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Saudi Arabia: Activity rebounds in November

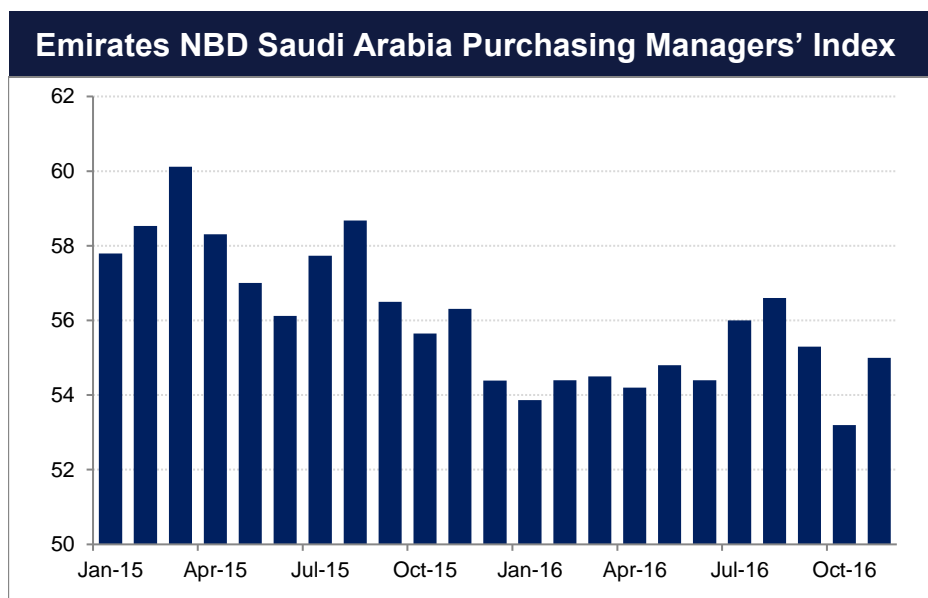
The Emirates NBD Saudi Arabia Purchasing Managers' Index (PMI) rose to 55.0 in November from 53.2 in October as output and new orders growth rebounded strongly. Firms attributed the stronger growth in output to new projects, while higher new orders may have been due to increased marketing. New export orders also rose at a slightly faster pace in November as external demand improved.

Firms surveyed ramped up **purchasing activity** in November, with the quantity of purchases index rising to a three month high. **Inventories** also grew at the fastest rate since July. Both these indicators suggest that firms are anticipating firmer demand in the coming months.

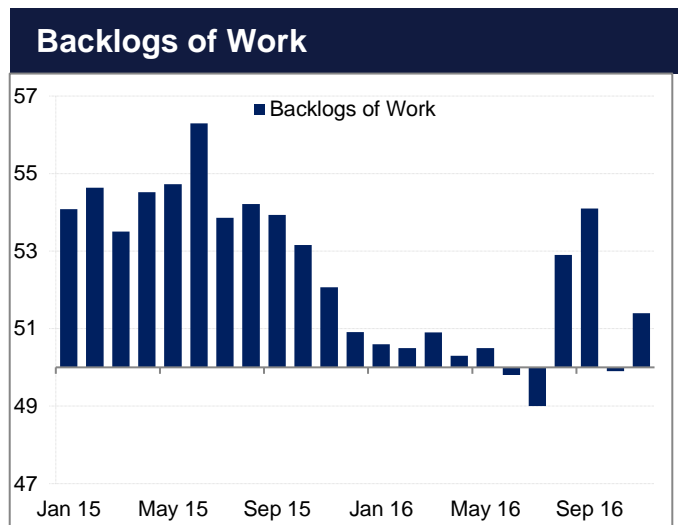
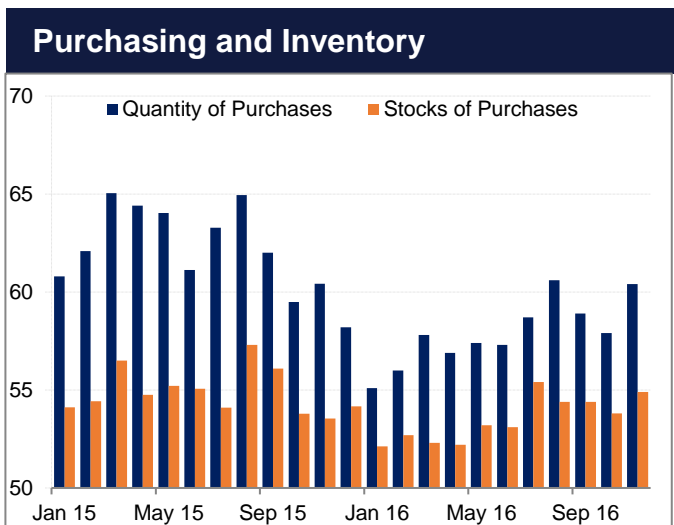
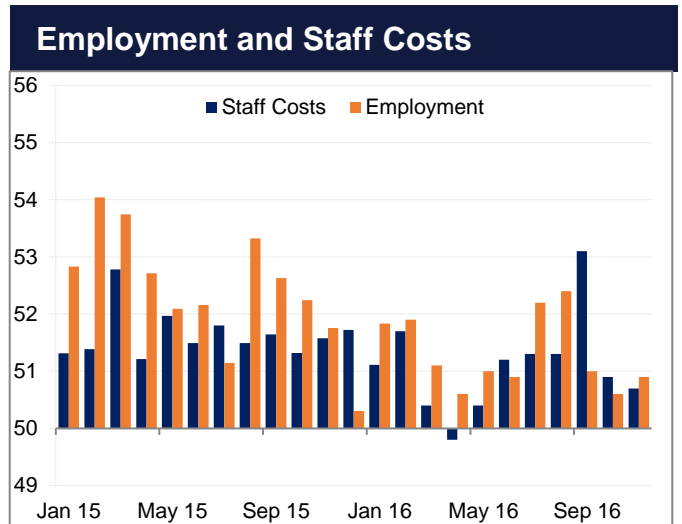
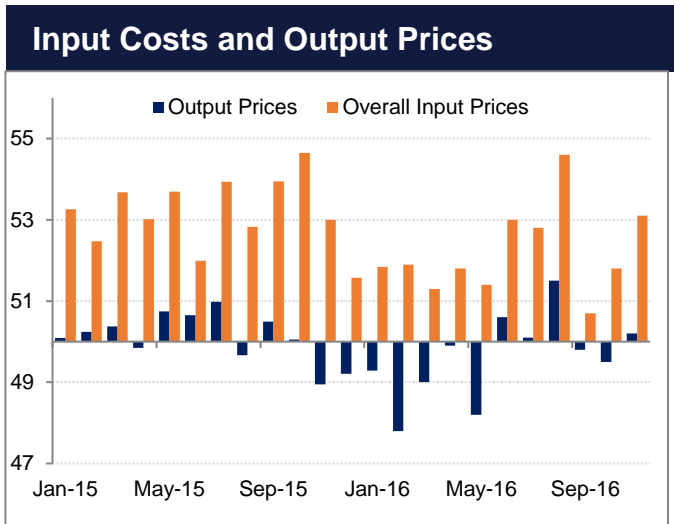
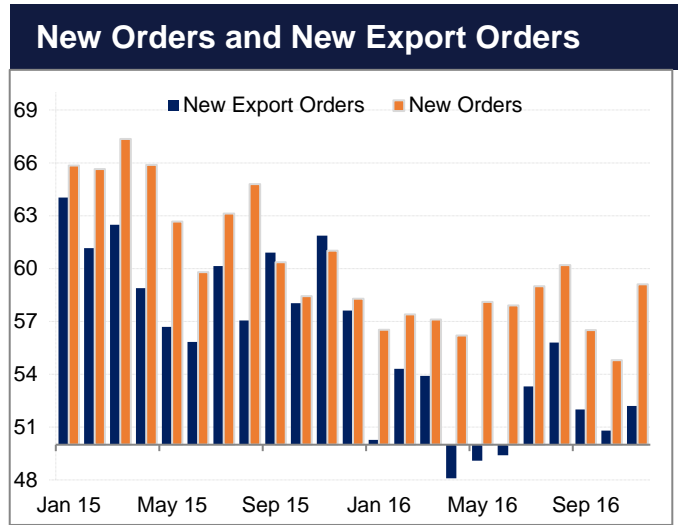
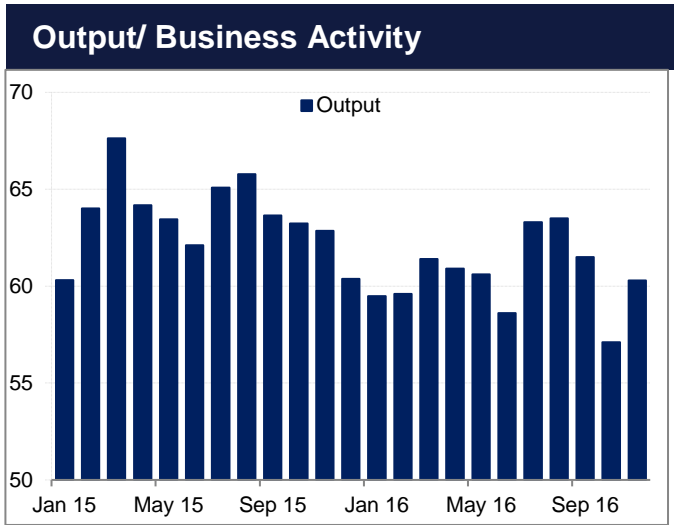
However, **employment** growth was broadly unchanged in November, despite the rebound in output and new orders. As a result, the backlogs of work increased, but only modestly. **Output prices** were also largely unchanged, although **input costs** rose at the fastest rate in three months.

While marketing initiatives and firmer external demand may have contributed to the improvement in business conditions in the non-oil private sector in November, **several other factors likely also had a positive impact on activity and confidence last month**. Bloomberg reported that the government had started making payments that had been delayed to private sector firms. Around SAR 40bn of delayed payments were reportedly made in November, helping to improve cash flows and boost deposits in local banks. This followed the successful USD 17.5bn sovereign bond issue in mid-October. The 3m interbank rate also declined last month as SAMA introduced 90-day repos at the end of October, helping to further ease liquidity pressures in the domestic banking system.

Although the PMI signals a faster rate of growth as we head into year-end, the overall pace of expansion in the non-oil private sector this year has been markedly slower than in 2015. The average PMI for January-November was 54.8, well below the 57.3 average in 2015. Nevertheless, the Saudi economy likely expanded overall this year (we forecast 1.4% real GDP growth in 2016) despite the challenges of sharply lower oil prices and government spending cuts.



Source: IHSMarkit, Emirates NBD Research



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