

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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IHS Markit Saudi Arabia PMI®

Headline PMI ticks down to five-month low in July

Key findings:

- Output growth eases to slowest since February
- Job creation remains muted
- Output prices flat amid subdued cost pressures

Data collected 12-23 July

Business conditions continued to improve across Saudi Arabia's non-oil private sector in July. However, slower increases in output and new orders, alongside a further weakening in business confidence, underlined a generally softer start to the third quarter. On the price front, data continued to signal a lack of inflationary pressures, with firms keeping charges unchanged amid little movement in overall costs and strong competition.

The headline seasonally adjusted Saudi Arabia Purchasing Managers' Index™ (PMI®) – a composite gauge designed to give a single-figure snapshot of operating conditions in the non-oil private sector economy – ticked down to a five-month low of 56.6 in July. It marked the first time in 2019 so far that the index has fallen.

The decrease in the headline index (from a 19-month high of 57.4 in June) was due in part to a slower increase in output. Though remaining strong overall, the pace of output growth across the non-oil private sector eased further from May's recent peak to the weakest since February.

Firms that reported higher business activity often linked this to a sustained upturn in new orders. July marked the fifteenth month in a row in which an increase in new work has been recorded. The pace of growth eased to the weakest since January,

through was still broadly in line with the long-run series average (since August 2009).

While the main factor behind the latest rise in new business was stronger domestic demand, July's survey pointed to growing sales to clients abroad. Export orders rose for the fifth month in a row and at the quickest rate since February 2017.

Backlogs of work across the non-oil private sector were unchanged during July, failing to rise for the first time in the past 14 months. This lack of pressure of capacity, combined with efforts to control costs, was reflected in only a marginal increase in employment.

Average staff costs meanwhile fell in July (albeit only marginally) for first time in nine months. A lack of movement in purchase prices meant that input costs overall were little-changed. As such, businesses (on average) fixed their own prices at June levels.

Elsewhere, latest data showed a increase in purchasing activity across the non-oil private sector as firms looked to keep up with rising workloads. However, in line with the trend in output, the rate of growth in buying levels eased for the second month in a row. Faster payments to suppliers and direct requests from buyers for quicker deliveries meanwhile led to a further improvement in vendor performance during the month.

Finally, in a further sign of the non-oil private sector losing momentum at the start of the third quarter, businesses reported lower optimism towards future output. Sentiment regarding the 12-month output weakened for the third month running to the lowest since August 2018.

Comment

Phil Smith, Principal Economist at IHS Markit and author of the report said:

“Saudi Arabia’s non-oil private sector started the second half of the year growing at a healthy rate, according to the latest PMI data. However, the survey’s indicators for output, new orders and future expectations are all signalling some loss of momentum compared with the second quarter.

“Amid a competitive environment for new work, which continues to restrict firms’ pricing power and encourage cost efficiency, extra staff recruitment was kept to a bare minimum.

“The one area where the survey did point to some improvement was exports, which continue to show signs of recovery following an underwhelming couple of years.”

-Ends-

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Notes to Editors

The IHS Markit Saudi Arabia Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Saudi non-oil economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI®) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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