



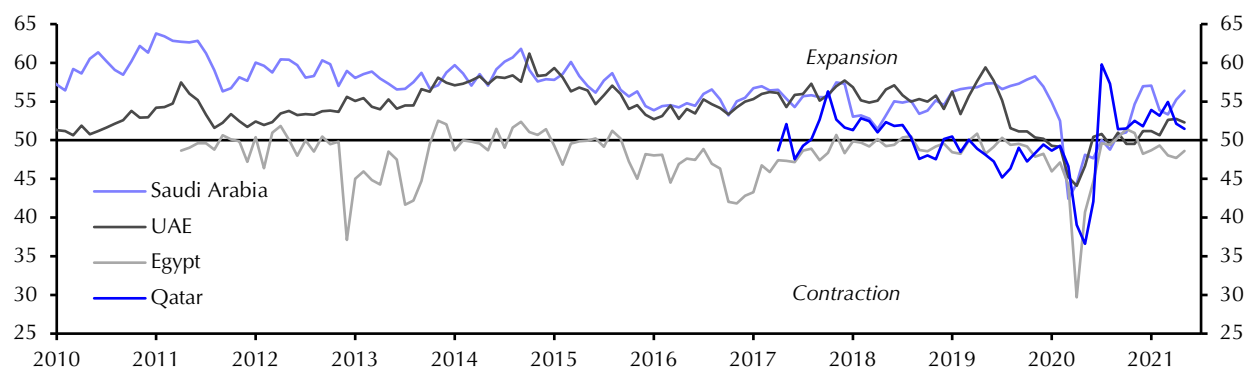
# MENA DATA RESPONSE

## Whole Economy PMIs (May)

### Non-oil sector recoveries to pick up the pace in H2

- **May's batch of whole economy PMIs were a mixed bag suggesting that economic recoveries in the Gulf are struggling to gather momentum for the time being. But, with vaccination programmes strengthening and virus-related restrictions being relaxed, recoveries should gather steam over the second half of 2021. Elsewhere, price pressures appear to be building in Egypt.**
- In the Gulf, Saudi Arabia's whole economy PMI – which covers the non-oil private sector – increased for a third consecutive month from 55.2 in April to 56.4 in May. In contrast, the survey for the UAE edged down from 52.7 to 52.3 last month and Qatar's headline index dropped a seven-month low of 51.5 in May. Meanwhile, in Egypt, the PMI picked up from 47.7 in April to 48.6 in May, but it remained below the 50-mark that, in theory at least, marks the separation between expansion and contraction. (See Chart 1.)
- **The bright spot for the region is in Saudi Arabia.** The breakdown of the survey showed that the output component rose to its highest level in more than three years, driven by both stronger domestic and external demand – the new export orders component rose to its highest since the end of 2015.
- Elsewhere in the Gulf, while the surveys in Qatar and the UAE both fell back last month, headline readings in both countries remained above the 50-mark. This suggests that recoveries are still underway albeit at a weaker pace. In the UAE, some of the slowdown appears to be due to weaker external demand as the new export orders component fell to a six-month low. In Qatar, while the headline reading for May was weaker, one positive note from the breakdown was that expectations for future output increased.
- With vaccination programmes in the UAE, Saudi Arabia, and Qatar maintaining a stronger pace over the past few months – administered doses are equivalent to around 41, 88, and 130 per 100 people respectively – virus containment measures will probably be relaxed further over the coming months allowing for a stronger recovery over the second half of the year. What's more, the recent rise in energy prices may provide a window for governments in the Gulf to loosen fiscal policy to support the recovery.
- Finally, in Egypt, the breakdown of the survey showed that price pressures are continuing to build. The input price component rose to its highest level since Q3 2019 and the output price component remained above the 50-mark for the tenth month in a row. **This supports our view that inflation is likely to have risen in May and will continue to do so over the coming months due to stronger food and energy prices. As a result, we think that policymakers will keep interest rates on hold until later in year.** But if inflation continues to surprise on the downside, as it has done in recent months, rate cuts may be brought forward.

Chart 1: Whole Economy PMIs



Source: Markit



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