

IHS Markit Saudi Arabia PMI®

Business conditions improve more slowly in February

Key findings

Output expands at softest rate since November 2020

New business growth slows to four-month low

Business expectations fall despite vaccine-led optimism

Data were collected 11-18 February 2021.

Economic conditions in Saudi Arabia continued to strengthen in February, according to the latest PMI survey data, but the rate of growth eased to a four-month low as both output and new orders expanded at weaker rates. Employment lagged the recovery in output again as firms reduced job numbers for the third month running, although input purchases and inventories continued to climb. Firms remained hopeful that the impact of coronavirus disease 2019 (COVID-19) will lessen over the coming year, despite business optimism falling to the lowest since last October.

The headline seasonally adjusted IHS Markit Saudi Arabia Purchasing Managers' Index™ (PMI) posted at 53.9 in February, to indicate a solid improvement in the health of the non-oil private sector economy. The index fell from January's recent high of 57.1 and was the lowest recorded in four months.

Nevertheless, the PMI remained above the 50.0 growth threshold and suggested a further recovery in business conditions from the initial impact of the COVID-19 pandemic. The output, new orders and stocks of purchases sub-components drove the index into positive territory, despite each recording a lower reading than in January.

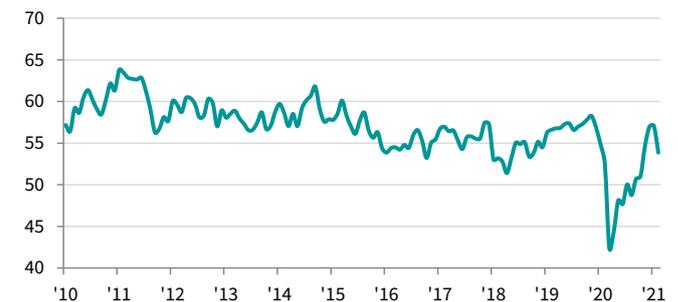
Private sector output increased solidly during February, which surveyed firms largely attributed to stronger client demand. However, the rate of growth softened for the first time since activity began to rise last September. Likewise, firms saw higher inflows of new work, but the expansion slowed since the start of 2021.

Sales were driven higher by improved business confidence and

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:

"The economic recovery in Saudi Arabia's non-oil private sector lost some momentum in February, with the PMI dropping from 57.1 in January to 53.9 to signal the softest rate of improvement in four months. Nevertheless, the sector remained broadly on the right track, with new business inflows and export sales continuing to rise whilst firms also built inventories in anticipation of stronger future growth."

"Staff numbers continued to lag the recovery, however, as firms are yet to see additional pressure on business capacity. That said, barring the slight increase in employment last November, the rate of job shedding was the softest recorded for ten months."

"Sentiment data suggests that companies expect a rocky start to 2021 as some countries remain under lockdown measures, but the roll out of COVID-19 vaccines around the world should bring a steep improvement in economic activity in the latter half of the year as the pandemic begins to ease."

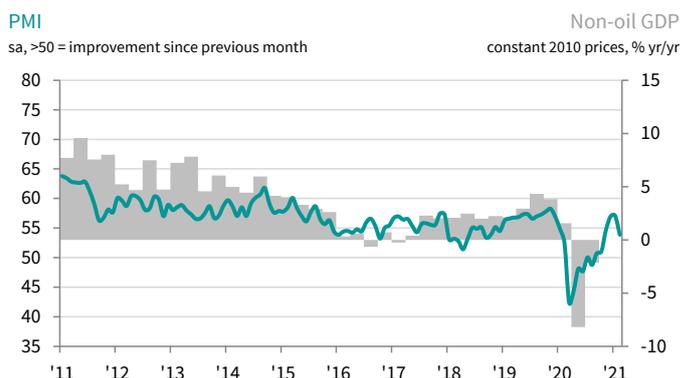
efforts to maintain competitive pricing strategies, according to panellists. Demand from foreign customers also rose, albeit only at a modest pace.

In response to sustained growth, companies purchased higher volumes of inputs midway through the first quarter. The upturn was much softer than in January, however, largely due to the weaker rise in new orders. Nevertheless, firms continued to build inventories amid hopes of a swift rebound in the economy from the COVID-19 downturn.

Resilient business confidence led firms to project a rise in output over the coming 12 months in February, although business sentiment was the weakest seen since last October. Whilst the long-run outlook was strong due to global vaccine roll outs, firms also cited low expectations for output in the near term as some countries remain in lockdown.

Employment numbers fell for the third month running in February, as firms were able to reduce outstanding workloads despite higher demand. This indicates that the recovery in jobs is still lagging the rebound in activity.

Whilst some firms saw delays to supplier deliveries due to input shortages and slower international shipments, overall delivery times improved again in February. This helped to keep cost inflation relatively mild, despite accelerating to a three-month high. Output charges also increased only marginally, particularly as some firms offered discounts to win additional clients.



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 11-18 February 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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