News Release

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Riyad Bank Saudi Arabia PMI®

Business activity growth remains strong despite loss of demand momentum

Key findings

New order growth slips to 25-month low

Output rises steeply as employment recovers

Purchasing growth slows amid elevated stock levels

Saudi Arabia's non-oil private sector saw another robust expansion in May, according to the latest Riyad Bank Saudi Arabia PMI®. Business activity and new order growth remained steep amid further reports of strong demand conditions, especially in domestic markets, although the upturn in sales was the least marked in just over two years.

Robust inventory growth continued after reaching its highest on record in April, as firms sought to prepare for strong sales performances in the future. The rapid increase in inventories followed another month of relatively modest cost pressures, allowing firms to keep prices charged inflation low in a bid to offset growing competition. However, elevated stock levels led to some pullback on purchasing growth which slipped to the weakest since September 2021.

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.

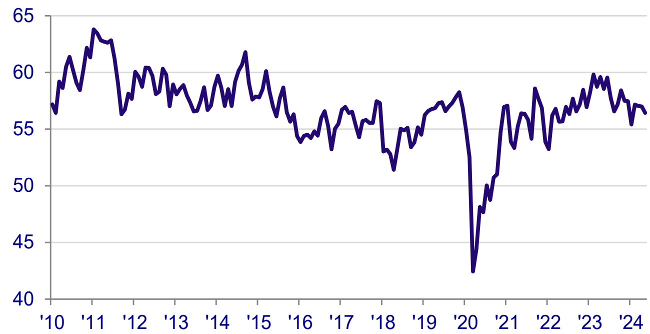
The headline PMI posted 56.4 in May, dropping from 57.0 in April, to indicate another sharp month-on-month upturn in operating conditions within the Saudi Arabian non-oil private sector. That said, the reading was the second-lowest for 22 months, higher only than January's recent nadir.

Business activity rose at a substantial rate in May, extending a spell of robust output growth across the non-oil economy. Firms often reported increasing their activity due to strong demand conditions and efforts to fulfil pending workloads. Growth was broad across the monitored sectors, with construction noting the sharpest expansion.

New orders placed at non-oil businesses also rose steeply during May, albeit at the least pronounced pace in just over two years. Some companies reported a slowing of market conditions and difficulties gaining new customers due to high competition. The

Riyad Bank Saudi Arabia PMI

sa, >50 = improvement since previous month



Sources: Riyad Bank, S&P Global PMI.
Data were collected 10-22 May 2024.

Comment

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

"The Purchasing Managers' Index (PMI) for Saudi Arabia's non-oil economy shows a positive trend, driven by increasing demand as evidenced by the rise in new orders. This growth has necessitated an increase in employment to meet the growing demand for goods and services. However, the surge in demand has also led to price pressures impacting input prices and staff costs, although the increase in output prices has been observed at a slower pace. This balancing act reflects the challenges faced by businesses in managing costs while trying to capitalize on the expanding market.

"Furthermore, the rise in inventory levels and prices has prompted firms to adjust their purchasing behaviors to align with their sales strategies. This cautious approach indicates a strategic response to the changing market dynamics and the need to maintain a sustainable business model. These adjustments in procurement decisions highlight the importance of adaptability and flexibility in navigating the evolving economic landscape.

"The latest flash estimates of the non-oil GDP growth in the first quarter and the forecast for the second quarter suggest a continuation of this upward trajectory. It is anticipated that the non-oil GDP growth will exceed 3%, driven by ongoing efforts to diversify the economy in line with Vision 2030. This strategic vision underscores the government's commitment to reducing its dependence on oil revenues and fostering a more diversified and resilient economy, paving the way for sustained growth and development in various sectors."

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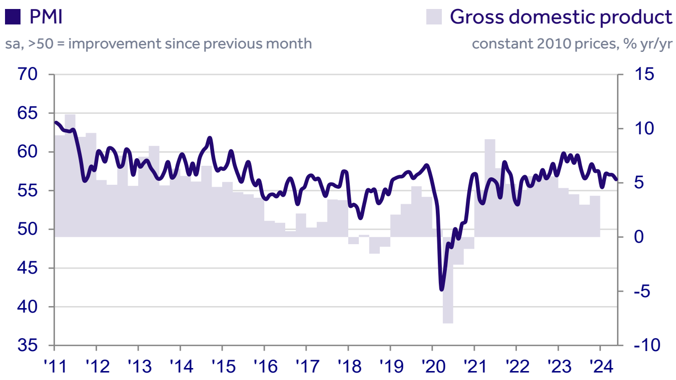
expansion in new orders was mainly driven by domestic sales, although the latest data also indicated another modest rise in export business.

After reaching a survey-high rate of accumulation in April, stocks of purchases across the non-oil private sector rose firmly once again during May. Rising inventories were mainly underpinned by forecasts of a continued improvement in sales performances. However, there was some evidence that firms had overreached in their inventory targets and were readjusting purchases, as the rate of growth in new input buying slowed sharply to a 32-month low. The slowdown also came at the same time as a drop in business confidence towards the 12-month activity outlook, bringing sentiment to its lowest level since January.

Meanwhile, non-oil private sector firms increased their employment levels in May, offsetting the first decline in over two years in April. Staffing growth was mostly linked to higher workloads and efforts to reduce outstanding orders, which duly fell slightly.

Cost pressures faced by non-oil firms remained softer than those recorded at the start of the year during May, despite a solid increase in supplier prices and a much quicker rise in employee wages. Nevertheless, the passing on of higher costs to customers remained only partial, as indicated by a marginal rise in selling prices. Further caution towards pricing among firms reflected growing competitive pressures and the offering of discounts.



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

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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@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.
www.spglobal.com/marketintelligence/en/mi/products/pmi

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We provide a comprehensive range of products and services fully compliant with the Islamic Sharia' to meet the needs of both retail and corporate customers, including small and medium-size enterprises. We play a leading role in various areas of finance and investment around Saudi Arabia, that is why we are distinguished as a leading financier and arranger of syndicated loans in the oil, petrochemicals and most of the Kingdom's notable infrastructure projects. www.riyadbank.com

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