

Embargoed until 0715 AST (0415 UTC) 5 January 2021

IHS Markit Saudi Arabia PMI®

Strongest improvement in business conditions for 13 months

Key findings

PMI rises to 57.0 in December

Output and new orders expand at sharpest rates seen throughout 2020

Excess capacity and cost-cutting efforts lead to lower employment

Data were collected 4-15 December 2020.

Saudi Arabia's non-oil private sector enjoyed robust growth at the end of the year, driven by a substantial increase in output and the fastest rise in new business for 12 months. Nevertheless, firms were cautious about hiring due to reports of excess capacity and the diverting of spending to input purchases.

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 to its highest reading for 13 months in December, up from 54.7 in November to 57.0, signalling a sharp improvement in operating conditions. In addition, the index marked a fourth successive month of expansion and was broadly aligned with its average level of 56.9.

The rise in the headline index was driven by marked increases in both the output and new orders sub-components, with the latter seeing the sharper uptick. Notably, the latest data signalled the fastest upturn in new business for a year, which panellists attributed to improving market demand and price discounts at some companies. Sales growth was largely driven by domestic orders, as export demand rose only modestly.

Consequently, firms raised their output levels for the fourth successive month in December, and at the quickest pace since November 2019. As well as incoming orders, respondents noted that ongoing projects also provided higher workloads over the month.

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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:

"The Saudi Arabian non-oil economy is well on the path to recovery, according to December's PMI results, which indicated the strongest output growth since November 2019. Moreover, the PMI is now (just) above its series trend level, suggesting the economy is growing at a relatively normal pace, albeit with a lingering output gap to recover."

"According to respondents, business activity has been helped by falling COVID-19 case numbers in the fourth quarter of 2020, despite other major economies suffering a 'second wave'. The roll-out of a vaccine meanwhile led to increased optimism that demand will strengthen over the coming year."

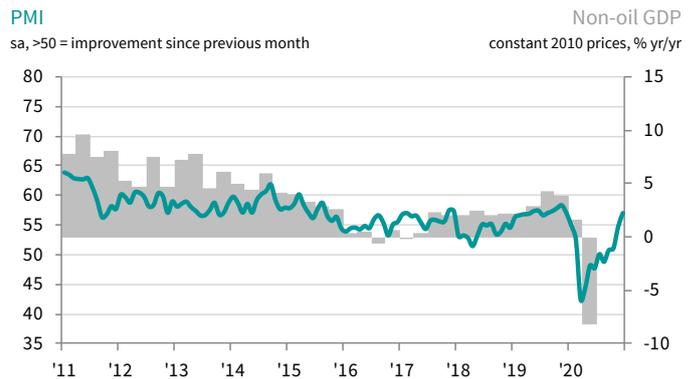
"On the negative side, the latest expansion did not support a rise in job numbers during December. In fact, employment fell slightly as firms diverted spending towards inputs and noted that current capacity still allowed them to clear both new and outstanding work."

Meanwhile, business expectations for the upcoming year improved further, as optimism was bolstered by the global roll-out of coronavirus disease 2019 (COVID-19) vaccines and hopes that this will lead to a strong recovery in economic activity. Notably, the degree of sentiment rose to its highest level seen throughout 2020.

With sales rising, and improving business optimism, firms sharply raised both their purchasing activity and stocks of inputs in December. The arrival of some inputs was delayed though, as suppliers' delivery times lengthened for the eleventh month running. Panellists that saw a hold-up linked this to difficulties with paying their suppliers.

Despite the sharp rise in demand, firms remained on-top of backlogs in December, as the level of work-in-hand (but not completed) fell solidly and at the strongest rate since July. Firms reported that they still had excess capacity after the downturn seen earlier in the year. As a result, with cost-cutting efforts still widespread, businesses reported a renewed (albeit slight) fall in employment.

Input prices were unchanged in December, ending a five-month sequence of inflation. Meanwhile, average prices charged ticked up at a slower pace than that seen in November, as mark-ups due to costs associated with COVID-19 protocols were offset by discount offerings at some firms.



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 4-15 December 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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