

Embargoed until 0715 AST (0415 UTC) 5 January 2020

IHS Markit Saudi Arabia PMI®

Slowest improvement in non-oil private sector business conditions for five months

Key findings

Headline PMI slips to its lowest since July

Weaker rises in output and new business

Business outlook for 2020 remains strong

Saudi Arabia's non-oil private sector remained on a growth footing in December. Business activity, new orders and employment all expanded since the previous month. However, in each case the rate of growth lost momentum in comparison to the previous survey period.

As a result, the headline seasonally adjusted IHS Markit 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 – slipped to 56.9 in December, from 58.3 in November. The latest reading was well above the 50.0 no-change value, but signalled the weakest improvement in business conditions for five months.

December data indicated that business activity growth eased for the second month running and was the slowest since October 2018. Some firms commented on greater competition for new work and subsequent difficulties converting customer enquiries into sales. Where business activity growth was reported, this was often linked to new product launches and successful marketing strategies.

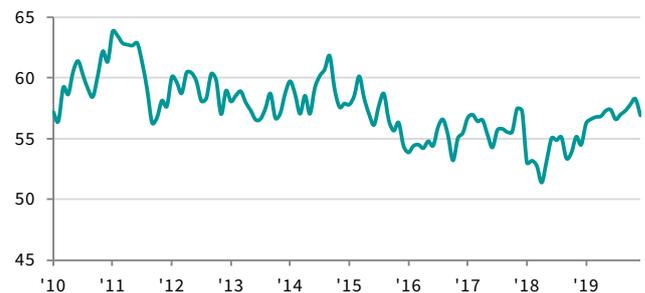
Total new business volumes increased sharply in December, but the pace of expansion moderated from the four-and-a-half year peak seen during November. Softer export sales were a headwind to overall demand, as signalled by a drop in new work from abroad for the first time since February.

Employment numbers increased for the ninth consecutive month across the non-oil private sector, albeit at only a marginal pace. Greater staff recruitment partly reflected rising pressure on business capacity, as suggested by a renewed increase in

continued...

Saudi Arabia PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Tim Moore, Economics Associate Director at IHS Markit, which compiles the survey:

"The latest Saudi Arabia PMI points to a short-term setback for the non-oil private sector, with growth of business activity and new work slipping since November."

"However, the survey continues to indicate a much stronger improvement in business conditions than at the same time during 2018, particularly in relation to new order books."

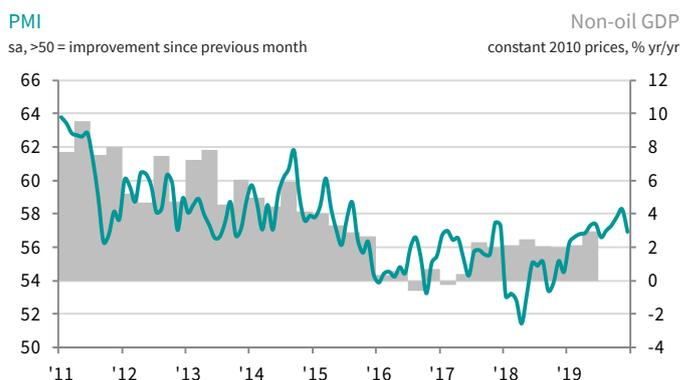
"Latest data also suggests that non-oil firms in Saudi Arabia are confident about the outlook for 2020, with business optimism holding at a much higher level than seen in the middle of last year."

backlogs of work at the end of 2019.

Meanwhile, input buying expanded at a robust and accelerated pace in December. Higher levels of purchasing activity were linked to new order intakes and efforts to boost inventories. Reflecting this, the latest survey indicated one of the strongest rises in stocks of purchases seen over the past two years.

On the price front, input costs increased only marginally during December. The rate of inflation was the slowest for four months, which largely reflected a slower rise in average staff salaries.

Non-oil private sector companies remain optimistic about their growth prospects for the next 12 months. The degree of positive sentiment slipped a little since November, but remained comfortably above the levels seen in the middle of 2019. Survey respondents cited hopes of an improvement in underlying economic conditions and a corresponding rise in new business opportunities.



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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.

December 2019 data were collected 5-13 December 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.