



بنك الإمارات دبي الوطني
Emirates NBD

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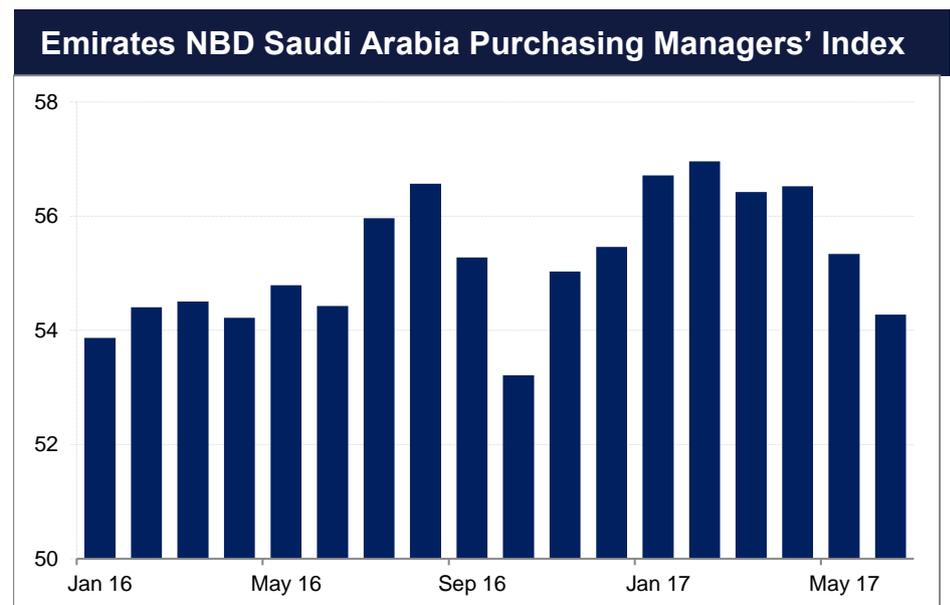
Saudi Arabia PMI eases further in June

The Emirates NBD Saudi Arabia Purchasing Managers' Index (PMI) declined to 54.3 in June, the lowest reading since October 2016. Output increased sharply last month (59.8) but at a slower rate than May, while new order growth also slowed slightly. Encouragingly, **new export orders** increased in June after two months of decline. **Employment** rose at a slightly faster rate in June (51.4) but remains relatively sluggish in the context of consistently strong growth in output in recent months.

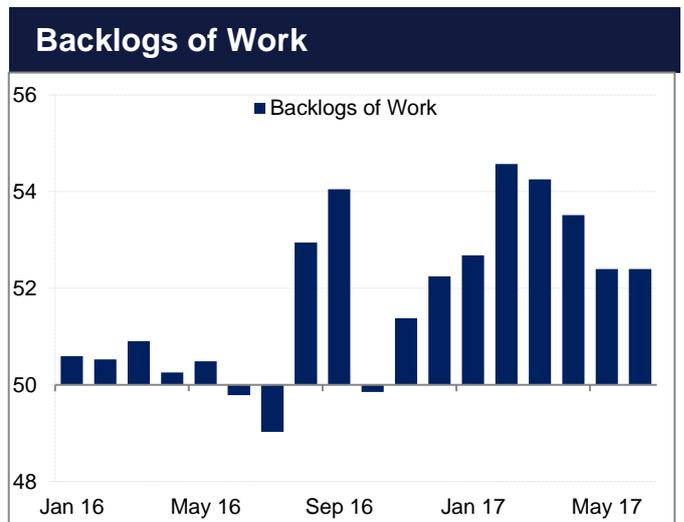
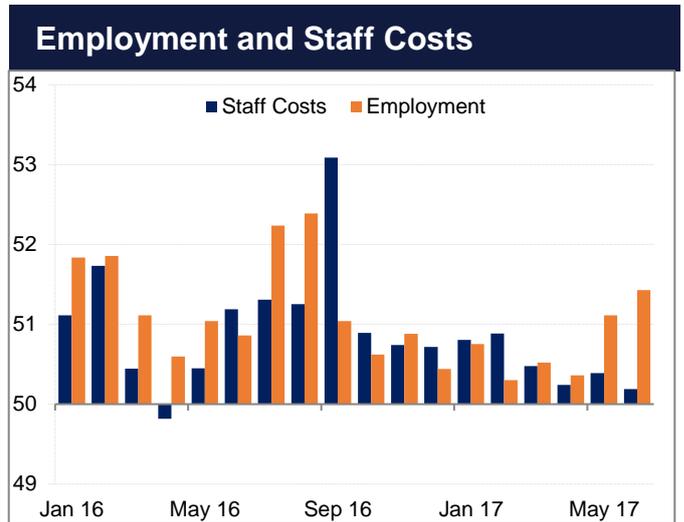
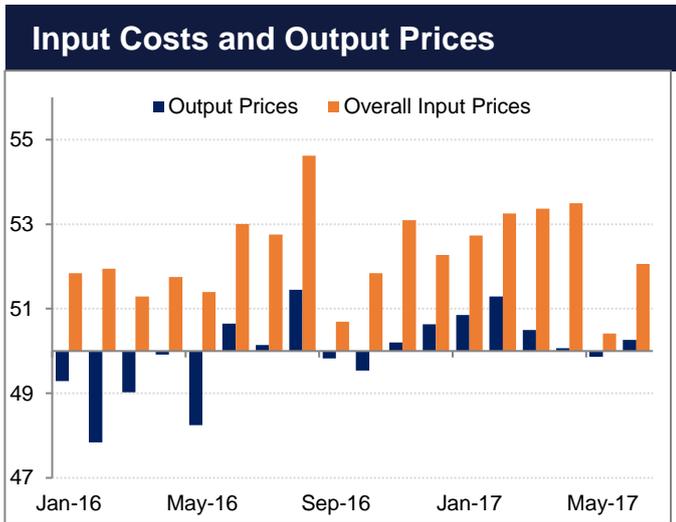
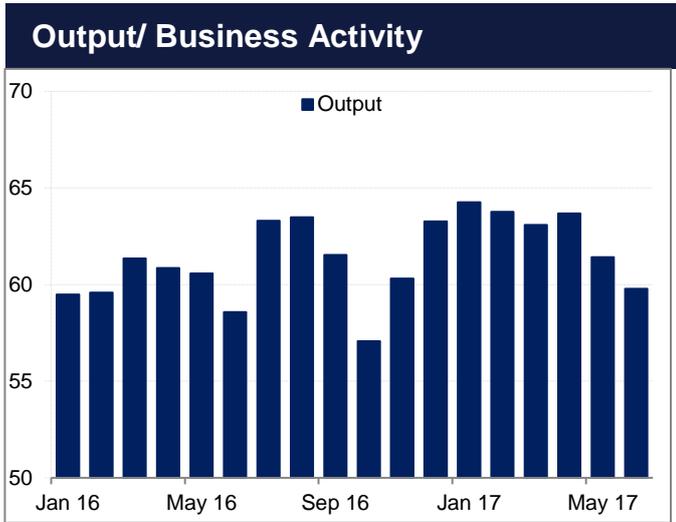
Stocks of purchases (pre-production inventory) rose at a slower rate in June, contributing to the overall lower PMI reading. This slowdown is in line with weaker overall business optimism last month, with only 10.4% of firms surveyed expecting their output to be higher in 12 months' time, compared to more than 30% in May. As a result, the 'future output' index fell to 55.2 in June from 65.1 in May; the lowest reading since October 2016. Lower oil prices in June may have contributed to softer business sentiment.

Input price inflation accelerated slightly in June, with the input price index rising to 52.1. However, firms did not fully pass on these higher costs to consumers, with output prices only marginally higher on average last month. Some firms which cut selling prices in June cited 'competitive pressures'.

The headline PMI reading averaged 55.4 in Q2 2017, signaling strong expansion in the non-oil private sector. The survey data also indicates that non-oil growth in H1 2017 was faster than in H1 2016, in line with our expectations. However, the Kingdom's decision to cut oil production sharply this year to help reduce the global oversupply is now expected to be extended through Q1 2018. As a result, we have downgraded our 2017 Saudi Arabia GDP growth forecast to 0.5% from 1.8% previously. The downgrade is entirely due to a larger than initially forecast contraction in the oil sector, with the non-oil sector still expected to grow this year.



Source: IHS Markit, Emirates NBD Research



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