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## IHS Markit Saudi Arabia PMI®

# Setback for non-oil private sector during June as business activity falls at faster pace than in May

### Key findings

Business activity drops amid sustained lack of customer demand

Employment falls at survey-record pace

Year-ahead business expectations turn negative in June

June 2020 data were collected 12-22 June 2020.

Non-oil private sector firms in Saudi Arabia signalled another reduction in business activity during June. Survey respondents widely noted disruption to business operations and subdued customer demand amid the coronavirus 2019 (COVID-19) pandemic. The latest data were collected 12-22 June 2020.

Shrinking workloads and concerns about the near-term business outlook resulted in a further round of job cuts in June. The rate of decline in staffing numbers accelerated since May and was the fastest since the survey began in August 2009.

At 47.7 in June, 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 – fell from 48.1 in May and was below the neutral 50.0 threshold for the fourth consecutive month.

Faster reductions in business activity, new work and employment were the main factors leading to a decline in the headline PMI during June.

The downturn in business activity was steeper than in May, but still less severe than the survey-record seen during April. Lower volumes of non-oil-private sector output were primarily attributed to subdued economic conditions and a subsequent lack of new work in June. Companies signalling growth mostly cited strong demand for digital services and essential consumer products.

Total new work fell for the fourth month in a row during June. Survey respondents commented on cautious spending patterns among business and consumer clients, despite efforts to

*continued...*

Saudi Arabia PMI  
sa, >50 = improvement since previous month



Source: IHS Markit.

### Comment

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

*"June data highlighted another difficult month for Saudi Arabia's non-oil private sector economy, with cautious business and consumer spending patterns widely reported to have held back new order intakes. The headline PMI signalled a sustained deterioration in overall business conditions, although the speed of the downturn remains less steep than in March and April.*

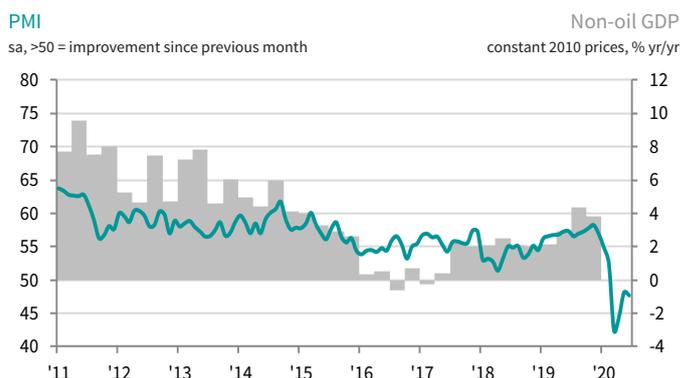
*"Subdued domestic demand and a sharp drop in export sales led to additional price discounting in June. Average prices charged have now dropped for five months in a row and the resulting squeeze on margins has led to more widespread cost cutting initiatives across the private sector. Efforts to reduce overheads and concerns about the year ahead business outlook led to another drop in staffing numbers in June, with the pace of job shedding the fastest since the survey began in August 2009."*

stimulate demand through price discounting. Export sales remained on a sharp downward trajectory in June, which was overwhelmingly linked to logistical challenges amid international travel restrictions.

Suppliers' delivery times also lengthened sharply in June and to a greater extent than recorded during the previous month. Longer lead times for the receipt of raw materials reflected stretched transport capacity and delays to shipments at international borders.

Despite ongoing supply chain pressure and reports of greater transportation costs, latest data revealed a fractional overall decline in average purchasing prices. Meanwhile, staff costs decreased again in June, but at a slower pace than the survey-record seen during May. Survey respondents widely commented on the need to lower overheads and improve cash flow by reducing payroll costs. Weak demand conditions and concerns about the near-term outlook also led to a survey-record dip in employment numbers.

June data signalled that year-ahead business expectations turned negative for the first time since this index began in July 2012, although the degree of pessimism was only marginal. Companies anticipating a reduction in business activity during the next 12 months mostly commented on rising economic uncertainty and highly subdued demand.



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.

June data were collected 12-22 June 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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### About PMI

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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