

News Release

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Riyad Bank Saudi Arabia PMI®

Output and new business growth soften across non-oil private sector in July

Key findings

Weakest rise in new orders for two-and-a-half years

Output growth eases, but remains strong

Selling prices cut at record pace amid growing competition

The Riyad Bank Saudi Arabia PMI® indicated a sustained improvement in business activity across the non-oil private sector at the start of the third quarter of 2024. Higher output was generally linked to increased client demand and marketing efforts, though competitive pressures and challenging weather conditions dampened growth, with new orders rising at the least pronounced pace since January 2022.

At the same time, intense competition led non-oil businesses to reduce their selling prices, despite a further increase in underlying input costs. In fact, the drop in charges was the strongest on record. Business confidence wavered, though staffing and inventory levels continued to expand.

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.

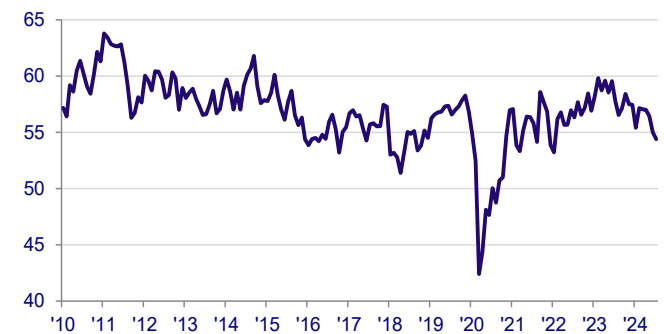
The headline PMI dropped for the third consecutive month in July, reaching 54.4 from 55.0 in June, to signal a solid but softer improvement in operating conditions across the Saudi Arabian non-oil private sector. The index was at its lowest level since January 2022.

Both output and new orders, the two largest components of the PMI, expanded to a lesser extent at the start of the third quarter. Output growth eased to a six-month low, while the upturn in new business was the least marked for two-and-a-half years. That said, survey comments signalled that demand conditions were generally favourable, driving higher sales and improved output across each of the sectors covered by the survey. Where weakness was observed, firms often linked this to greater market competition as well as capacity pressures due to the heatwave.

Purchasing activity rose at the strongest rate for three months in July, with the rate of expansion picking up from a recent nadir during June, as increasing client demand spurred firms to keep

Riyad Bank Saudi Arabia PMI

sa, >50 = improvement since previous month



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

Comment

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

"PMI managed to stay on the expansion, recording a solid 54.4, reacting to the status quo of demand and competition in the Saudi market. This figure highlights continued growth within the private sector, driven by sustained demand despite heightened competitive pressures. Demand has played a crucial role in driving orders, ensuring that businesses remain active and forward-looking. However, the extensive competition in the market has led to a downward pressure on prices, as companies strive to maintain their market share by offering more attractive pricing to consumers.

"Additionally, new exports have continued to expand, signaling a further increase in net non-oil trade. This expansion in exports suggests that Saudi businesses are successfully penetrating international markets, which bodes well for the diversification of the economy away from oil dependency. The growth in non-oil exports not only contributes positively to the trade balance but also indicates a strengthening of the country's industrial and service sectors. This trend is encouraging as it underscores the effectiveness of economic reforms aimed at broadening the economic base and enhancing global trade relations.

"Moreover, the moderation in input prices, the cost of purchases, and staff costs has been a significant factor in stabilizing output prices. This moderation reflects a controlled growth in operational costs, which has subsequently eased inflationary pressures. By preventing a sharp rise in prices, businesses can offer more competitive pricing, thereby supporting consumer purchasing power and maintaining demand. This easing of inflationary pressures is essential for sustaining economic stability, as it fosters a predictable pricing environment conducive to long-term business planning and investment. Overall, the combination of steady demand, competitive pricing, and expanding exports paints a positive outlook for Saudi Arabia's economic growth."

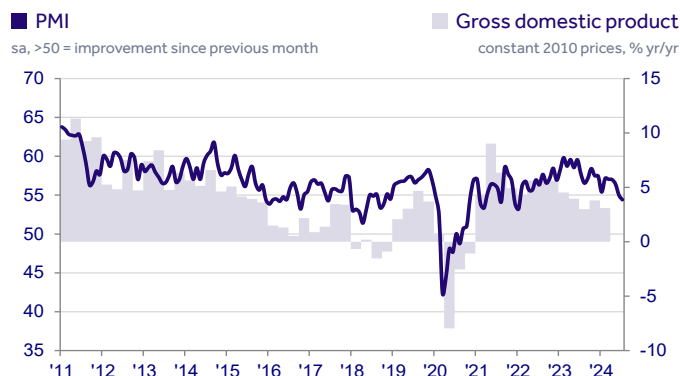
robust quantities of inputs in stock. Subsequently, purchased goods inventories rose sharply, albeit with the pace of growth easing further from April's survey high.

Employment numbers across the non-oil private sector also increased in July, marking a third successive month of expansion. That said, the uplift in staffing was only modest, having shown little change in momentum since June. Stronger workforces helped businesses keep a lid on backlogs despite some capacity challenges arising from the recent heatwave.

Vendor performance improved in July, as the average time taken for inputs to arrive at non-oil companies shortened over the month. However, the rate of improvement was the weakest in almost a year.

On prices, the latest survey data signalled a renewed decline in selling prices at the start of the third quarter. The decrease was not only the first recorded in nine months, but also the fastest observed since the survey began in 2009. Anecdotal evidence implied that competitive pressures had led firms to offer discounts on their goods and services. This occurred despite another solid rise in input costs, with both purchase prices and wages increasing in July.

Business confidence towards the year-ahead outlook subsided in July and was only mildly upbeat. Higher client demand, healthy work pipelines and increased government investment were often cited by firms with a positive outlook.



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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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