

News Release

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Riyad Bank Saudi Arabia PMI®

PMI drops to lowest level in two years

Key findings

Softest increase in non-oil output since January 2022

Growth expectations weaken as demand momentum slows

Sharpest rise in purchase prices since May 2012

Business conditions across Saudi Arabia's non-oil private sector improved at their slowest rate for two years in January, according to the latest Riyad Bank Saudi Arabia PMI® data. Although business activity and new orders continued to grow strongly, slowing demand momentum, greater competition and increased cost pressures meant that rates of expansion softened markedly since the end of last year.

The latest data also signalled an uptick in inflationary pressures as robust input demand, higher material prices and growing supply chain risks led to the sharpest increase in purchasing costs since mid-2012. Despite this, output prices rose only modestly as increased competition often forced companies to avoid hiking their fees. With demand growth slowing and margins under pressure, firms showed reduced optimism for the year ahead.

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.

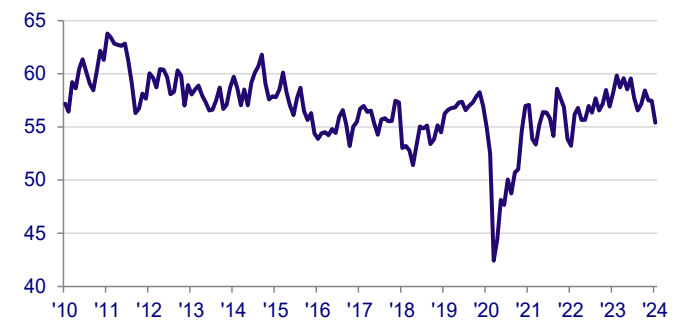
Posting 55.4 in January, down from 57.5 in December, the headline PMI was at its lowest level in exactly two years, signalling a solid but weaker improvement in the health of the non-oil private sector economy. Reflecting this, business activity levels expanded at their slowest pace since the start of 2022, although the upturn remained strong overall and widespread across the monitored sectors.

Activity continued to increase due to a rise in new business intakes, however the rate of sales growth eased considerably to a five-month low. Several businesses reported a slowing of demand momentum amid competitive pressures, while new export work dropped for the fourth time in six months.

Increased levels of new business fuelled a rise in input demand as purchasing activity and inventory holdings grew sharply. The rate of buying growth was nevertheless at an eight-month low, as

Riyad Bank Saudi Arabia PMI

sa, >50 = improvement since previous month



Sources: Riyad Bank, S&P Global PMI.
Data were collected 11-23 January 2024.

Comment

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

"In recent assessments of the Saudi Purchasing Managers' Index (PMI), it's clear that the non-oil economy has continued to grow, despite challenges stemming from rising costs and interest rates. This resilience underscores the diversification efforts within the Saudi economy. Despite cost increases, output prices have remained low, signaling a high level of competitiveness in the market. This suggests that businesses are absorbing some of the cost pressure rather than passing it on to consumers, which could indicate a strategy to maintain market share in a competitive environment.

"Moreover, the backlog of work has registered expansion for the first time in four years, particularly indicating a surge in the construction sector. This growth in the backlog of work reflects a strong demand for construction services, likely driven by ongoing infrastructure projects and real estate development. This expansion not only points to economic growth but also signifies a positive outlook for the construction industry in Saudi Arabia, potentially indicating a period of sustained expansion and investment in the sector.

"Overall, these indicators from the Saudi PMI suggest a nuanced economic landscape. While cost pressures exist, the resilience of the non-oil economy, the competitiveness reflected in output prices, and the surge in construction activities all contribute to a complex but potentially promising economic picture for Saudi Arabia."

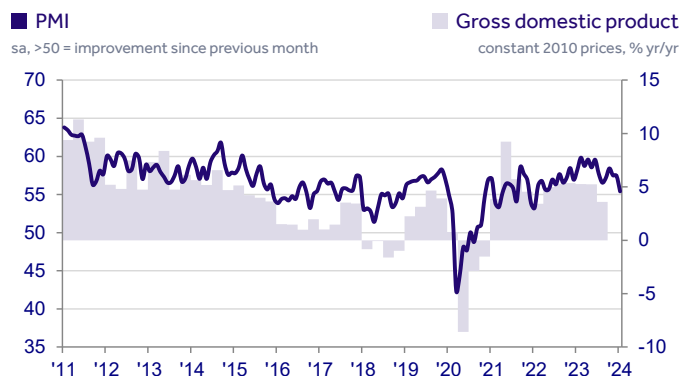
firms started to taper procurement trends amid waning demand conditions.

Meanwhile, purchase prices faced by non-oil firms rose at the sharpest rate since May 2012. Strong demand, higher material prices and greater supply chain risk were behind the increase, with some mentioning higher shipping costs amid the Red Sea crisis. Combined with a solid and faster rise in staff costs, this pushed overall input price inflation to its highest level since August 2020.

Selling prices were subsequently raised for the third consecutive month in January. However, the increase in charges was only modest and slower than in December, as survey evidence showed that greater competition dissuaded many firms from passing on higher costs to customers. Several firms even reduced their prices, especially in construction.

Labour demand remained muted with the latest data signalling only a modest rise in staffing. Subsequently, backlogs of work across the non-oil sector rose for the first time since May 2022, indicating that some workloads were not fulfilled.

Finally, business expectations for the upcoming year dropped to the second-weakest since mid-2020 in January, as firms indicated that waning demand growth and renewed inflationary pressures could limit business expansion in 2024.



Sources: Riyadh Bank, S&P Global PMI, GaStat via S&P Market Intelligence

Contact

Naif Al-Ghaith
Chief Economist
Riyad Bank
T: +966-11-401-3030 Ext.: 2467
naif.al-ghaith@riyadbank.com

David Owen
Senior Economist
S&P Global
T: +44 1491 461 002
david.owen@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 7967 447 030
sabrina.mayeen@spglobal.com

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Survey methodology

The Riyadh 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@spglobal.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.

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