Non-oil private sector business conditions stabilise in July

Key findings

PMI rises to five-month high of 50.0

Near-stabilisation in levels of activity and new business

Rate of job shedding eases from June's series record

The latest PMI® data covering Saudi Arabia's non-oil private sector economy signalled a stabilisation in business conditions at the start of the second half of 2020.

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 from 47.7 in June to 50.0 in July, signalling overall stability in operating conditions.

Four of the five components of the PMI contributed positive directional influences in July, the exception being suppliers' delivery times. New orders provided the largest boost (+1.5 points), followed by output (+0.8), stocks of purchases (+0.6) and employment (+0.2). Suppliers' delivery times lengthened by much less than in June, which is a negative directional influence on the PMI.

The volume of new orders placed with Saudi non-oil private sector companies was broadly stable in July, following marked declines in the previous four months as the economy locked down to stop the spread of the coronavirus disease 2019 (COVID-19) pandemic. Data indicated resilient domestic demand, although new export orders continued to fall sharply.

The level of total business activity neared stabilisation in July, with the Output Index improving to a five-month high. A number of firms reported that a pick-up in market conditions and greater marketing activity had supported business levels.

Comment

Commenting on the latest survey results, Trevor Balchin, Economics Director at IHS Markit, said:

"The July PMI scoring exactly 50.0 is a clear indication that the Saudi non-oil private sector is over the worst of the disruption caused by the pandemic, but remains some way from 'normal' business conditions. The latest figure is the highest since February but well below the long-run trend level of 57.1.

"Indicators for output, new orders and jobs all rose in July but fell short of the 50.0 mark, meaning that the PMI would have remained below 50.0 were it not for a solid rise in stocks of purchases and longer suppliers’ delivery times.

"Although the 12-month outlook turned positive again, sentiment was subdued as the volume of outstanding work fell for a record sixth consecutive month. With capacity under-utilised, firms cut jobs for the fifth month running, while average wages and salaries dropped for a record seventh successive month in an attempt to control overheads."

Data were collected 13-23 July 2020.
Although market conditions showed signs of stabilising in July, firms continued to cut workforces on average. A number of respondents reported having to make layoffs to reduce overheads. Non-oil private sector employment fell for the fifth month running, albeit at a slower rate than June's record. Average staff costs fell for a survey-record seventh consecutive month.

Overall cost pressures were broadly flat, however. Average input prices rose only marginally, having fallen in June. This general lack of cost inflationary pressure continued the trend seen through most of 2020 so far. Purchase prices rose for the second time in five months in July, but at a weak rate. Firms cut their own prices charged for the sixth consecutive month.

The volume of inputs purchased fell further as firms reported sufficient inventories to deal with current workloads. Indeed, stocks of purchases rose for the first time in five months and at a solid pace.

The 12-month outlook for non-oil business activity improved in July, with the Future Output Index rising back above the 50.0 neutral mark to a five-month high. That said, confidence remained well below the series average, indicating that sentiment was relatively subdued. The volume of outstanding business continued to fall solidly in July.

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 13-23 July 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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