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IHS Markit Saudi Arabia PMI®

Non-oil private sector output falls again, but rate of decline eases since April

Key findings

Sustained reductions in output, new work and employment

Business expectations remain highly subdued in May

Fastest drop in staff salaries since the survey began in 2009

May 2020 data were collected 12-20 May 2020.

May data indicated a sustained downturn in business conditions across Saudi Arabia's private sector economy. The overall decline in output volumes was slower than the survey-record seen in April. However, businesses continued to report a severe impact on customer demand from the coronavirus 2019 (COVID-19) pandemic. The latest data were collected 12-21 May 2020.

Business expectations for the year ahead also remain very subdued. Concerns about the economic outlook and the need to reduce costs contributed to the sharpest cutbacks to staff salaries recorded since the survey began in August 2009.

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 – posted 48.1 in May, to remain below the 50.0 no-change value for the third month running.

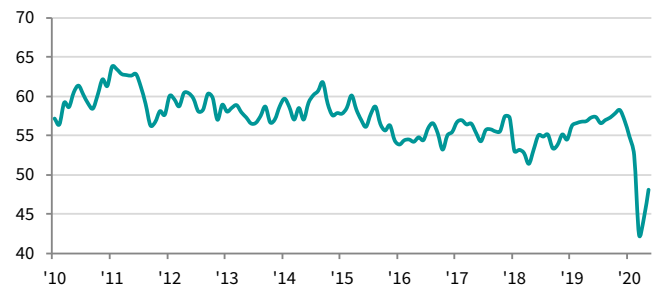
The PMI was up from 44.4 in April, helped by slower declines in output, new work and employment since the previous month. That said, the headline index remains lower than at any time since the start of COVID-19 pandemic (the previous record low was 51.4 in April 2018).

Non-oil private sector output has now decreased for three consecutive months, according to the latest survey data. The latest drop was overwhelmingly attributed business closures and constrained capacity amid the public health emergency. Some firms commented that an easing of lockdown measures had helped mitigate the downturn in business activity during May, while others noted successful initiatives to generate online

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:

"Business conditions in Saudi Arabia deteriorated again during May, but the speed of the downturn moderated from April's survey-record pace. New work continued to fall at a faster pace than at any time prior to the COVID-19 pandemic, with survey respondents commenting on rapid spending cutbacks among clients in response to concerns about the economic outlook.

"Some firms noted that an easing of lockdown measures had helped mitigate the downturn in May, alongside efforts to boost online business operations. However, there were still widespread reports that business closures and constrained operating capacity had held back overall activity across the non-oil private sector.

"May data indicated that businesses have increasingly sought to agree salary cuts in the face of sharply reduced workloads, with the latest drop in average staff costs the fastest since the survey began in August 2009."

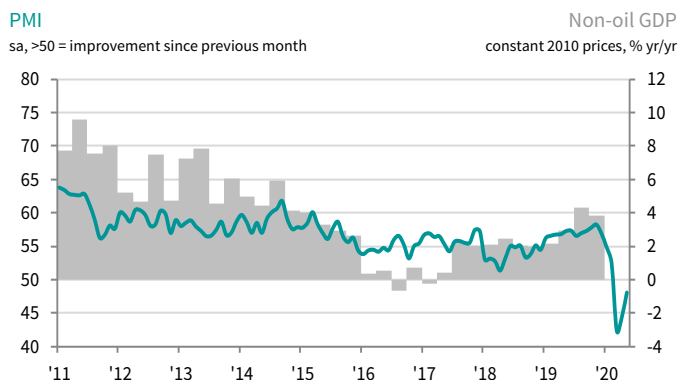
sales.

Mirroring the trend for business activity, latest data indicated a marked decline in new order volumes across the private sector economy. Weaker demand was attributed to worsening global economic conditions and severe spending cutbacks among clients. Moreover, export sales decreased again, which was mainly linked to international border closures and a lack of shipping availability.

Severe supply chain difficulties were also reported in May, as signalled by a sustained lengthening of average lead times for the delivery of inputs. The latest downturn in supplier performance was less severe than in April, but survey respondents continued to comment on widespread transportation delays.

There were signs that stretched supply chains contributed to rising input costs in May, with private sector firms recorded the fastest increase in purchase prices since September 2018. Higher prices for critical inputs were partly linked to business closures and reduced capacity among regular suppliers.

At the same time, average prices charged dropped for the fourth month running in May. Price discounting was attributed to shrinking demand and the need to stimulate new sales. Pressure on margins from lower charges and falling volumes of business activity resulted in cuts to staff salaries in May. The rate of decline in average wages accelerated to the fastest since the survey began in August 2009.



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.

May data were collected 12-20 May 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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