

News Release

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S&P Global Saudi Arabia PMI[®]

Saudi Arabia PMI remains at 55.7 in May

Key findings

Output and new orders continue to grow markedly

Backlogs increase for first time since January 2020

Selling prices rise sharply amid higher fuel and supplier costs

Saudi Arabian non-oil businesses continued to see a strong improvement in operating conditions in May, as the latest PMI data from S&P Global signalled marked expansions in activity and new orders. However, the upturn was accompanied by a further rise in output charges, as firms reacted to heightening inflationary pressures on fuel and raw material prices. Despite picking up for the first time in three months, businesses continued to report only a mild degree of confidence in future activity, amid concerns that inflation could hinder demand in global and domestic markets.

The headline seasonally adjusted S&P Global Saudi Arabia Purchasing Managers' Index[™] (PMI[®]) posted at 55.7 for the second consecutive month in May, indicative of a robust improvement in the performance of the non-oil private sector economy. Business conditions have now strengthened in each of the past 21 months. However, the latest reading was below the series long-run average of 56.8.

Output across the non-oil private sector continued to increase sharply midway through the second quarter, albeit to the least marked extent since January. Where output had risen, firms often commented on rising sales and improving demand conditions.

New business rose at a slightly quicker pace than in April, with nearly a third of respondents highlighting an uplift in sales over the month. Anecdotal evidence suggested that the rise in demand was again partly based on a recovery in economic activity since pandemic measures were loosened. In addition, firms reported an upturn in new export orders for the third month running, albeit one that was softer than for domestic sales.

While business conditions continued to improve, non-oil firms also faced increases in fuel, material and freight prices in May in line with intense global inflationary pressures. Input costs rose at the second-quickest pace in a year-and-a-half, slower only than the uptick in March in the immediate

S&P Global Saudi Arabia PMI
sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-23 May 2022.

Comment

David Owen, Economist at S&P Global Market Intelligence, said:

"The continued strength of the domestic non-oil economy encouraged firms to pass-through higher input costs to their customers in May, with the latest PMI data indicating another solid increase in selling prices due to greater fuel, material and transport costs.

"Customer demand appears to be responding well to price mark-ups so far, with another marked increase in new orders recorded in May, leading to a robust expansion in business activity.

"However, this may start to change as global inflation builds and household costs rise, particularly as global supply chains remain under considerable pressure from lockdowns in China and the Russia-Ukraine war.

"Reflecting these risks, the outlook for future activity remained notably weak, with just 11% of respondents signalling expectations of a rise in output by May 2023, less than half the survey's long-run trend."

PMI[®]

by S&P Global

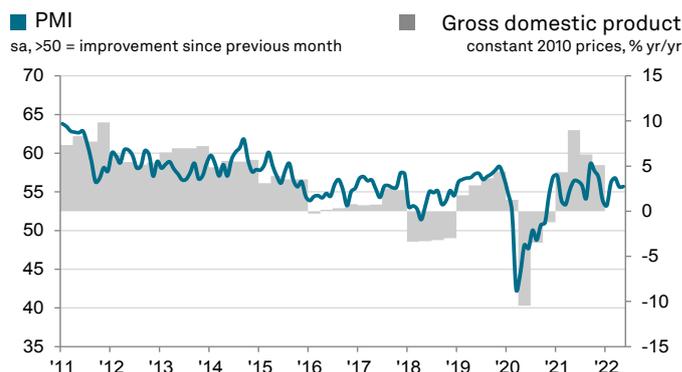
aftermath of Russia's invasion of Ukraine.

The strong uplift in client sales meant that businesses remained in a position to pass on higher costs to their customers, indicated by a further solid increase in output charges. While the rate of inflation eased slightly to a three-month low, it remained robust compared to historical trends.

Meanwhile, PMI data suggested that firms had begun to limit stockpiling of inputs in May. The rate of input buying growth slowed markedly from April's 52-month high and was the softest recorded in the year to-date. Inventories also grew to a much lesser extent, while reports suggested that global raw material shortages led to a softer improvement in supplier performance.

Constrained supply contributed to a renewed increase in backlogs of work at non-oil companies during May, marking the first accumulation of incomplete business since the COVID-19 pandemic began. While only marginal, the rise showed that new orders were starting to place strain on total capacity. As such, staffing numbers increased for the second straight month, although only slightly overall.

Lastly, the outlook for business activity in the year ahead picked up for the first time in three months in May. That said, it remained weak by historical standards with just 11% of firms expecting growth, amid continued uncertainty over global inflation, the pandemic and the war in Ukraine.



Sources: S&P Global, GaStat.

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Survey methodology

The S&P Global 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.

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