

IHS Markit Saudi Arabia PMI®

New business growth slows again in March

Key findings

Sales in non-oil economy rise at weakest rate for five months

Output expands sharply, leading to a steep drop in backlogs

Outlook dips to nine-month low as firms stress cautious optimism

Data were collected 12-23 March 2021.

Saudi Arabia's non-oil private sector continued to see improving business conditions at the end of the first quarter of 2021, according to the latest PMI survey data, but lost further momentum from January's recent peak as new order growth softened for a third month running. Nevertheless, businesses continued to see expansions in output and purchasing, and a stabilisation in job numbers that aided efforts to reduce outstanding work.

The outlook for future activity dimmed though, with firms indicating the weakest optimism for growth in nine months and projecting caution around the speed of the economic recovery from the coronavirus disease 2019 (COVID-19) pandemic.

The headline seasonally adjusted IHS Markit Saudi Arabia Purchasing Managers' Index™ (PMI) fell from 53.9 in February to 53.3 in March, indicating a slightly softer, but still relatively solid, upturn in the performance of the non-oil private sector economy. The index has now fallen 3.8 points from its recent peak in January, suggesting that the recovery from COVID-19 has lost some momentum over the first quarter.

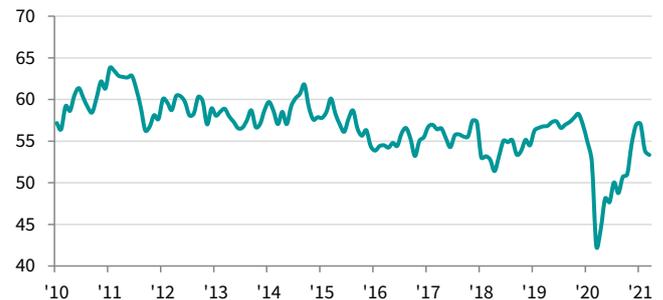
Of the five components of the PMI, the New Orders Index had the largest negative influence during the month, falling to its lowest reading since last October and indicating a further slowdown in sales growth. Survey respondents noted that several clients had reduced spending during the month due to the ongoing impact of the pandemic. Strong competition and a renewed drop in exports were also cited as weighing on growth.

Consequently, business activity expanded at a slower pace in March, although the latest upturn was still steep overall. Several

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:

"March PMI data pointed to weaker growth in non-oil business conditions in Saudi Arabia, suggesting a cooling off in the economic recovery since the start of the year. With strong sales growth revealed in January data, though, we should still see an improvement in business activity reflected in official data for the first quarter of 2021. The quarterly PMI average of 54.8 was the highest since the end of 2019, but still weak compared to much of the series."

"The pandemic and associated restrictions continued to trim new business growth, according to respondents, contributing to a more downbeat outlook for business activity over the next 12 months. This largely reflected doubts about clients' willingness to spend as well as the short-term boost to the economy from the vaccine rollout, with some firms expecting market activity to remain subdued until the second half of the year."

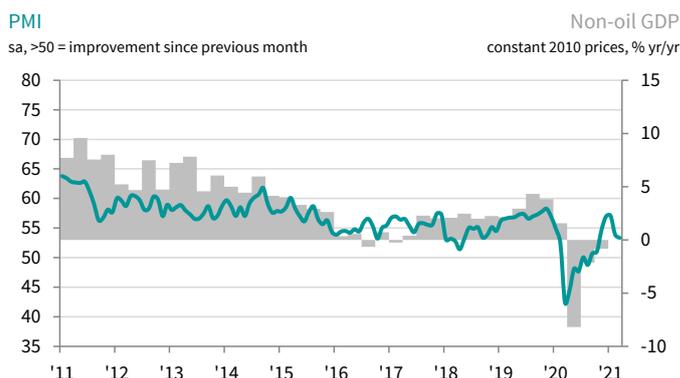
firms commented that ongoing projects and efforts to run down backlogs underpinned output. Notably, this led to a steep drop in outstanding work and the quickest since last June.

Employment numbers were largely stable in the latest survey period, indicating one of the best job market performances since prior to the COVID-19 outbreak. Meanwhile, rising output encouraged firms to expand purchasing, although slower new order growth and efforts by some firms to run down stocks meant that buying activity rose only modestly.

There was some indication of growing pressure on suppliers in March, as lead times lengthened for the first time in three months. Firms often linked this to delayed input shipments as global supply chains continued to struggle under COVID-19 restrictions.

This fed through to a quicker increase in input prices, with inflation accelerating to a four-month high, albeit remaining only modest. Conversely, competitive pressures and stock clearances led to a renewed fall in output charges.

With some clients delaying spending due to further uncertainty about the impact of COVID-19, business output expectations weakened in March and were the least optimistic in the current nine-month sequence of positivity. Only 11% of the survey panel projected growth over the coming year, while around 87% of firms expect output to remain stable.



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 12-23 March 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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