

IHS Markit Saudi Arabia PMI®

Growth in non-oil economy improves slightly in October

Key findings

Output expands at solid rate in October, but demand growth softens

Employment falls for eighth month running as outlook remains weak

Renewed pressure on margins as input costs continue to rise

Data were collected 12-22 October 2020.

October data signalled a second straight month of output growth in the Saudi Arabia non-oil private sector economy. However, new business expanded more slowly than in September amid weak export volumes and a further impact from the coronavirus disease 2019 (COVID-19) pandemic on corporate spending. Latest data also showed a faster drop in workforce numbers and renewed cuts to output charges.

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 slightly to 51.0 in October, from 50.7 in September, the highest reading seen for eight months and signalling a back-to-back improvement in business conditions. However, the rate of improvement was still only marginal, and considerably weaker than the long-run trend seen for the survey.

The upturn in the headline PMI was supported by a stronger rise in output across the non-oil private sector, with growth accelerating to the quickest since February. Firms seeing higher activity often attributed this to increased sales, new contracts and the resumption of some projects.

However, in contrast to the improving output trend, the overall rate of demand growth softened to just a marginal pace in October. Part of the slowdown was due to a renewed fall in exports as firms struggled to revive orders with foreign clients.

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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:

"While the latest PMI data indicated a further expansion in the Saudi Arabia non-oil private sector in October, there were reasons for fresh concern about the pace of recovery from the COVID-19 outbreak. Sales growth slowed to just a marginal pace, after a renewed upturn in September, that was in part due to a drop in export demand. Moreover, job numbers continued to fall, with the rate of decline accelerating for the first time since June.

"Firms indicated that financial issues at some clients and a slow resumption of projects have curbed the economic rebound since restrictions eased. Many businesses are hopeful that growth will strengthen in the coming 12 months, but there remains a high number of firms uncertain that markets can be fully revived with COVID-19 infections still prevalent around the world."

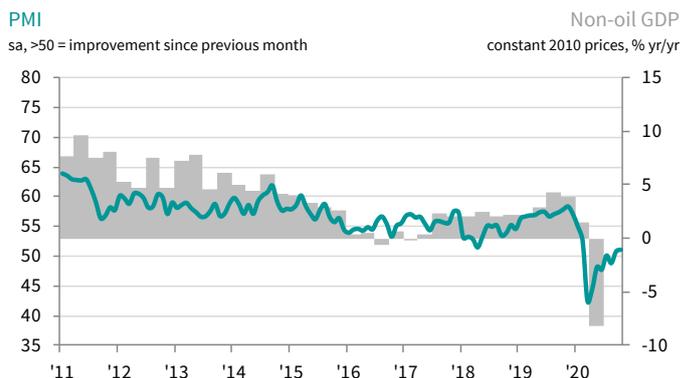
In addition, some respondents noted that ongoing financial issues among customers have constrained the recovery in sales.

Latest data indicated a slight dip in business confidence that was the first recorded since June. While many firms were hopeful that activity will continue to rise despite the ongoing pandemic, others noted increased uncertainty about the outlook. This fuelled an eighth successive reduction in job numbers, albeit one that was only marginal.

Efforts to increase output at Saudi Arabian companies led to a renewed expansion in purchasing activity in October. Firms also looked to build stocks, as inventories of purchased items rose at the strongest pace since July. As a result, firms were able to improve capacity which allowed them to reduce backlogs more quickly.

Meanwhile, latest data signalled a modest rise in input prices at the start of the fourth quarter. The rate of inflation picked up from the previous month and, despite remaining slower than August's recent high, was the second-sharpest for over two years. Inflation was driven by higher material and transport costs, according to panellists, while staff costs were stable, ending a nine-month run of decline.

Despite the pass-through of higher costs to clients at some companies, overall selling charges fell fractionally for the first time since July, as survey respondents noted discounting efforts amid strong market competition.



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 12-22 October 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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