ECONOMIC BITES

August 2025
Monthly Updates

Macroeconomic Update

I. Made in America, paid in inflation?

There have been two crucial changes in economic policy in the US under the new administration. 1. A shift towards Make-in-America approach; and 2. stricter immigration policy that impacts labor market slack. These twin pillars are now reshaping the fundamental dynamics of the US economy, creating both unprecedented opportunities and systemic risks.

Supply constraints are driving up prices. July CPI data showed the first clear signs of inflation caused by tariffs. Headline inflation stayed at 2.7% year-over-year, but core CPI rose to 3.1%, the highest in five months, with monthly gains growing at the fastest pace since January. Price hikes in clothing, footwear, and furniture indicate that pre-tariff inventories are running low, forcing businesses to pass higher import costs on to consumers. Effects are spreading beyond tariff-sensitive goods, with increases in shelter, airfares, and healthcare also contributing to inflation.

Fiscal changes bring both benefits and risks. With the OBBBA taking effect on July 4, 2025, US consumers and businesses gained significant boosts to their disposable income. The law permanently continues the benefits of the 2017 Tax Cuts and Jobs Act and adds new deductions for domestic investment. Key points include 100% bonus depreciation for qualifying property, improved manufacturing investment credits, and expanded limits on business interest deductions. However, this fiscal growth comes with a cost. The OBBBA is expected to add up to $6 trillion to the deficit over the next decade.

September rate cut expectations are rising, indicating a market shift. Unlike last month, traders now expect rate cuts in September to increase sharply, with bond and futures markets pricing in a 90% chance of a 25 basis point cut by the Fed next month. This change reflects recent signs of economic cooling in jobs and manufacturing data. Traders also anticipate that the effects of tariffs will eventually slow growth enough to justify lower rates, even as inflation persists.

AI could be the Wild Card. With stricter immigration policies leading to a reduced labor supply, and a greater thrust on domestic production, SME adoption of AI might tip the balance. Fast implementation of AI and automation across different industries will help address labor shortages, boost productivity, and help manage inflation, even as supply-side pressures from tariffs and immigration constraints grow.

Sectors that embrace AI, particularly services, logistics, and manufacturing, are already seeing significant improvements in output per worker and profit margins. This trend may support economic growth while easing price increases, providing a timely offset as both taxpayers and producers adjust to the new environment of higher costs and limited labor availability.

II. July PMI: GCC Non-Oil Growth Eases as Regional Tensions Weigh on Demand

UAE growth momentum weakens: UAE's non-oil private sector lost momentum in July 2025, with the PMI slipping to 52.9 – the lowest level since June 2021 – down from 53.5 in June. Growth in new business softened on weaker tourism activity, while output remained resilient as firms worked through backlogs.

Hiring slowed to a four-month low, and purchasing activity moderated in line with easing demand. Rising input costs pushed output prices up again, following a brief decline in June. Despite these headwinds, firms remained broadly optimistic, though sentiment dipped slightly due to global uncertainties and competitive pressures.

Backlogs rose for the first time since January as firms struggled with delays and capacity.

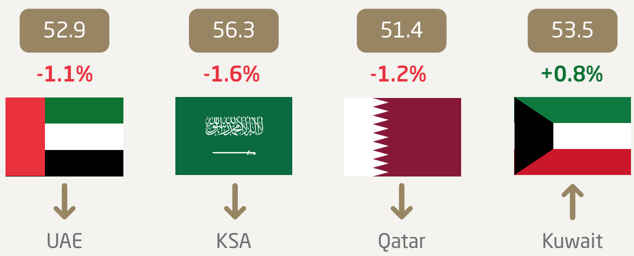
Inventory levels continued to fall, with supply chains facing customs-related disruptions.

Table.1: PMI Readings for GCC During July 2025

GCC Region	Latest PMI reading	Latest Month	Previous PMI reading	Previous Month	Monthly Change
UAE	52.9	July	53.5	June	-1.12%
KSA	56.3	July	57.2	June	-1.57%
Qatar	51.4	July	52.0	June	-1.15%
Kuwait	53.5	July	53.1	June	+0.75%

Source: S&P Global

Fig.1: GCC PMI Trends During July 2025



Source: S&P Global

Saudi leads despite cooling: In July 2025, Saudi Arabia emerged as the strongest performer in the region, with its PMI easing to 56.3 from 57.2 in June, as new business and output growth slowed but remained strong. Employment rose sharply for the second month, reflecting firms' efforts to expand capacity amid resilient domestic demand and rising backlogs. However, foreign demand weakened, leading to the Kingdom's first drop in export orders in nine months. Qatar's PMI slipped to 51.4 from 52.0, driven by the fastest fall in new orders since February, although employment surged at one of the fastest rates on record.

On the other hand, Kuwait's PMI rose to 53.5 from 53.1 — supported by a rebound in new orders and output, while staffing levels remained broadly unchanged after last month's record increase.

The PMI is a weighted average of these five indices : New Orders (30%), Output (25%), Employment (20%), Suppliers 'Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers 'Delivery Times Index is inverted so that it moves in a comparable direction to the other indices. A reading above 50 indicates expansion in economicactivity.

GCC June & July 2025 CPI: Housing, Utilities & the Diverging Inflation Landscape

The latest CPI readings for the GCC in June and July 2025 reveal a heterogeneous inflation landscape across the region — with Dubai and Saudi Arabia registering moderate y-o-y increases largely driven by housing and utilities, while Bahrain and Qatar continued to experience subdued or negative inflation — reflecting divergent sectoral pressures on consumer prices.

Table.2: CPI Readings for GCC Region, Ending June & July 2025

GCC Region	Latest CPI reading	Latest Month	Previous CPI reading	Previous Month	Monthly Change	Y-o-Y Change
Dubai	114.78	July	114.30	June	+0.42%	+2.89%
KSA	113.74	July	113.74	June	0%	+2.14%
Oman	107.10	July	106.70	June	+0.37%	+0.75%
Qatar	107.75	June	107.68	May	+0.07%	+0.21%
Kuwait	136.90	June	136.50	May	+0.29%	+2.32%
Bahrain	101.40	June	100.50	May	+0.90%	-0.39%

Source: National Sources, Trading Economics

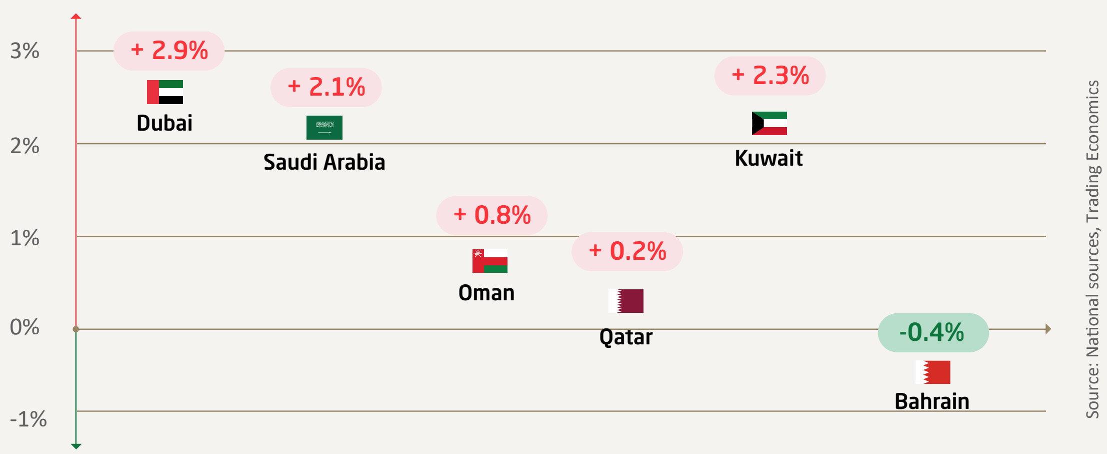
Dubai's July headline inflation saw a rise of 2.9% y-o-y (up from 2.4% in June 2025) with housing and utilities remaining the key factor behind price increases (+6.4% y-o-y), although the sector has been showing a steady slowdown over the past five months. On a monthly basis, inflation rose by 0.4% driven primarily from price hikes in the recreation (+4.5%) and transport (+1.7%) segments. Although rising inflation in the housing and utilities sector may pressure household budgets and business costs in the short-term, the continued slowdown in housing inflation bodes well for affordability and helps maintain Dubai's appeal to investors and residents.

July prices remain stable in Saudi: Saudi Arabia's CPI inflation saw relative stability at 2.1% y-o-y in July 2025 (down from 2.3% in June) as a result of housing and utility costs going up by 5.6% (led by a 6.6% increase in rental prices) in addition to prices climbing for personal goods and services (+4.3%), food & beverages (+1.6%), and restaurants & hotels (+1.4%). At the same time, prices had reduced for furnishings (-2.0%), communications (-1.1%), clothing (-0.4%) and transport (-0.3%).

On a m-o-m basis, the Kingdom's CPI inflation remained unchanged from June 2025 as declines in food, personal goods and services, home furnishings, and education helped offset the modest price increases in housing, utilities, and entertainment. Simultaneously, Oman's m-o-m inflation edged up to 0.4% in July whereas the y-o-y inflation was reported at +0.8% due to prices of miscellaneous goods & services (+6.5%), transport (+4.0%), restaurants & hotels (+2.5%).

Bahrain remains in deflation in June for third consecutive month: Bahrain recorded a deflation of -0.4% y-o-y in June 2025 (up from -1.0% in May 2025) as prices continued to fall for food & beverages, while transport, health, and communication costs increased at a slower rate. Qatar's headline inflation had a marginal growth of +0.21% y-o-y and +0.07% m-o-m mainly due to persistently falling producer prices and costs of food, transportation, and housing utilities. On the other hand, Kuwait maintained its annual inflation of 2.3% (unchanged from May) from food, services, clothing, and housing prices showing an upward trend while restaurants and hotels increased m-o-m inflation by +0.3%.

Fig.2: Latest CPI Inflation for GCC Relatively Moderate in July (Dubai, Saudi Arabia, Oman) & June (Qatar, Kuwait, Bahrain) 2025 (%, YoY)



IV. UAE's New Influencer License Set to Professionalise a Fast-Growing Digital Economy

Creators as Corporates: The UAE's expansion of licensing requirements to cover all influencer-led content – paid or unpaid – marks a pivotal shift in its fast-growing digital economy. With the influencer advertising market projected to reach **$97 million by 2030**, the new regulation aims to bring structure and legitimacy to a sector long characterised by informal agreements and delayed payments. By recognising influencers as formal advertisers, the rules pave the way for clearer contracts, timely compensation, and greater financial accountability – turning content creators into fully-fledged commercial entities.

In addition to generating licensing revenue for the government and elevating the credibility of the digital advertising landscape, the move is also expected to stimulate job creation in adjacent sectors while narrowing the field to more professional, full-time influencers. In doing so, the UAE enhances both its internal market efficiency and global appeal – signaling its broader ambition to lead in digital governance and economic modernisation.

Fig.3: 'Before and After' Effects of UAE's Influencer Licensing Move

UAE's Influencer License

Before Licensing	After Licensing
No formal agreements	Clear contracts
Unclear roles	Licensed advertisers
Payment delays	Monetisation formalised

Source: The National News

V. Defying Gravity: UAE's Non-Oil Trade Accelerates Amid Global Slowdown

In stark contrast to the global average trade growth of just 1.75% in H1 2025, the UAE posted a remarkable 24% year-on-year increase in non-oil foreign trade, reaching Đ 1.7 trillion ($462.8 billion). This reflects strong demand for UAE-origin goods and services, particularly in re-exports and high-value sectors, and signals the country's rising influence in international trade corridors.

Economic diversification and CEPAs drive export competitiveness: At the core of this performance lies the UAE's robust economic diversification strategy and its rollout of CEPAs. With 28 agreements signed and 10 already operational, the UAE has opened access to markets covering nearly three billion consumers. This has translated into tangible results: non-oil exports rose 44.7% to Đ 369.5 billion, and trade with key partners such as Switzerland, Turkey, and India grew by 120%, 41%, and 33% respectively. These partnerships are enabling smoother customs access, tariff reductions, and greater investor confidence in the UAE's export potential.

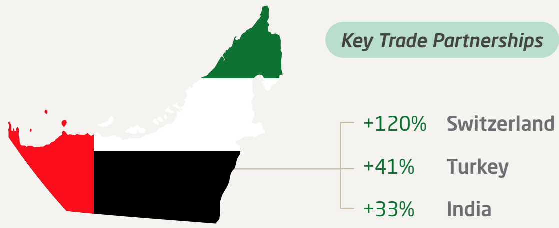
Positive spillovers on GDP, sectoral growth, and global positioning: The record trade activity is directly bolstering the UAE's economic performance, with non-oil GDP growing by 5% in 2024 and now accounting for over 75% of total output. Rising export and re-export figures are enhancing manufacturing, logistics, and services, supporting domestic job creation and sectoral resilience.

As major economies face protectionism and uncertainty, the UAE is solidifying its role as a globally connected trade and investment hub. The resulting Đ 492.3 billion trade surplus in 2024 provides a strong fiscal cushion for continued macroeconomic stability.

Fig.4: Snapshot of UAE's Growing Trade Landscape

UAE's Expanding Trade Corridor

28 CEPAs Signed; Access to 3 Billion Consumers



By the Numbers

Đ 1.7T	Đ 369.5B	Đ 492.3B
Non-Oil Trade	Non-Oil Exports	Trade Surplus (2024)

Source: The National News

VI. IMF Revises Saudi's Growth Projections, Citing Resilient Non-Oil Expansion and Structural Reforms

Saudi Arabia continues to show macroeconomic strength despite global uncertainty and weaker oil prices, according to the IMF's 2025 Article IV Consultation. Non-oil GDP grew 4.5% in 2024, driven by retail, hospitality, and construction, while oil GDP declined due to OPEC+ cuts – bringing overall growth to 2.0%. Inflation stayed low and unemployment fell to record lows, especially among youth and women, highlighting the progress of Vision 2030. With strong buffers and stable foreign assets, the Kingdom remains well-positioned to manage short-term shocks.

Fiscal flexibility backed by reforms and investor confidence: Looking ahead, the IMF supports Saudi Arabia's countercyclical fiscal approach, enabled by healthy reserves and a strong banking sector, to support growth amid uncertainty. Fiscal and current account defi cits are expected to continue due to high public investment and rising imports, but risks remain contained given strong investor confi dence. The Fund emphasized the importance of ongoing reforms – broadening tax policy, refining subsidies, and improving spending efficiency – to sustain non-oil growth and enhance long-term fiscal sustainability.

Cautious optimism with downside risks: Saudi's Real GDP is projected to rise to 3.6% in 2025 and 3.9% by 2026, supported by Vision 2030 projects and robust domestic demand. Inflation is expected to remain contained, while external buffers will hold despite more borrowing and slower FX asset accumulation. Risks include lower oil demand or regional tensions, but stronger global recovery or higher oil prices could boost growth. Overall, the IMF's endorsement highlights Saudi Arabia's balanced strategy of reform and resilience.

Fig.5: Breakdown of the 3 Pillars of KSA's Resilient Economy

The 3 Pillars of Saudi's Economic Resilience

1 **Non-Oil Growth**

+4.5% in 2024

Key Sectors:
- Retail
- Hospitality
- Construction

2 **Structural Reforms**

- Tax
- Subsidy
- Efficiency

3 **Fiscal Stability**

- FX reserves
- Banking sector
- Investor confidence

Source: IMF

VII. 'AI Playbook' Marks a Strategic Leap in Dubai's Digital Economy Push

The release of The Entrepreneur's AI Playbook by the Dubai Chamber of Digital Economy represents a major step in mainstreaming artificial intelligence across the UAE's startup and SME landscape. It aligns with Dubai's broader digital transformation goals and signals towards embedding AI capabilities at the grassroots of its private sector – potentially accelerating productivity, efficiency, and business formation in the non-oil economy.

Accelerating the UAE's digital workforce and innovation goals: The playbook's integration within the broader Create Apps in Dubai initiative – targeting the upskilling of 1,000 Emiratis and fostering 100 homegrown apps – amplifies its macroeconomic significance. By nurturing a local talent pipeline and attracting global developers through programs like the Create Apps Championship, these efforts could support diversification goals, boost digital exports, and contribute to GDP growth by expanding the UAE's footprint in high-value tech services and digital entrepreneurship.

Fig.6: Dubai Chamber of Digital Economy's AI Playbook in Action: Create, Upskill, Export

Strategic Initiatives
- AI Playbook
- Create Apps in Dubai

People and Innovation
- **1,000** Emiratis trained
- **100** Apps built
- Global developer Participation

Economic Outlook
- Boost in Productivity
- More tech-enabled businesses
- Higher digital exports
- Contribution to GDP

Source: GCC Business News

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