

Riyad Bank Saudi Arabia PMI®

PMI falls to 11-month low as demand growth softens

Key findings

Business activity rises at slowest rate since January 2022

Sales growth moderates, but remains strong

Outlook weakens amid competitive pressures

The Riyad Bank Saudi Arabia Purchasing Managers' Index™ (PMI®) signalled an improvement in operating conditions across the non-oil private sector in August. However, the improvement was the slowest seen in almost a year, as growth in new business and activity both moderated. Surveyed companies indicated that competitive pressures had stymied sales growth, weighing on an upturn driven by strong investment and favourable demand conditions.

Concerns over market competition fed through to a worsening of firms' estimates of future activity in August, as confidence fell to its lowest level since the first half of 2020. These concerns meant that selling prices were little-changed despite rising cost burdens, though employment and purchasing continued to increase.

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.

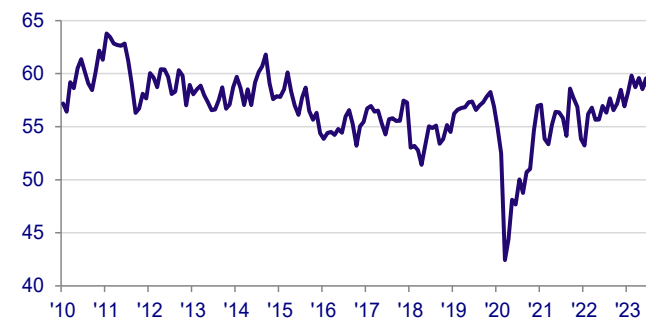
The headline PMI dropped for the second consecutive month in August and was at its weakest since September 2022. At 56.6, down from 57.7 in July, the index signalled that non-oil private sector conditions had improved strongly but to a softer degree.

August data pointed to a particularly sizeable drop in the rate of activity growth, which slowed to its weakest pace since the beginning of 2022. That said, the uplift in activity was still strong overall, with firms often associating an increase with higher new orders and market growth.

The rate of expansion in new business inflows also eased, slowing for the second month running from June's multi-year high. Surveyed firms linked a rise in sales to stronger customer demand and greater investment. However, others noted that an increase in the number of market competitors had harmed growth, while a slowdown in export sales was also recorded.

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sa, >50 = improvement since previous month



Sources: Riyad Bank, S&P Global PMI.
Data were collected 10-22 August 2023.

Comment

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

"The Kingdom's non-oil activities have managed to expand despite the continuous challenges arising from input prices and the high interest rates. Tighter monetary policy dampens consumption and investment, reducing demand for consumer and business products. However, the non-oil economy has not displayed much of the tighter monetary policy symptoms. This has been overcome by the ongoing reforms and projects that is under the vision 2030. The vision has attracted and is continuing to attract foreign firms to enter the market. It is expected to increase the level of competition and enhance services and products deliveries. In fact, the higher level of competition made firms increase the quantity and stocks of purchases. Unemployment is expected to fall with firms attracting talent and marketing staff.

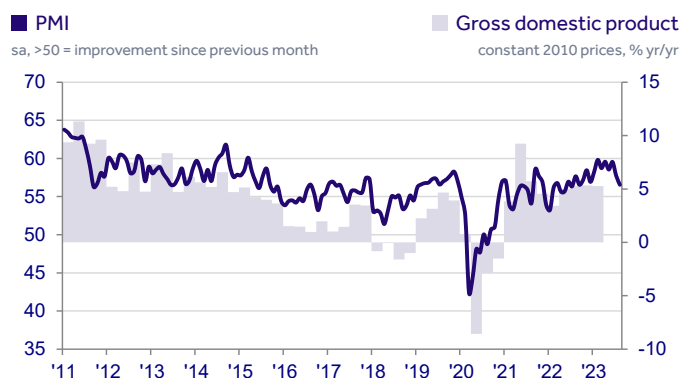
"Both employment and wages continue to increase in response to firms' expansions. However, the pace of staff cost inflation was notably slower than that of purchasing costs. With these expansions, prices were not able to respond to tighter monetary policy and increased. But with the greater competition, firms are not passing these on to customers via higher output prices. This has made us maintain our previous projection of inflation to average below 3% for 2023."

The rise in market entrants meant that some businesses were less optimistic about future activity during August. In fact, the degree of confidence towards the year ahead fell to the lowest level since June 2020, and was the weakest recorded in the series history when excluding the first half of that year.

Continuing the recent trend, non-oil firms reported only marginal changes to their selling prices midway through the third quarter, with respondents noting that competitive pressures had limited their ability to pass on cost burdens to clients. At the same time, the rate of input cost inflation accelerated to the fastest in just over a year, linked to a sharper uptick in purchase prices.

Meanwhile, average lead times on inputs shortened only mildly in August, the rate of improvement being the slowest registered in the current 19-month sequence of improvement. Some businesses noted that strong demand had put pressure on vendors and limited their performance. Purchasing activity continued to rise sharply, albeit at the slowest pace for three months, while stock levels expanded markedly.

Employment levels in the non-oil economy rose solidly in August, with the rate of job creation picking up from July. Sustained new business growth contributed to hiring, according to panellists, with some mentioning the recruitment of marketing staff. Greater hiring and output helped firms to reduce their outstanding work levels further.



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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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