

IHS Markit Saudi Arabia PMI®

Output growth slips to ten-month low in August

Key findings

Activity growth weakens sharply amid softer rise in new orders

Selling charges increase at fastest rate in a year

Business confidence and hiring growth remain subdued

Data were collected 12-20 August 2021.

August PMI™ survey data pointed to a solid expansion in the Saudi Arabian non-oil economy, but with growth slowing from July as output expanded at the weakest pace for ten months. New orders also rose to a lesser extent amid a softer recovery in export demand.

Businesses continued to report high levels of excess capacity and a subdued outlook for future output. As a result, employment growth remained negligible while stocks of purchases increased at the slowest pace since last October. Output charges meanwhile rose at the strongest rate for a year despite only a modest uptick in input costs.

The headline seasonally adjusted IHS Markit Saudi Arabia Purchasing Managers' Index™ (PMI) fell from 55.8 in July to 54.1 in August. The reading signalled a solid improvement in the health of the non-oil private sector, albeit one that was the slowest in five months.

The majority of the 1.7-point fall in the PMI was driven by the Output Index, which dropped sharply to its lowest level since October 2020. That said, the index still pointed to a solid rise in non-oil activity, one that was commonly linked by survey panellists to demand improvements and the easing of travel measures.

New business continued to grow sharply over the month, although as was the case for output, the rate of growth slipped from July. This was partly due to a softer increase in export sales, as the resurgence of COVID-19 cases in other parts of the

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:

"The non-oil economy went slightly off the boil in August, as output growth slipped to the weakest level for ten months amid a slowdown in new business gains. Whilst domestic orders remained strong and firms saw an upturn in tourist numbers, many businesses continued to find market conditions challenging amid the pandemic. That said, demand momentum is still largely on the upside, with nearly three times as many firms seeing a rise in new orders as those registering a fall."

"Job creation disappointed again in August, due to a further fall in backlog volumes and a subdued outlook for future activity. Whilst firms expect an improvement in domestic business conditions in the coming months, the unpredictability of the pandemic meant that downside risks remained high."

world dampened the recovery in foreign demand.

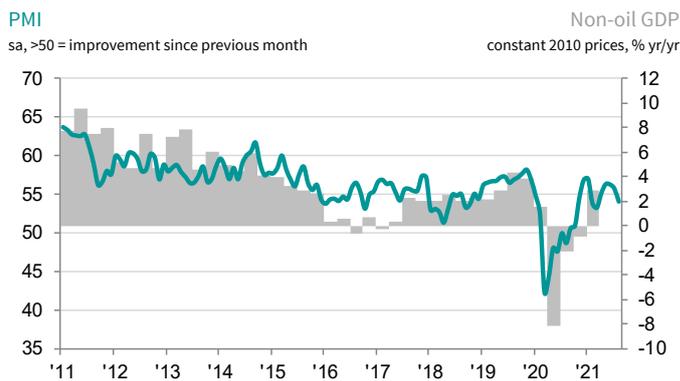
Saudi Arabian firms continued to report a low level of hiring activity during August. The rate of job creation was unchanged from July and marginal, with companies highlighting that current output capacity was sufficient to complete existing work.

Weak hiring was also linked to a subdued level of business confidence in August. With only 11% of survey respondents expecting output to increase over the forthcoming year, the degree of optimism was among the lowest seen in the series history, despite improving slightly from July.

Meanwhile, slower rises in output and new orders led to a softer rate of purchasing growth halfway through the third quarter. Subsequently, stocks of purchases grew at the weakest pace for ten months. Supplier delays were recorded for the first time since March, linked to global raw material shortages and longer wait times for border checks.

On the prices side, latest data signalled the softest rise in input costs for six months, driven by a slowdown in purchase price inflation and a renewed drop in staff expenses. Where costs rose, firms cited higher prices for oil, transport and raw materials such as aluminium.

At the same time, selling prices increased at a solid pace, with inflation accelerating to the quickest seen for a year. Firms indicated that higher input costs, strengthening demand and a mark-up in competitors' prices encouraged them to raise their charges.



Sources: IHS Markit, GaStat.

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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 12-20 August 2021.

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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