

News Release

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Riyad Bank Saudi Arabia PMI®

Non-oil sector continues to grow rapidly in March

Key findings

Output rises sharply, but pace softens

Strong demand supports purchasing and jobs

Market competition limits rise in selling prices

March data from the Riyad Bank Saudi Arabia PMI® signalled another rapid expansion in the non-oil private sector economy at the end of the first quarter of 2023, despite pulling back from February's near eight-year record. Output and new business continued to rise markedly, supporting further growth in employment and purchases. However, the latest upturn in demand came as firms struggled to pass on rising costs to customers, with tight market competition meaning that selling charges rose only mildly.

The headline figure is the seasonally adjusted Riyad Bank Saudi Arabia Purchasing Managers' Index™ (PMI®). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

The headline index posted at 58.7 in March, dropping from a near eight-year record of 59.8 in February, but remained firmly above the 50.0 no-change mark. The reading signalled a marked improvement in operating conditions, and one that was among the strongest seen since early-2015.

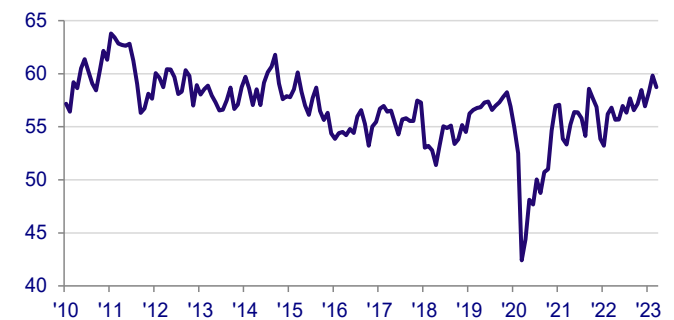
Non-oil companies particularly noted a sharp uplift in new business intakes in March, as improving market conditions and increased development spending helped to boost demand. Some firms added that a relatively mild increase in output prices had supported sales growth, while orders from foreign customers rose again. While the rate of overall new order growth softened from February, it was still the second-fastest in a year-and-a-half.

A further rise in new business supported a marked increase in output levels, which was marginally softer than February's recent high but substantial overall. While firms were generally able to keep on top of workloads, business capacity was tighter, as backlogs of work decreased at the weakest rate in ten months.

At the same time, non-oil firms remained confident of a rise in activity over the next 12 months. The degree of optimism was unchanged from February and stronger than the trend seen over the past three years. Companies signalled that rising demand

Riyad Bank Saudi Arabia PMI

sa, >50 = improvement since previous month



Sources: Riyad Bank, S&P Global.
Data were collected 10-23 March 2023.

Comment

Naif Al-Ghaith PhD, Chief Economist at Riyad Bank, said:

"Business conditions remain strongly positive at the end of the first quarter of 2023 as improving market conditions and increased development spending helped to boost demand in the non-oil private sector. Both output and new orders have expanded sharply, adding pressure on capacity at non-oil companies. Therefore, staffing levels have risen across all sectors and the growth in employment was among the strongest seen in the past five years.

"One of the main takeaways of this month's report is the pickup in exports. Non-oil firms continued to see a strong improvement in demand from foreign customers for two reasons. First, the improvement in industrial landscape has created positive grounds for producers to diversify their production lines and compete in foreign markets, enlarging their market share. Secondly, the recent depreciation of the US Dollar made those goods more affordable and accessible to a number of inflation-torn economies.

"Despite the global headwinds including the recent credit crunch and heightened uncertainty, Saudi non-oil firms exhibited a robust degree of confidence towards future activity in March. Supportive government policies along with improving demand levels have been grounds for this optimism."

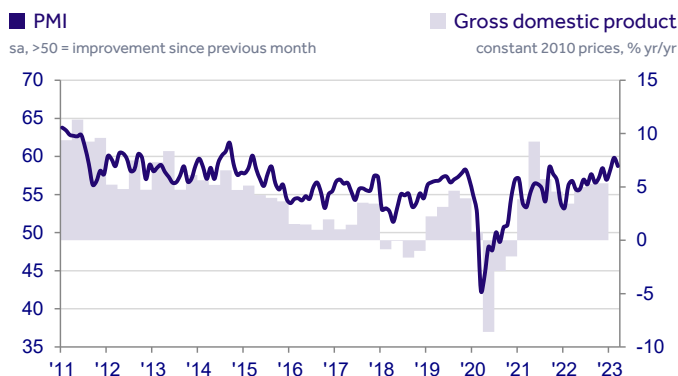
and supportive government policy often contributed to positive sentiment.

Strong confidence levels and a desire to boost capacity led companies to increase their headcounts in March. Despite easing slightly from February, the rise in employment was among the quickest seen in the past five years.

Businesses also looked to expand their inventories of inputs, leading to another sharp increase in purchasing activity. Consequently, stock levels rose at the sharpest rate since August 2022. Firms were aided by a strong improvement in supplier performance, which was the greatest in almost a year.

Meanwhile, input cost inflation faced by non-oil firms picked up to a four-month high in March, driven by rising costs for raw materials and staff wages. On the latter, efforts to compensate workers facing higher living costs meant that salaries rose to the greatest degree since September 2016.

Nonetheless, average prices charged by non-oil companies rose only slightly at the end of the first quarter, with the pace of increase slipping to the weakest seen since early-2022. According to anecdotal evidence, firms were dissuaded from price hikes due to stronger market competition, with some panellists even reducing their charges.



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Survey methodology

The Riyad Bank Saudi Arabia PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include manufacturing, construction, wholesale, retail and services. Data were first collected August 2009.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
ihsmarkit.com/products/pmi.html.

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