

## Riyad Bank Saudi Arabia PMI®

### Sales growth quickens in non-oil economy as competitive pressures lead to price discounting

#### Key findings

Output and new orders rise at faster rates

Firms offer discounts to clients amid strong competition

Business optimism picks up after August's fall

The Riyad Bank Saudi Arabia Purchasing Managers' Index™ (PMI®) signalled an accelerated expansion in the non-oil private sector economy in September, with activity and new business both rising to a stronger degree compared to that seen in August. Business confidence in future activity also improved, although growth of purchasing, inventories and employment all softened.

The pick-up in sales growth was partly helped by a renewed cut in output charges, as firms reported offering discounts to their customers to combat strong competition. Selling prices decreased despite a further robust rise in input prices, placing greater pressure on profit margins.

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.

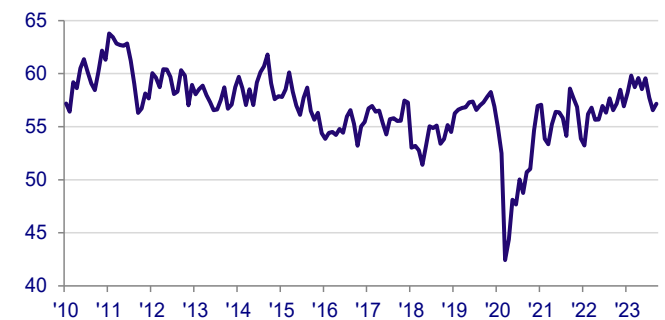
The headline index rose to 57.2 in September, up from an 11-month low of 56.6 in August, to indicate a sharp and quicker upturn in the health of the Saudi Arabian non-oil private sector. Notably, the index returned above its long-run average of 56.9.

After slipping to the weakest in over a year-and-a-half in August, the rate of business activity growth at non-oil companies reaccelerated at the end of the third quarter, with around 27% of surveyed firms reporting an increase in output over the month. Higher activity was registered in each of the four broad sectors monitored by the survey, with all categories recording a robust expansion.

Supporting activity growth was another marked increase in new business intakes during September, with the upturn sharpening to the strongest since June. Anecdotal evidence signalled that improving market conditions was a key catalyst to rising client orders, while some firms highlighted increased new business initiatives in sales and marketing departments.

Riyad Bank Saudi Arabia PMI

sa, >50 = improvement since previous month



Sources: Riyad Bank, S&P Global PMI.

Data were collected 12-21 September 2023.

#### Comment

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

"The non-oil economy continues its growth despite the challenges arising from the current monetary policy conditions. Our view is that non-oil GDP will continue to support growth and remain above 5.5% for 2023 supported by the ongoing reforms under the vision 2030. The Riyad Bank headline PMI reflects the growth of the non-oil sector and shows an increase in growth for September to register 57.2, driven by the new orders and output levels. Despite the increase in input prices, prices of goods did not register the same increase and were instead muted by stronger competition. Thus, our expectation is that the headline inflation rate for Saudi Arabia will average 2.5% for 2023.

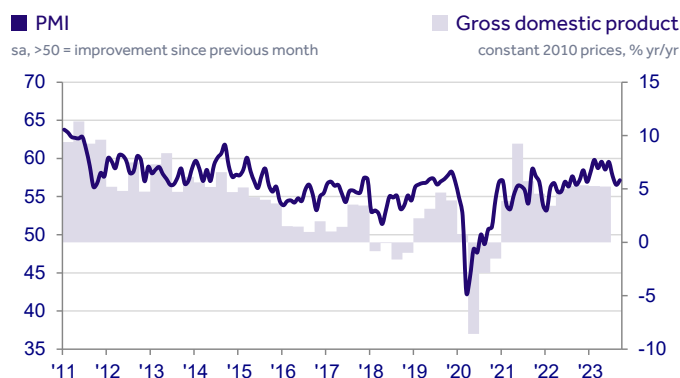
"External headwinds have impacted exports of non-oil companies which decreased slightly in September. However, input and imports are continuing to rise, which would impact the ratio of non-oil exports to imports to below 31."

On the other hand, panel reports indicated that competitive pressures had limited sales for some businesses and resulted in a drop in selling charges for the second time in three months. The overall decrease in prices charged was modest, but nevertheless the quickest recorded since July 2020. Firms engaged in price discounting despite another sharp increase in input costs, linked to higher raw material prices and greater wages amid the rising cost-of-living. This suggested that firms' profit margins were again constrained.

Meanwhile, the latest data pointed to continued strength in purchasing and hiring, albeit with rates of growth slowing from August. Purchasing activity rose sharply as firms indicated a further increase in input requirements. Alongside this, businesses saw a marked improvement in suppliers' delivery times, resulting in a sharp, but slower expansion in stock levels.

Employment numbers also rose, with the moderate uplift still among the fastest recorded in the past five years. This enabled firms to complete work in a timely manner, leading to a solid reduction in outstanding business that was the quickest for a year.

Finally, output expectations picked up sharply during September, after falling to the weakest level since mid-2020 in August. Firms were hopeful that improving market conditions and rising sales would continue to support an expansion in activity.



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

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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](mailto: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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