

IHS Markit Saudi Arabia PMI®

Private sector output grows for first time in seven months

Key findings

Business activity rises slightly amid stronger demand

New business and export sales grow for first time since February

Cost inflation softens after VAT increase

Data were collected 11-22 September 2020.

September PMI data indicated a return to growth for the Saudi Arabia non-oil private sector, as the economy continued its path to recovery after the coronavirus (COVID-19) pandemic lockdown. Indices for output, new business and exports all signalled renewed expansions at the end of the third quarter, while employment fell at the softest rate since March.

Saudi Arabia firms meanwhile saw a much weaker rise in input costs during the month, as the impact of a rise in VAT eased considerably since August. Output charges also rose more slowly.

The headline IHS Markit Saudi Arabia PMI is a composite single-figure indicator of non-oil private sector performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the sector.

The headline seasonally adjusted IHS Markit Saudi Arabia Purchasing Managers' Index™ (PMI) rose to 50.7 in September, indicating a slight improvement in the health of the non-oil private sector. After dipping to 48.8 in August amid a slowdown in sales, the latest reading marked the first monthly expansion since February, prior to the COVID-19 pandemic and lockdown restrictions.

Supporting the expansion were positive readings for both the Output and New Orders sub-components, with both rising above the 50.0 no-change mark for the first time in seven months. That said, the Output Index signalled only a marginal increase in private sector activity, and one that was much weaker than the series trend.

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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:

"Business activity in the Saudi Arabia non-oil private sector ticked up in September, supported by a return to sales growth as the economy started to find its footing after the COVID-19 lockdown. Despite some businesses continuing to see a drag from ongoing restrictions, most companies saw market conditions improve."

"In addition, the impact of a rise in VAT notably softened, after a sharp rise in prices and a dip in sales were seen in August. Cost inflation eased to just a marginal pace."

"Going into the final quarter of 2020, it is nonetheless clear that the economy has some way to go to fully recover. Output growth remains well below normal, and jobs are still falling, albeit at a slower rate. Firms will require consistent rises in sales to support a strong end to the year."

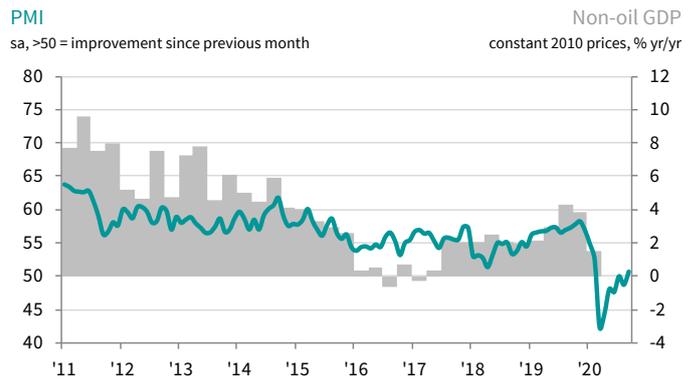
Saudi Arabia firms meanwhile saw a rise in new work in September, as panellists highlighted that the loosening of COVID-19 restrictions led to an upswing in demand. The upturn was supported by both an increase in foreign sales and reports of a bounce in domestic orders after VAT changes hit demand in August. Nonetheless, the rate of new order growth was only modest.

Job markets remained weak in September, as indicated by an eighth successive monthly fall in employment. The pace of reduction was the softest since March, however, amid an increase in output requirements and a slower drop in backlogs.

Meanwhile, there were further headwinds on supply chains as lead times lengthened the most for three months. Businesses often linked this to an increase in the time taken for imports to arrive.

On the pricing side, latest data indicated a far softer rise in cost pressures at the end of the third quarter, after several firms reported higher input prices in August due to a mark-up in VAT rates. As a result, output charges also rose more slowly, with some companies offering discounts in an effort to clear existing stocks.

In line with the improvement in business conditions, Saudi Arabia firms were more optimistic of an increase in output over the coming year. The degree of confidence improved only slightly from August, but was nevertheless the strongest seen for seven months.



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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 11-22 September 2020.

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

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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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