

Weekly Insights 6 May 2021: What do PMIs, Consumer Spending & Domestic Credit Tell us about Economic Activity?

Download a PDF copy of this week's insight piece [here](#).

1. Manufacturing PMI rises globally; but, widespread

Heatmap of Manufacturing PMIs

	US	Germany	EU	UK	Japan	China	India
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8
Oct-20	53.4	58.2	54.8	53.7	48.7	53.6	58.9
Nov-20	56.7	57.8	53.8	55.6	49.0	54.9	56.3
Dec-20	57.1	58.3	55.2	57.5	50.0	53.0	56.4
Jan-21	59.2	57.1	54.8	54.1	49.8	51.5	57.7
Feb-21	58.6	60.7	57.9	55.1	51.4	50.9	57.5
Mar-21	59.1	66.6	62.5	58.9	52.7	50.6	55.4
Apr-21	60.5	66.2	62.9	60.9	53.6	51.9	55.5

Source: Refinitiv Datastream, Nasser Saidi & Associates

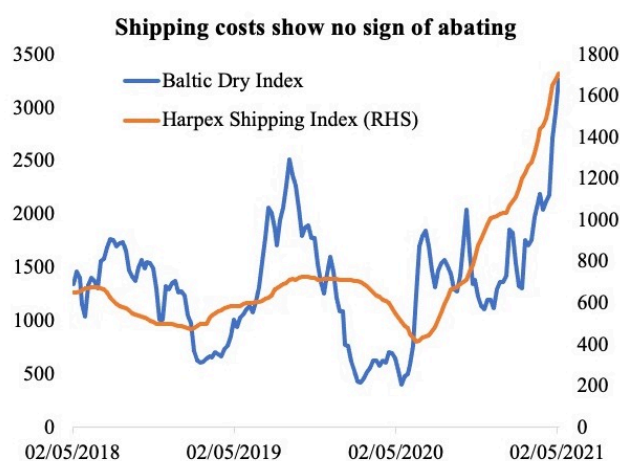
- The **vaccination pace has been steadily increasing in many advanced nations** including the US and UK – allowing the nations to reduce and/or remove severe restrictions. This has resulted in a **return in confidence, evident in recent PMI data.**
- However, the **recent surge in Covid cases in India and Brazil could result in spillovers** (Singapore reverted to Phase 2 restrictions); the only way out seems to be to vaccinating a vast majority of the global population.
- Unfortunately, **poor countries are severely lagging behind in vaccination:** in Africa, just 1% of the population has received at least one jab and 4.4% in

Asia. This compares to 22% and 44% in Europe and America respectively. Vaccine shortages are still a problem (India's Serum Institute is said to be severely behind on production)

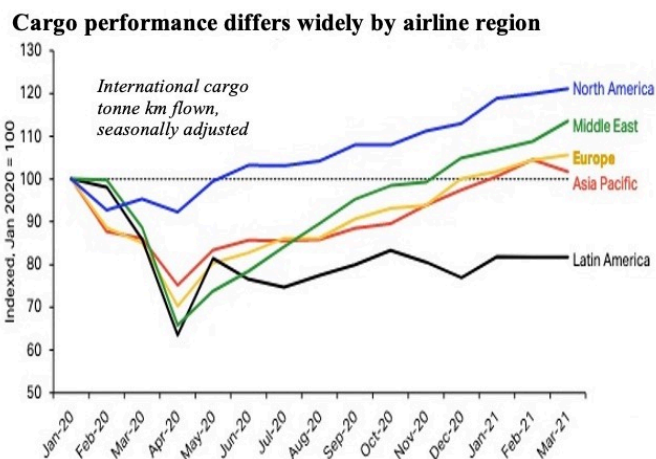
- Another word of caution : while **global manufacturing PMI hit a 11-year high**, record supply chain delays are leading to production constraints; **input costs rose at the fastest rate in a decade**

2. Shipping costs climb as demand increases, while air cargo struggles to keep up

- **Container ship port calls are in many regions back to pre-pandemic numbers or higher** (UNCTAD). But, high demand alongside shortage of containers has led to a surge in shipping costs (especially on long-distance routes). The recent Suez Canal blockage calls into question the **vulnerability of trade chokepoints**.
- **Demand for commercial air traffic remains depressed**: long-haul flights are still bearing most of the brunt as domestic travel is slowly picking up (as seen in China and the US). Travel bookings indicate strong domestic travel intentions and Europe could also witness a boost when it opens in summer for vaccinated tourists.
- **Closure of long-haul routes continue to affect Middle Eastern airlines** (revenue passenger kilometers were down by 81.7% yoy in Feb vs 74.7% globally); but, **strong cargo growth was recorded** (growing by 8.7% yoy in Feb 2021 vs the 9.5% drop in 2020; Middle East-Asia route grew the most – by 26.7% in Feb vs -7% in 2020)



Source: Refinitiv Datastream, LATA Economics

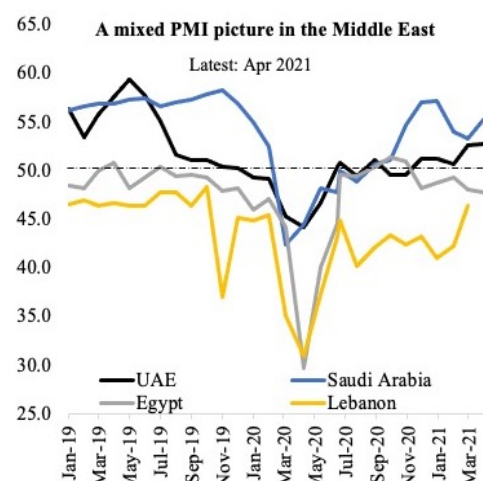


PMIs edged up in UAE & Saudi Arabia: but employment sub-index diverges (as UAE stays below 50)

Heatmap of non-oil private sector PMIs in Middle East

	UAE	Saudi Arabia	Egypt	Lebanon
Jan-19	56.3	56.2	48.5	46.5
Feb-19	53.4	56.6	48.2	46.9
Mar-19	55.7	56.8	49.9	46.3
Apr-19	57.6	56.8	50.8	46.7
May-19	59.4	57.3	48.2	46.3
Jun-19	57.7	57.4	49.2	46.3
Jul-19	55.1	56.6	50.3	47.7
Aug-19	51.6	57.0	49.4	47.8
Sep-19	51.1	57.3	49.5	46.4
Oct-19	51.1	57.8	49.2	48.3
Nov-19	50.3	58.3	47.9	37.0
Dec-19	50.2	56.9	48.2	45.1
Jan-20	49.3	54.9	46.0	44.9
Feb-20	49.1	52.5	47.1	45.4
Mar-20	45.2	42.4	44.2	35.0
Apr-20	44.1	44.4	29.7	30.9
May-20	46.7	48.1	40.0	37.2
Jun-20	50.4	47.7	44.6	43.2
Jul-20	50.8	50.0	49.6	44.9
Aug-20	49.4	48.8	49.4	40.1
Sep-20	51.0	50.7	50.4	42.1
Oct-20	49.5	51.0	51.4	43.3
Nov-20	49.5	54.7	50.9	42.4
Dec-20	51.2	57.0	48.2	43.2
Jan-21	51.2	57.1	48.7	41.0
Feb-21	50.6	53.9	49.3	42.2
Mar-21	52.6	53.3	48.0	46.4
Apr-21	52.7	55.2	47.7	n.a.

Source: Refinitiv Datastream. Table by Nasser Saidi & Associates



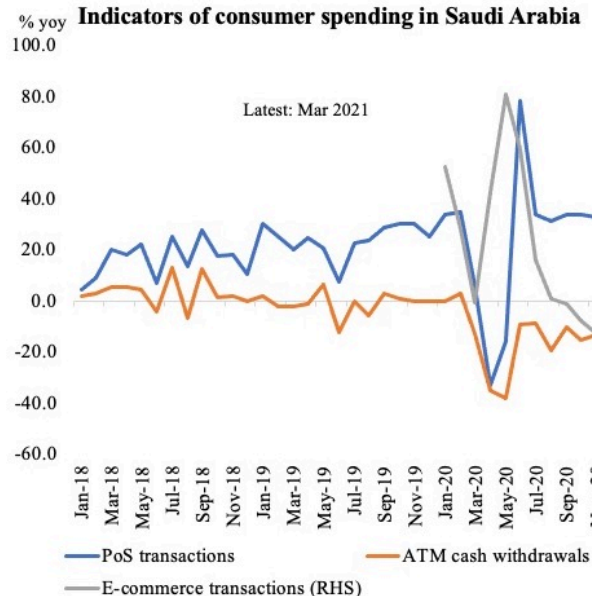
Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

- In MENA, **both Saudi Arabia and UAE posted higher PMI readings in Apr; Egypt declined further**, falling below-50 for the 5th consecutive month.
- While vaccination pace is quite varied in the region, it seems to have a significant impact on business confidence and the expectations of continued economic recovery. **UAE has been the leader in vaccinating its residents**, administering 108.99 doses per 100 persons, versus Saudi Arabia's 28.2 and Egypt's 0.64. This confidence has translated into the PMI readings.
- **With UAE's major export markets still rattled by Covid19, near-term outlook has risks**; employment sub-index also fell for the 3rd month in a row. Though export orders rose, demand was largely domestic based.

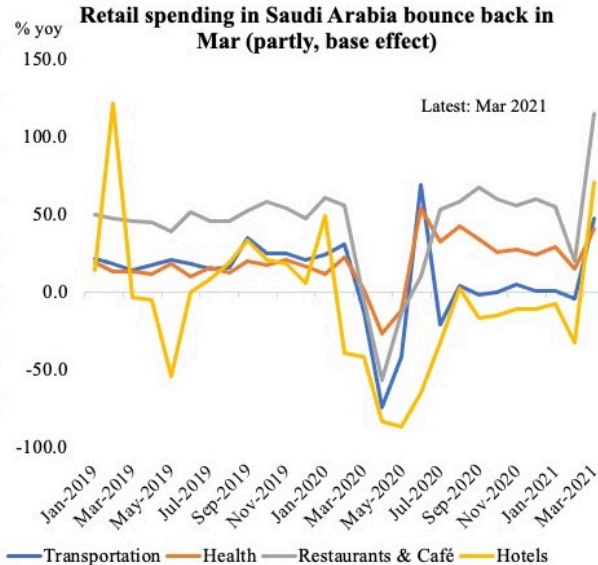
4. Consumer Spending Rebounds in Saudi Arabia

- The **Saudi Central Bank's** monthly data on **consumer spending showed a rebound in Mar**, partly due to the low base in Mar 2020. **PoS transactions continue to rise**, accelerating by 64.7% yoy and 31.5% mom in Mar. **ATM cash withdrawals fell by just 4% yoy, following 7 months of double-digit declines**, and by 21% mom.

Indicators of consumer spending in Saudi Arabia



Retail spending in Saudi Arabia bounce back in Mar (partly, base effect)

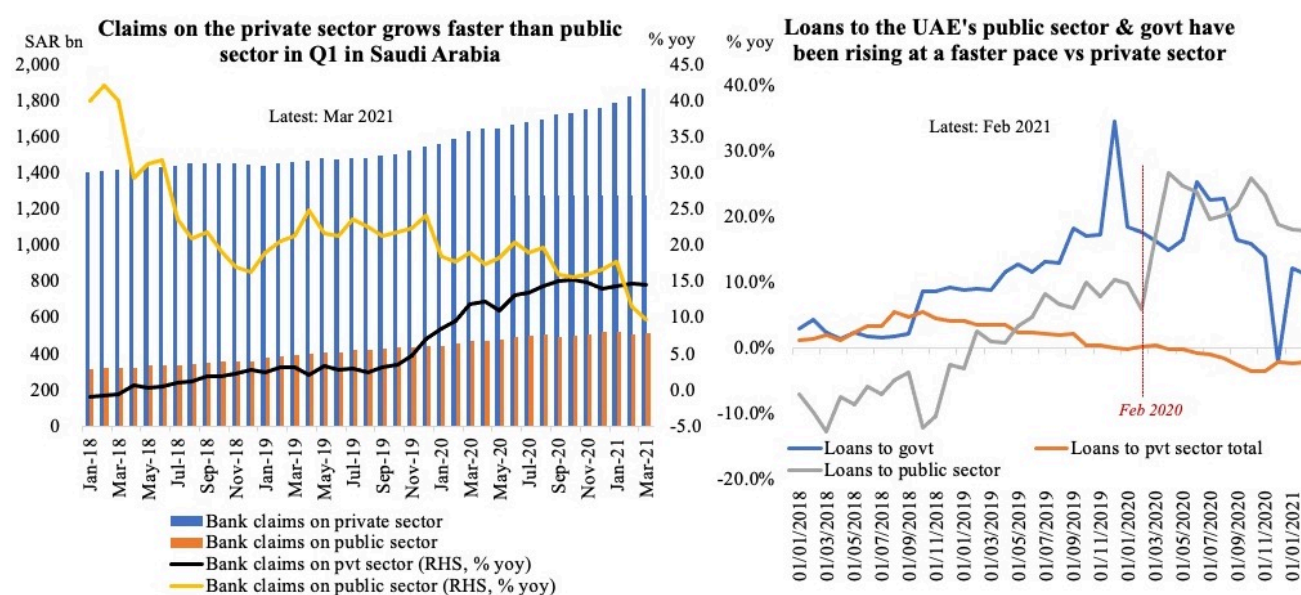


Source: Saudi Central Bank. Charts created by Nasser Saidi & Associates

- **Retail spending by sector** showed a decline only in **education** (-2% mom and -18.3% yoy); **clothing** and footwear posted the highest pickup in mom terms (+68.2%). **Spending has been slower in** a few sectors ahead of the month of Ramadan (when many discount offers are available) like **food and beverages, and electronics**.

5. Varied patterns of domestic credit growth in Saudi Arabia & the UAE

- **Loans disbursed in both Saudi Arabia and the UAE has been ticking up in 2021.**
- Total domestic credit disbursed in **UAE** grew by 2.1% yoy in Jan-Feb 2021; the uptick has been in claims to the public sector (+17.9%), government (+11.6%) and private financial institutions (+8.8%) vs loans to the private sector (-2.3%). Together, **loans to the government & public sector accounted for 30% of total in Feb 2021.**
- In **Saudi Arabia** meanwhile, **claims on the private sector grew** by 14.6% yoy in Q1 2021 – **faster than claims on the public sector** (+13% yoy).



Source: Saudi Central Bank, UAE Central Bank. Charts created by Nasser Saidi & Associates

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Weekly Insights 13 Oct 2020: PMIs, Mobility & Economic Recovery

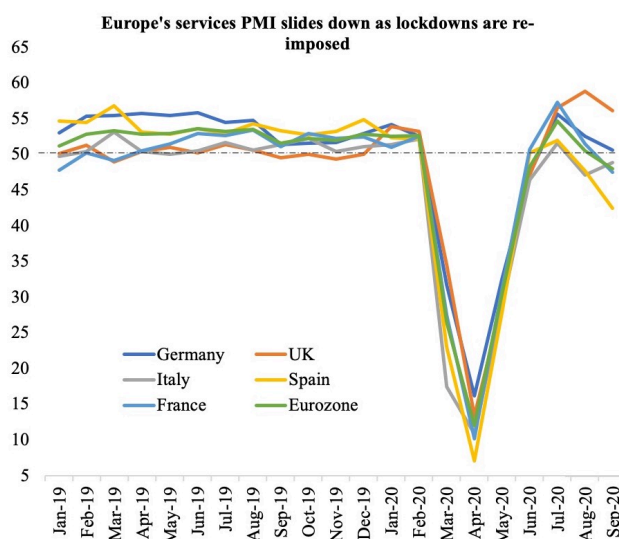
Download a PDF copy of this week's economic commentary [here](#).

1.Global PMIs, shipping & trade

PMIs across the globe were released last week. The headline JPMorgan global composite PMI fell for the first time in five months, dipping to 52.1 in Sep (Aug: 52.4). Most manufacturing surveys still indicated an expansion (a reading above 50) though the pace of recovery has slowed as a result of capacity constraints and supply chain delays. Sector-wise, the most significant beneficiary has been the automotive sector, where production capacity increased and new orders posted the most gain since Dec 2019. On the other extreme, tourism and recreation sector continues to be the worst hit – reflecting the glaring divergence between the manufacturing and services sector PMIs (Figure below). September's PMI readings in the services sector have declined from Aug's 7-month highs, as many countries witnessed a resurgence in Covid19 cases (and in some, new record daily cases!), leading to restricted lockdowns which added on to the restrictions due to social distancing policies. Employment posted a net increase for the first time since Jan: though jobs growth was faster in the services sector in Aug-Sep, remember that the sector had also seen the steepest job cuts earlier this year.

	US	Germany	EU	UK	Japan	China	India
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9
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May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4
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Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2
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Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8

Source: Refinitiv Datastream, Nasser Saidi & Associates

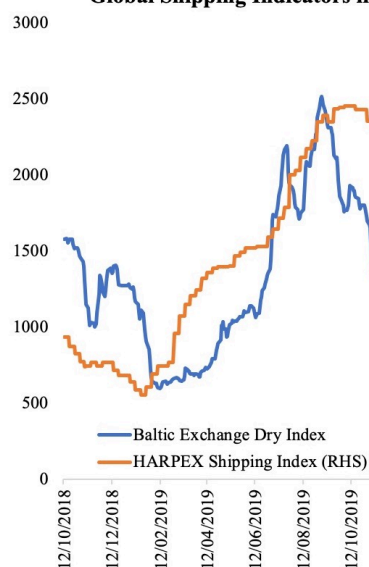


Source: Refinitiv Datastream, Nasser Saidi & Associates

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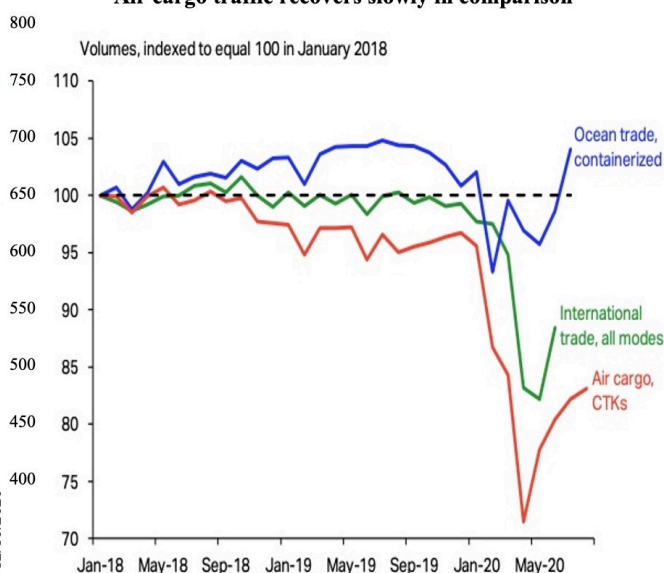
facturing PMI readings have shown an increase in new export orders, supported by a pickup in demand. Global shipping indicators have improved during the summer, with both the Baltic Exchange Dry Index (tracks rates for ships carrying dry bulk commodities) and the Harpex shipping index (index created using container shipping rates across different classes of ship) picking up pace. Both indices rose to its highest in more than a year last week, after having touched 3-year highs in mid-2019 and declining sharply during the Feb-Jun period. However, the air freight sector has not recovered in tandem with shipping (Figure below), a result of cheaper ocean trade – a pattern visible during downturns – as well as insufficient air cargo capacity (according to IATA).

Global Shipping Indicators improve over the summer



Source: Refinitiv Datastream, Nasser Saidi & Associates

Air cargo traffic recovers slowly in comparison



Source: LATA Air Freight Analysis report, Aug 2020

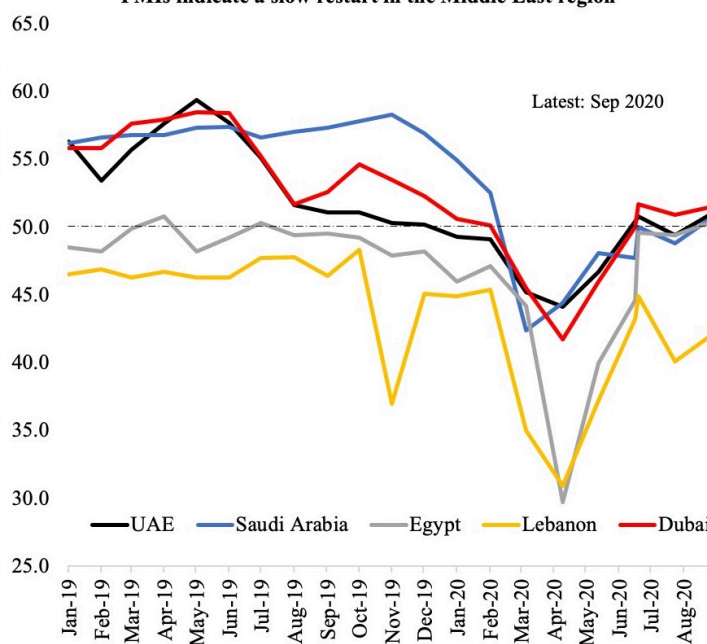
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Heatmap of non-oil private sector PMIs

	UAE	Saudi Arabia	Egypt	Lebanon	Dubai
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Jan-20	49.3	54.9	46.0	44.9	50.6
Feb-20	49.1	52.5	47.1	45.4	50.1
Mar-20	45.2	42.4	44.2	35.0	45.5
Apr-20	44.1	44.4	29.7	30.9	41.7
May-20	46.7	48.1	40.0	37.2	46
Jun-20	50.4	47.7	44.6	43.2	50
Jul-20	50.8	50.0	49.6	44.9	51.7
Aug-20	49.4	48.8	49.4	40.1	50.9
Sep-20	51.0	50.7	50.4	42.1	51.5

Source: Refinitiv Datastream, Nasser Saidi & Associates

PMIs indicate a slow restart in the Middle East region



Source: Refinitiv Datastream, Nasser Saidi & Associates

oil private sector PMI's indicate a slow restart: Sep's modest improvement followed Aug when four of the countries moved into the contractionary territory (i.e. below the 50-mark). Significantly, demand growth has been picking up and the significant price discounting on offer has led to an increase in sales.

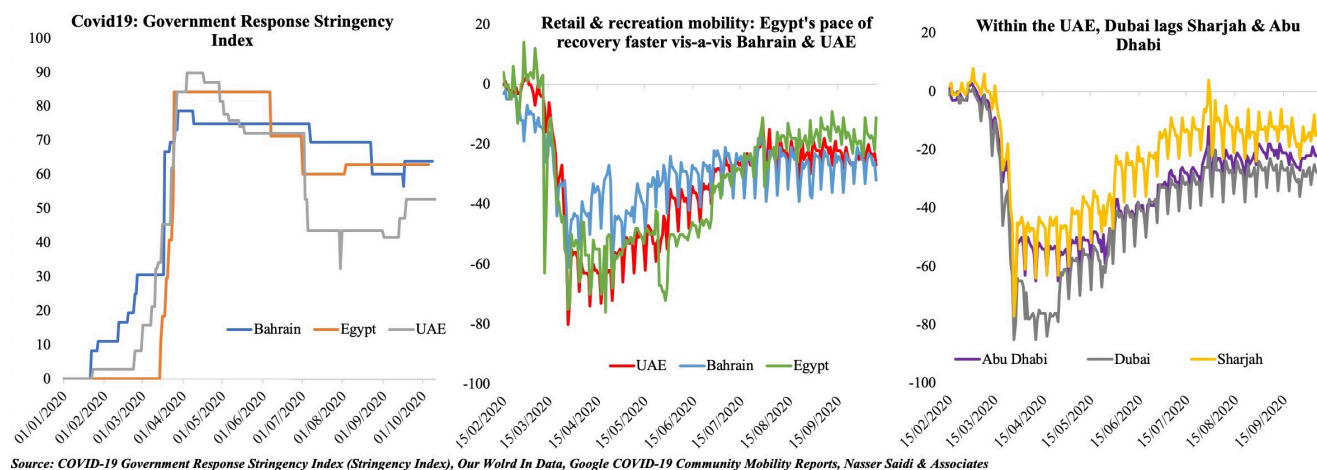
Job cuts are still occurring, as businesses adjust to reduce operating costs. The ILO estimates that Arab states witnessed a 2.3% drop in working hour losses in Q1 this year, followed

by 16.9% and 12.4% respectively in Q2 and Q3. Job postings are slowly ticking up, though anecdotal evidence suggests that potential employees are willing to accept a significant pay cut to undertake similar work. This will lead to a wider disparity in public-private sector wages, not to mention the impact it would have on wider gender disparities (during Covid19, women are already more likely than men to witness a larger drop in mobility to lose jobs in the informal economy or see a reduction in working time).

Furthermore, with lack of access to finance/ liquidity, not all businesses will recover or survive in the next few months, should uncertainty remain. This could result in a structural change brought about due to Covid19 (e.g. the increase in number of online shopping platforms which are relatively less labour-intensive versus actual physical stores). Being faced with limited financial capabilities (due to job losses or salary cuts and depletion of savings), expatriates could also decide to return to their home countries (negatively affecting consumer spending in the region).

3. Stringency Index vs. Retail and Recreation sector activity

The Middle East has seen a resurgence in Covid19 cases in the recent weeks, and many nations are in the process of reimposing partial lockdowns or shorter nationwide lockdowns: the first panel in the figure below shows that the Government Response Stringency Index^[1] has increased for the UAE in the past month (in line with the increase in cases). This is the best way forward, if we are to take into consideration the IMF's recent World Economic Outlook analysis which found that early adoption of stringent and short-lived lockdowns curbed infections and could be preferable to mild and prolonged measures. The enforcement of lockdowns and social distancing policies was an important factor contributing to a recession: however, such short-term costs of lockdowns may lead to medium-term gains if the virus is contained.



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ility indicator for retail and recreation show that none of the three nations – Bahrain, Egypt, or UAE – have yet returned fully to the pre-Covid19 baseline. Among the three, Egypt, which had declined the most initially, recovered faster in comparison. More interestingly, within the UAE, recovery in retail sector mobility in Sharjah (-14% from baseline in Oct) and Abu Dhabi (-21% from baseline) has outpaced Dubai (-23%). This could potentially be due to higher confidence in these emirates – given mass testing in Sharjah, border controls in Abu Dhabi and a relatively longer lockdown period – compared to Dubai.

What next? Note that a second (or even third) wave of Covid19 is unfolding, as we enter the cold winter months: given the likelihood of resurgence of Covid19, partial recovery – as indicated by PMIs – may be temporary. If further virus containment measures are introduced, though it will dampen economic activity in the short-term, medium-term gains might be achieved. Initial restrictions will likely affect the customer-facing service sectors more than others, but risks to other sectors will increase if further restrictions are imposed. Overall, an air of uncertainty is unlikely to boost confidence among firms, negatively affecting investment decisions and economic activity. Governments need to signal willingness to continue stimulus measures if required and take decisions to introduce “circuit-breakers” if necessary.

[\[1\]](#) The Stringency Index is a composite measure based on nine

response indicators that include school closures, workplace closures, and travel bans; the index ranges from 0 to 100 with 100 being the strictest. This index does not track the effectiveness of the response. More: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker>

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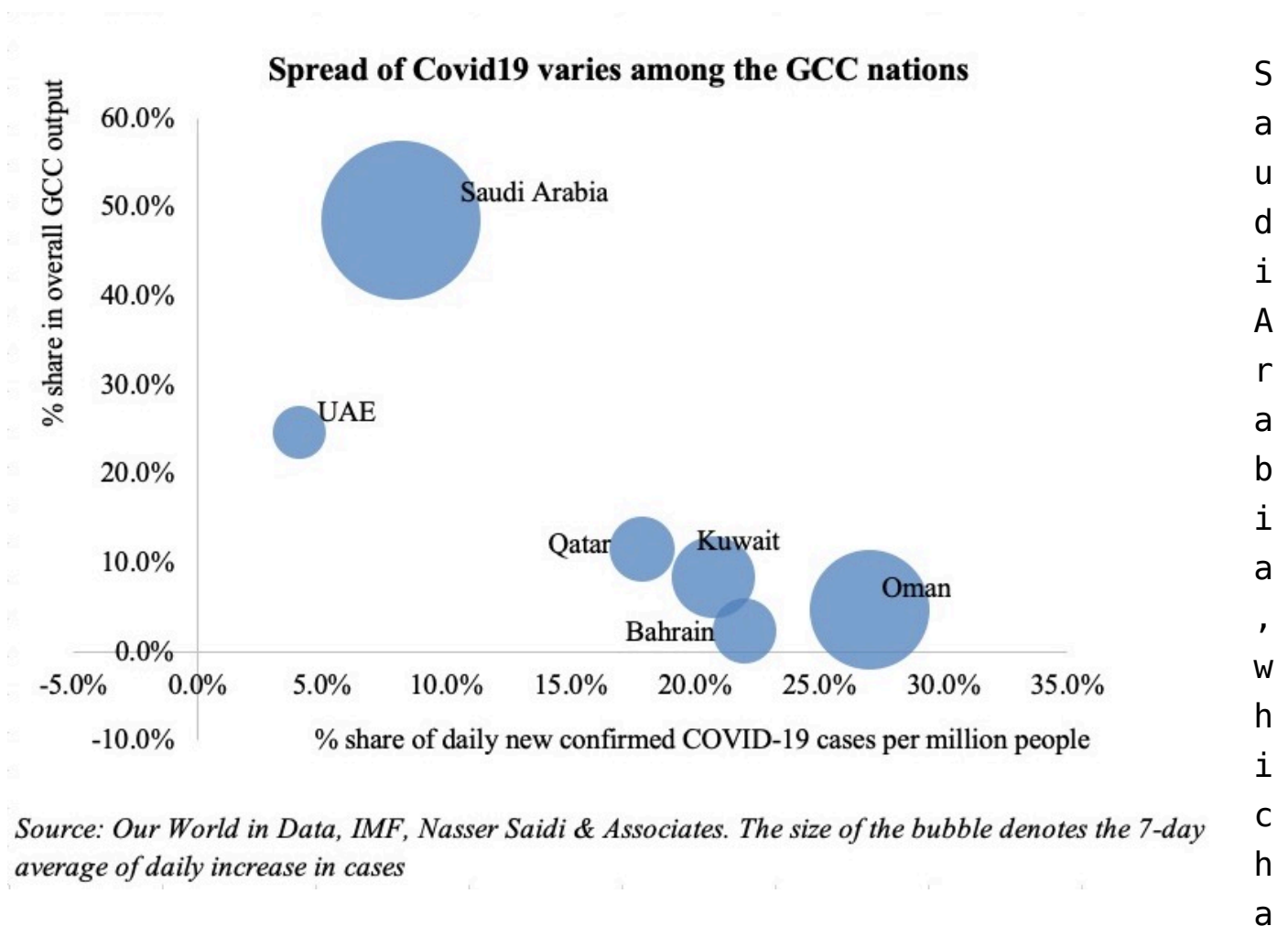

Weekly Insights 27 Jul 2020: Charts on the spread of Covid19 in the GCC + Global trade

Charts of the Week

1. Spread of Covid19 in the GCC

Most GCC nations have begun a phased re-opening of their economies after being in partial/ complete lockdown for weeks. Some restrictions still remain (e.g. partial capacity at mosques, restaurants, movie theatres, gyms etc.) in countries that have reopened (like the UAE); where cases are high, partial nighttime curfews and targeted lockdowns are in place. The spread of the outbreak is varied among the GCC nations. The chart maps the share in total daily increase in confirmed cases per million persons (x-axis) against the share of the country in overall output (y-axis), with the size of the bubble denoting the 7-day average of the daily increase in cases. Among the GCC nations, the UAE seems to be performing better – when it comes to both the 7-day average of daily

increase in Covid19 cases as well as the daily confirmed cases per million people.

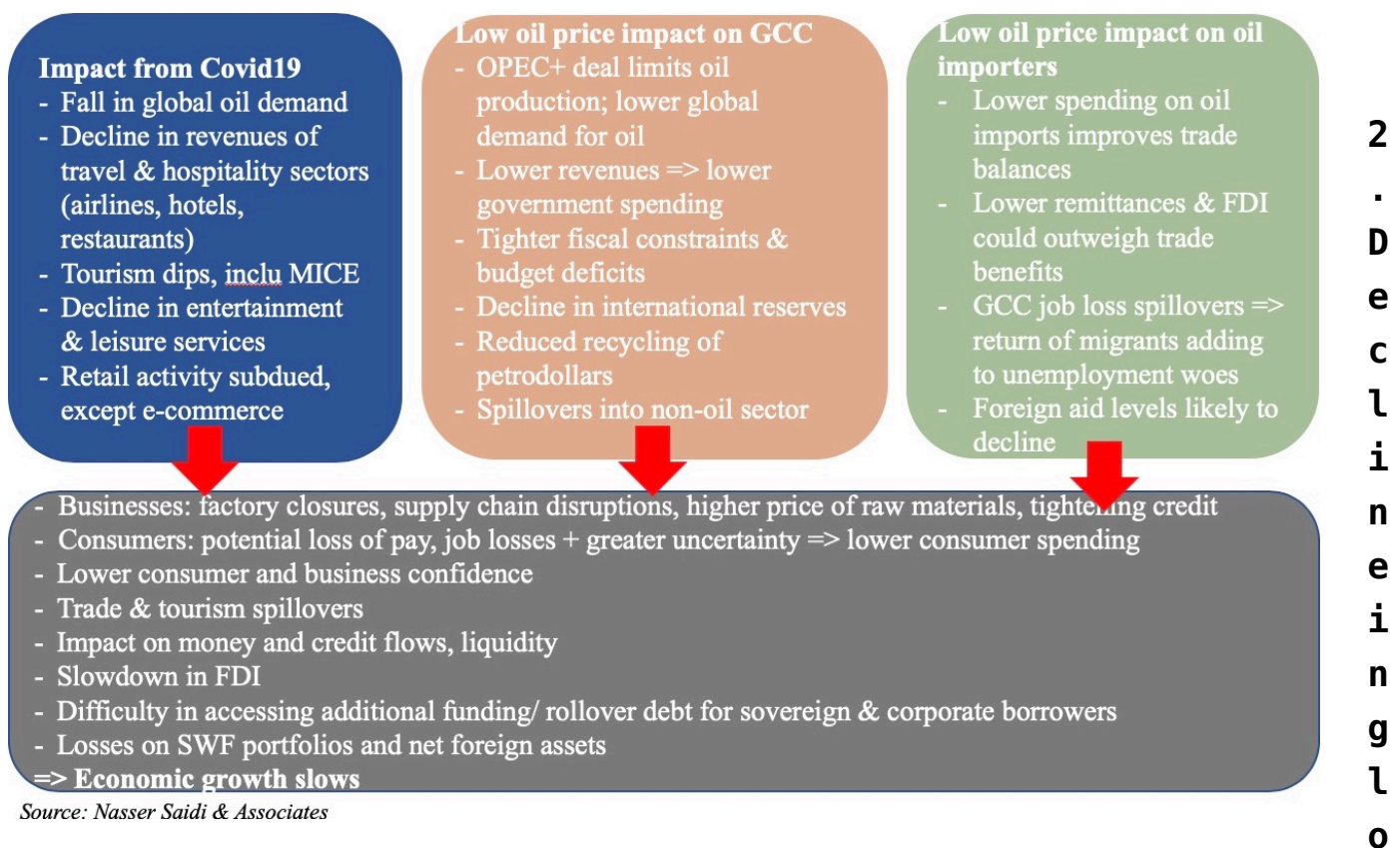


counts for the lion's share in GCC's GDP, also has the highest 7-day average of daily increase in Covid19 cases (size of the bubble). This implies a sharper downturn in GDP this year due to the outbreak, but the effects of lower oil prices and the OPEC+ led cut in oil production will worsen the growth outlook. It is then little wonder that the rhetoric has shifted to diversifying revenue base with more privatisations and a hint of the introduction of an income tax in the future. The GCC nations with the highest share in total daily increase in count (the highest being Oman) are among those with a lower share of overall GDP. For these nations, the worries are multiplied manifold: not only will growth be affected by both the outbreak and lower oil prices, fiscal constraints and lower credit ratings will restrain their access to borrow from international capital markets. While governments have tightened purse strings, reducing capital and infrastructure

spending will be detrimental to economic growth (especially the private sector).

A decline in growth in oil-exporters also has a negative impact on many oil-importing nations: ranging from job losses (& the return of these residents to home countries that already face relatively higher unemployment rates), lower remittances as well as lower foreign aid and investments.

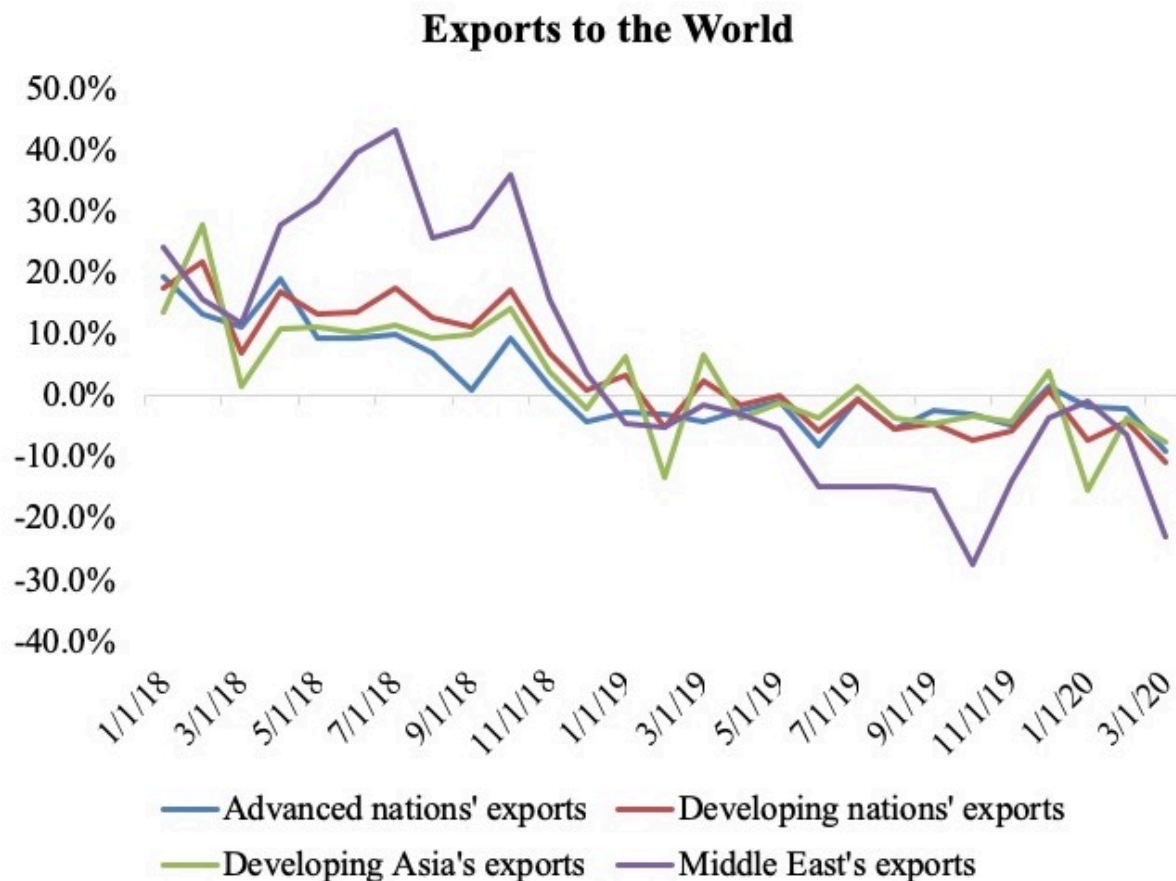
Chart 2. Economic Impact of Covid19 and low oil prices on the Middle East's oil exporters & importers



bal trade

Along with tourism, global trade has been one of the most-hit by the global Covid19 outbreak. Trade growth had been slowing for the past year, and the pandemic has only accelerated its pace. Monthly data from the IMF's Direction of Trade Statistics reveal that the drop in export growth touched two-digits in Mar, and given lockdown measures and factory shutdowns it can be estimated that data for Apr-May will be far worse.

Chart 3. Global trade continues to decline



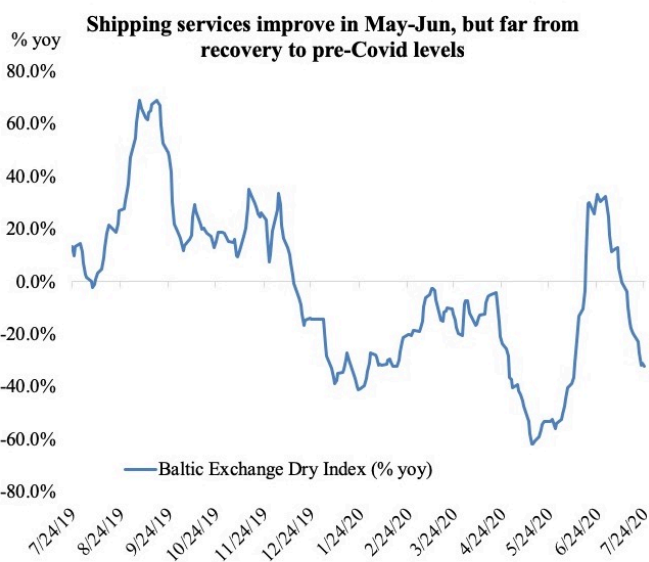
Source: IMF Direction of Trade Statistics, Refinitiv Datastream, Nasser Saidi & Associates

trade will drop by 18.5% in Q2 this year, with a full year dip of between 13% (optimistic) to 32% (pessimistic scenario). For the Middle East, the 13.9% decline in total exports in Mar is a result of both lower oil production and lower demand for oil.

Shipping estimates, denoted by the Baltic Exchange's sea freight index, touched a 9-month high in early Jul after recovering in Jun: this should translate into an improvement in global trade after May. Air cargo traffic data from IATA also denote that the cargo levels have shown a slight rebound in Apr (the latest available data). However, note that in both cases, there is a long way to recover to their pre-Covid19 levels. Supply chains remain disrupted though there has been a rebound in manufacturing activity across the globe (latest PMI numbers from Europe and Asia).

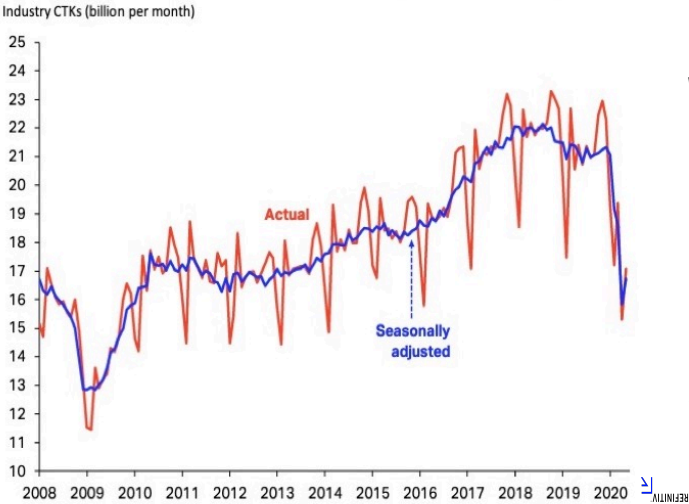
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Chart 4. Shipping & Cargo services rebound, but remain below pre-Covid19 levels



Source: Refinitiv Datastream, Nasser Saidi & Associates

Industry-wide cargo tonne-kilometres (CTK) remains weak: 3 consecutive months of double-digit decline till Apr



Source: IATA Economics, IATA Monthly Statistics