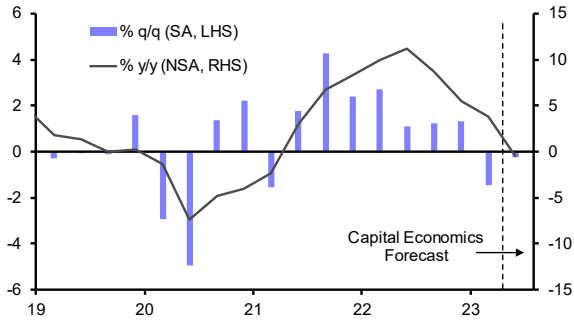


Chart 2: Oil Production

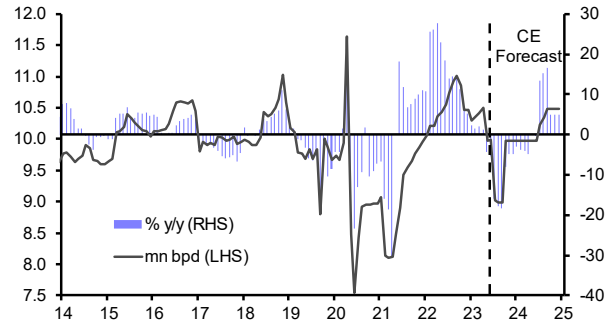


Chart 3: Point of Sale Transactions (% 3m/3m, SA)

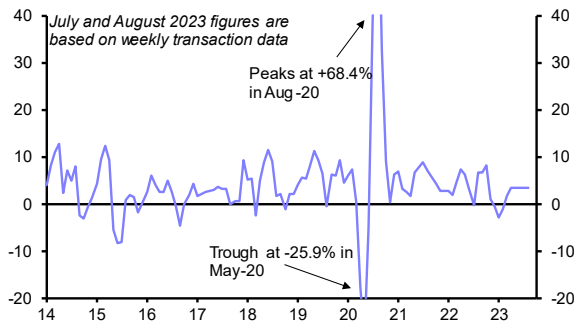


Chart 4: PMI & Non-oil GDP

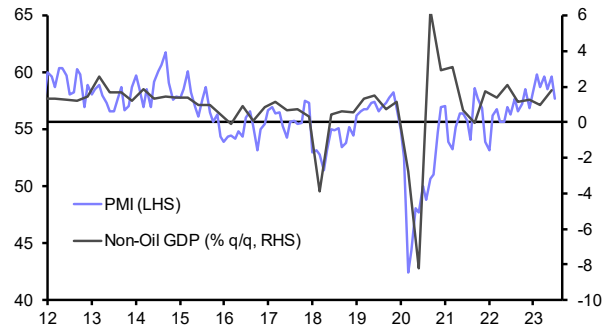


Chart 5: Local Deliveries of Cement (% 3m/3m, SA)

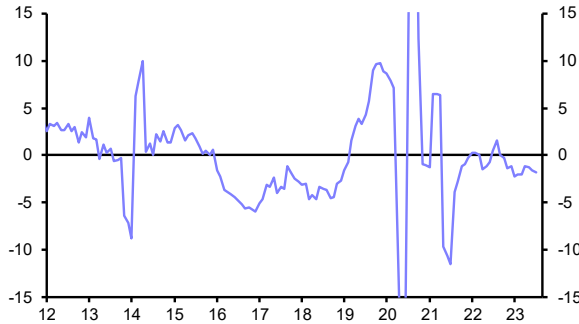
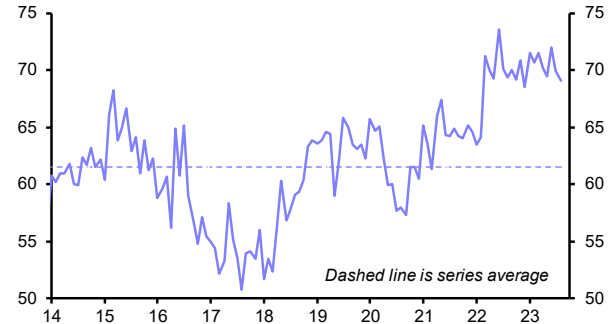


Chart 6: Ipsos/Refinitiv Survey of Consumer Confidence



Sources: GAS, CEIC, S&P Global, Ministry of Finance, Capital Economics



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