

Riyad Bank Saudi Arabia PMI®

Selling prices rise at quickest rate since August 2020

Key findings

Charge inflation jumps amid wage pressures

Output growth remains strong, despite slowing

Staffing and input purchasing continue to expand

Saudi Arabia's non-oil private sector continued to see a strong improvement in operating conditions in May, as rising market demand led to another steep increase in economic activity, according to latest data from the Riyad Bank Saudi Arabia Purchasing Managers' Index™ (PMI®). Demand strength underlined further uplifts in output, employment and purchasing, with staff levels rising at the joint-fastest rate since January 2018. However, a recent run of strong wage pressures meant that firms' output prices rose sharply in May, with the pace of inflation accelerating to the highest for nearly three years.

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.

At 58.5 in May, the headline PMI dropped from 59.6 in April amid downward movements in the index's two largest components (New Orders and Output). Nevertheless, the index remained well above the 50.0 growth threshold and was higher than its long-run average of 56.9.

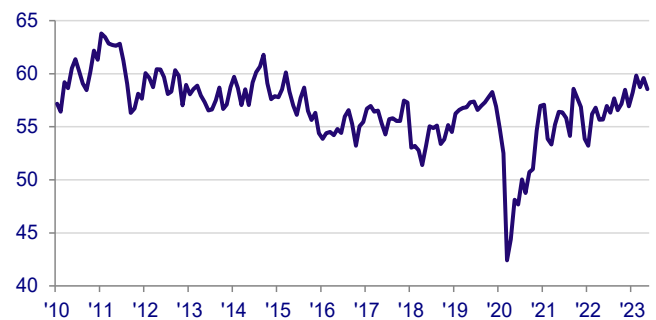
New order inflows at non-oil private sector businesses continued to rise considerably in May, after growth quickened to its highest in just over eight-and-a-half years in April. The rate of expansion slowed slightly, despite a renewed upturn in sales from foreign clients. Survey panellists frequently linked rising new orders to improved economic conditions, as well as greater travel and tourism and increased business investment.

Activity levels also rose markedly in May, although the rate of expansion softened and was the weakest recorded in 2023 so far. In a similar fashion, firms increased their purchases of inputs and key components sharply but to the least extent for five months.

Anecdotal evidence suggested that vendors responded well to requests from clients for quicker deliveries, resulting in another strong improvement in supply chains. The faster arrival of inputs

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sa, >50 = improvement since previous month



Sources: Riyad Bank, S&P Global.
Data were collected 12-22 May 2023.

Comment

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

"The Kingdom's non-oil GDP is likely to have notably grown in the second quarter this year thanks to the healthy state of the private sector. The Riyad Bank PMI highlights the ongoing resilience of the domestic business sector to a number of headwinds, including the tightest monetary conditions since at least 2007. While a slower oil economy and rising interest rates will create a challenging environment for some establishments, most Saudi firms are in good shape and experiencing robust business conditions. May results show a small retracement from the strong April outcome, reinforcing the view that overall economic activity is holding up well as we enter the summer months.

"New orders grew considerably, reflecting a strong demand growth, particularly in tourism activities and construction. This led to the joint-fastest rate of job creation since 2018 which allowed firms to work through backlogs at a quicker pace this month. Higher employment and activity levels has driven wages to rise at the second-fastest pace in seven years, leading to a sustained mark up in prices charged to consumers. Furthermore, a welcome development is that exports returned to expansion territory and above the long-run average following a slight downturn in the previous month.

"Business expectations for the next 12 months eased slightly but still indicate optimism regarding future output. The government continues to implement large scale diversification policies and accelerate the development of giga-projects, aiming to boost the private sector, the engine for job creation. Therefore, we are confident that the non-oil sector will play a predominant role in driving growth this year, supported by increased investments and robust demand."

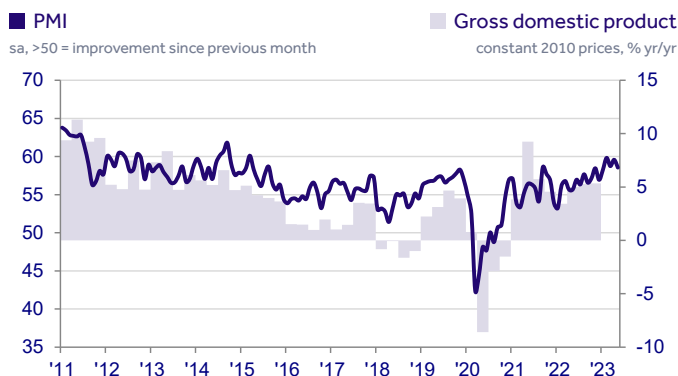
aided a marked upturn in firms' inventories, which was the fastest since August 2022.

Employment growth was also relatively strong, with the rate of job creation picking up to the joint-fastest since the beginning of 2018. However, some businesses mentioned having to increase their salaries due to labour shortages and rising living costs, leading to a sustained uplift in staff expenses that was the second-quickest since September 2016.

The rise in wages partly drove a sharp uptick in average input costs, leading a greater proportion of companies to raise their output prices. The rate of output charge inflation was the sharpest recorded since August 2020, with services and manufacturing firms increasing their prices at the fastest rates.

Higher employment and activity levels allowed firms to work through backlogs at a quicker pace during May. The volume of outstanding business fell the most since November last year.

Business expectations in Saudi Arabia remained positive in May, with firms anticipating improving market conditions, strong sales and supportive government economic policy to aid growth prospects. However, rising competition meant that firms were not as confident as in April, with sentiment dropping to the lowest in exactly one year.



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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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