



Lost Momentum

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Non-oil private sector activity fell in November but remained in expansion territory:

After registering its highest reading since April 2019 in October, the private sector PMI index recovery eased in November. The headline PMI index eased to 50.9 vs. 51.4 in October, as growth in both output and new orders slowed in November. The reading came to reflect the effect of three factors on private business economic activity: **(1)** the second-wave effect that triggered a new partial lockdown around the world, **(2)** the continuous increased in infection rates domestically and the growing risk of reinstating partial lockdown measures, and **(3)** the long-lasting effect of the COVID-19 crisis on labor market dynamics amid continued spare capacity in the economy.

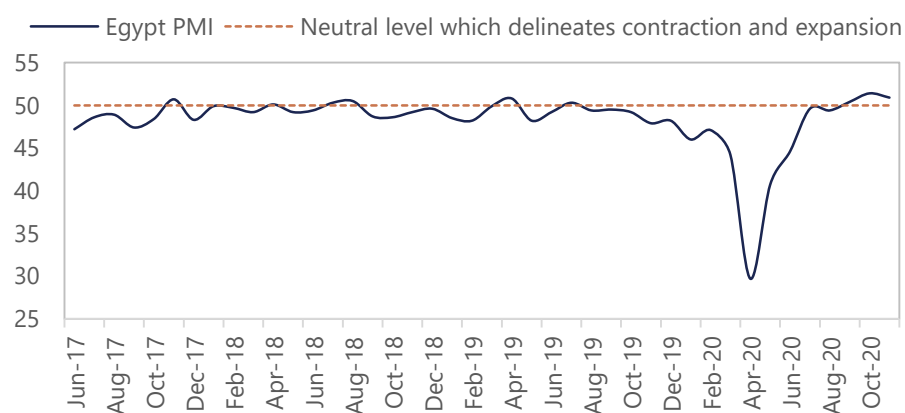
In line with our previous expectations, the private sector recovery remains subject to downward risks, particularly the resurgence of COVID-19 infections:

The lost momentum in private-sector recovery in November was conveyed to the real economy through **(1)** softer growth in export orders as global restriction measures cast its shadow on new exports orders, in addition to slower recovery in the tourism sector, **(2)** the confidence in domestic business activity outlook and the level of optimism was hampered by the ongoing uptick in infection cases, and **(3)** weak labor dynamics are still material, given 13 months of contracted employment index. Despite the fall in the unemployment rate in Q3 2020 to 7.3% vs. 9.6% in Q2 2020, according to the most recent data released by CAPMAS, the size of the labor force in Q3 2020 remained below the end of Q1 2020 levels, indicating that a large number of people have exited the labor market.

Future PMI readings will be subject to the risk of the above three factors in 2021:

Despite the growing concerns of the second wave risk, the news of a vaccine breakthrough should provide some light at the end of the tunnel. Nevertheless, the business environment should fall under the pressure of the long-term process of vaccinating the entire population. Thus, restoring the economy to its pre-COVID-19 normality will not be achieved until 2022—in our opinion. Moreover, the uneven pace of recovery across economic sectors should keep the labor market under strain.

Chart 1: Lowest reading since September 2020



Source: PMI Markit.



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