

Riyad Bank Saudi Arabia PMI®

Job numbers rise at strongest rate since January 2018

Key findings

Sharp demand growth supports further expansion in activity

Job creation quickens, but purchasing growth slows

Fastest rise in selling charges since March

Saudi Arabian non-oil companies enjoyed a sharp expansion in business activity at the end of 2022, driven by robust market demand and new business intakes. The upturn fuelled an increase in employment that was the strongest seen for nearly five years, whereas stockpiling efforts slowed as purchase prices ticked higher. Despite cost inflation softening, output charges rose to the greatest extent since March.

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 stood firmly above the 50.0 no-change mark at 56.9 in December, to signal a sharp improvement in business conditions across the non-oil private sector. However, the index dropped from 58.5 in November to a three-month low.

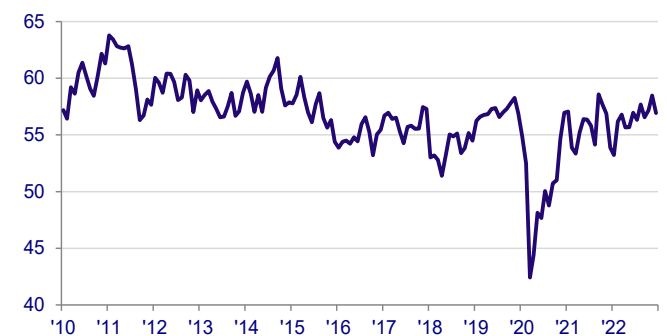
Central to the upturn was another strong increase in business activity, although the rate of growth eased from November's over seven-year high. Firms mainly linked the rise in activity to higher sales and improving market demand.

Concurrently, new order inflows rose sharply, with 30% of surveyed firms reporting growth compared to one month ago. While sales rose in all four monitored sectors, the upturn was strongest among service providers. Firms also reported a sharp increase in new orders from abroad, which panellists often attributed to higher demand from other GCC countries.

With sales growing, Saudi Arabian firms expanded their employment numbers in December in order to boost operating efficiency. The rate of job creation was the fastest recorded in almost five years. The increase in staffing capacity helped companies to lower outstanding work for the seventh month running, although the rate of reduction was the softest since June.

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sa, >50 = improvement since previous month



Sources: Riyad Bank, S&P Global.

Data were collected 6-15 December 2022.

Comment

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

"Job creation in the non-oil sector has never been this strong in almost five years. This is attributed to the ongoing reforms that support the private sector under the Saudi Vision 2030.

"We see operating conditions remaining favourable in December, characterized by rapid growth in the non-oil activities and a robust labour market by the end of 2022, with both jobs and wages having far more momentum than previously thought.

"The increase in interest rates has been offset by the rapid growth which is expected to be near 9% for 2022. This significant growth pushed prices even further in the service sector, pointing to an inflationary pressure caused by the demand side, especially in the service sector, that is shadowing the input cost. Prices, however, are expected to ease in the upcoming year with the anticipated drop in international prices caused by the high interest rate and recovered supply chains.

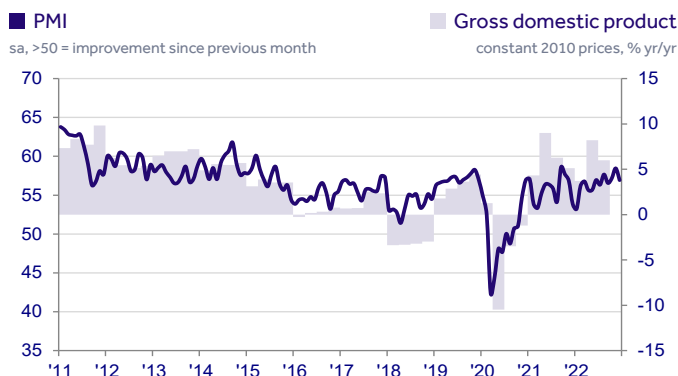
"All in all, December data points to a continuous growth for the fourth quarter with optimism on the upcoming year. This made us comfortably project growth of non-oil GDP to exceed 4% in 2023."

Whilst staff demand grew in response to strong domestic conditions, businesses signalled a reduced appetite to build input stocks. Purchasing activity rose solidly, but to a much lesser extent than in November, leading to only a marginal increase in stocks that was the softest for over two years. Delivery times on inputs improved only modestly.

Weaker stockpiling efforts came amid a further increase in purchasing costs, which companies mainly linked to higher import fees and increased prices for inputs such as metals and electrical items. However, the overall rise in purchase costs was less marked than in November. Concurrently, staff costs rose for the second month in a row due to strong hiring activity.

Prices charged by non-oil firms rose solidly and at the fastest pace for nine months in December, as companies often cited the need to pass increased expenses onto their clients. For the first time since July, output charges rose in all four broad sectors covered by the survey.

Non-oil companies maintained a broadly positive view for the upcoming year in December, with optimism largely based on strengthening demand and forecasts of increased investment linked to the Vision 2030 initiative. That said, the degree of optimism weakened to a seven-month low and remained much softer than the long-run trend.



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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@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.
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