

IHS Markit Saudi Arabia PMI®

Strong output growth continues in July, but staff hiring lacks momentum

Key findings

Expansion in output remains rapid, despite easing from June

Job creation slows as non-oil firms work through backlogs

Prices charged rise at quickest pace since November 2020

Data were collected 8-22 July 2021.

The latest PMI™ survey data pointed to a further expansion in the Saudi Arabian non-oil economy at the start of the third quarter. Output grew at a sharp pace, underlined by a robust increase in new business inflows.

However, staff levels rose only fractionally in July as firms continued to signal an excess of business capacity despite rising sales. Employment prospects were also harmed by a drop in future output expectations to the joint-weakest for more than a year.

The headline seasonally adjusted IHS Markit Saudi Arabia Purchasing Managers' Index™ (PMI) fell for the first time in four months to 55.8 in July, from 56.4 in June. The downgrade was driven by weaker growth in output, new orders and employment compared to the previous month. Nevertheless, the reading pointed to a strong improvement in operating conditions that extended the current run of growth to 11 months.

Output in the non-oil sector maintained a sharp pace of expansion in July, despite slowing for the second month running. Nearly 27% of surveyed businesses reported an increase in activity, linked to strengthening client demand and a loosening of pandemic-related measures.

Whilst slipping from June's five-month high, the speed of new order growth was also marked in July. Rising demand from domestic and overseas clients supported the upturn, which some firms linked to competitive pricing strategies.

On the flip side to these largely positive findings, jobs data

continued...

Saudi Arabia PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

"Whilst the Saudi Arabia PMI continued to signal strong growth in the non-oil economy in July, our survey data related to business capacity highlighted that challenging economic conditions prevailed. Firstly, employment growth slowed to only a marginal pace, suggesting that many companies still have little need for new hires in spite of a sharp rebound in new orders. Secondly, backlogs of work fell at the second-quickest pace for a year, adding further evidence that businesses have yet to reach pre-pandemic levels of capacity utilisation.

"Sustained rises in demand should help the economy move closer to full capacity over the second half of the year. However, a drop in business expectations to its joint-weakest since June 2020 illustrated growing doubts that this will be a smooth ride."

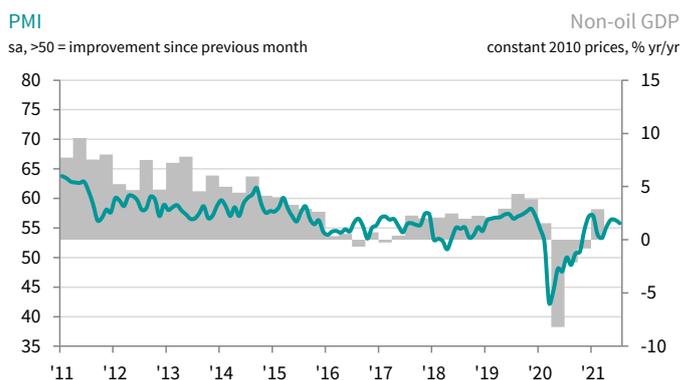
reflected a less favourable view of the non-oil sector in July. Hiring growth weakened to a fractional pace, as only small proportion of firms reported needing additional staff. In addition, backlogs were reduced solidly, suggesting a wide gap between demand and full capacity in spite of a sharp increase in new orders in recent months.

Surveyed companies were also less optimistic that activity would rise over the following year. Only 10% of firms provided a positive forecast, while around 87% forecast no-change. This brought overall business expectations to the joint-lowest since June 2020.

Meanwhile, latest data pointed to a sharp increase in purchasing activity as input requirements grew in line with higher new orders. Stock levels also expanded, while wait times on inputs improved for the fourth month running.

Though modest overall, the rise in average output charges at non-oil companies accelerated to the fastest since November 2020. Firms widely mentioned that this was due to higher sales and rising prices for raw materials and fuel.

Higher raw material costs were often attributed to ongoing global supply shortages during July. As a result, overall input prices continued to rise, although the pace of inflation slowed to the softest recorded since March.



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Methodology

The IHS Markit Saudi Arabia PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include manufacturing, construction, wholesale, retail and services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following 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.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Data were collected 8-22 July 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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