

News Release

Embargoed until 0715 AST (0415 UTC) 5 July 2022

S&P Global Saudi Arabia PMI[®]

Cost pressures climb to 22-month high in June, but demand continues to rise sharply

Key findings

Rising material and fuel prices drive strong cost pressures

New orders rise at fastest rate since last October

Business expectations improve to 17-month high

The latest PMI data from S&P Global signalled a robust improvement in business conditions across Saudi Arabia's non-oil private sector economy in June. New business rose at the sharpest rate for eight months, despite evidence that intensifying cost pressures had led companies to mark up their prices. In fact, the rate of input cost inflation accelerated to a 22-month peak, as global supply headwinds drove sustained increases in fuel and raw material prices.

In addition to a strong boost in output, non-oil businesses showed a greater degree of optimism for future activity in June, as confidence rose to the strongest level since the start of 2021. The positive outlook resulted in a further increase in employment and stock building of items facing supply shortfalls.

The headline seasonally adjusted S&P Global Saudi Arabia Purchasing Managers' Index™ (PMI[®]) posted further above the 50.0 neutral mark in June, rising to 57.0 from 55.7 in May. The reading was the highest seen since October 2021 and slightly above the series long-run average of 56.8.

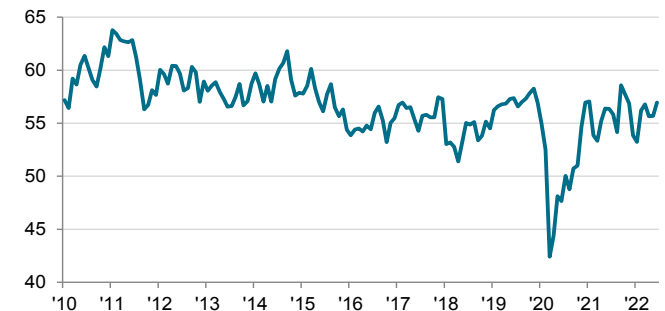
Business conditions were strengthened by an even sharper rise in new order inflows, according to the latest survey data. The rate of sales growth picked up for the second month running and, like the headline PMI, signalled the strongest upturn since October last year. Anecdotal evidence from panellists suggested that domestic economic conditions had continued to improve, whilst efforts to increase marketing and offer some price discounts supported higher client demand.

Stronger growth in new export orders was also registered in June, as firms saw a marked increase in foreign demand. The overall upturn was the quickest recorded for seven months.

Output levels subsequently rose to a greater degree at the end of the second quarter, with over 28% of surveyed firms reporting an increase since May. The upturn was particularly strong in the construction sector where output growth

S&P Global Saudi Arabia PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 13-22 June 2022.

Comment

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

"Saudi Arabia's non-oil economy continued to go from strength to strength in June, with the PMI picking up to an eight-month high of 57.0 and posting well above the 50.0 no-change mark. The upturn was underlined by a robust increase in new business levels, which encouraged firms to expand their output sharply and make greater input purchases.

"However, the latest data also signalled an acceleration of input cost pressures, as fuel and raw material prices continued to rise in the face of global supply challenges. Notably, cost inflation was up to its highest level for almost two years, prompting a further uptick in average prices charged.

"While some companies reported concerns that sustained price rises could put a brake on the current path of growth, the latest survey data signalled overall output confidence picking up to a 17-month high. This positivity supported another mild increase in employment, as well as efforts to build stocks for future demand."

PMI[®]

by S&P Global

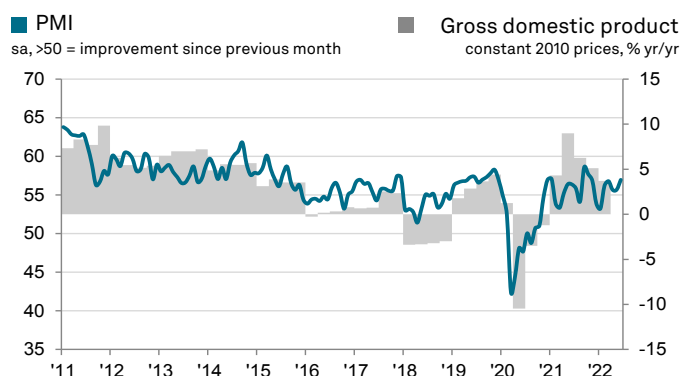
strengthened to a near three-year high. Positivity over future sales meanwhile led to a boost in business confidence to the highest level since January 2021.

At the same time, input price pressures in the Saudi Arabian non-oil economy picked up for the second consecutive month, with businesses registering the fastest rise in costs since August 2020 and one of the most marked in the last eight years. Several firms highlighted a further rise in raw material and fuel prices due to constraints in global supply, while wage costs increased slightly. Firms largely passed these cost rises onto their customers, as output charges continued to rise at a solid pace.

Despite cost concerns, non-oil companies raised their purchases of inputs further in June, with the rate of growth accelerating from May's five-month low. As well as efforts to secure inputs to meet current demand, some businesses purchased items in anticipation of future sales growth and to protect against supply shortages. As a result, inventories of inputs continued to rise sharply.

Suppliers' delivery times meanwhile shortened for the fifth consecutive month in June, as firms continued to see improvements in vendor capacity and their ability to meet requested delivery schedules. The shortening of lead times allowed businesses to reduce their backlogs of work, after recording the first increase in 22 months during May.

Lastly, employment numbers were raised for the third month running in June in a bid to boost output capacity. That said, the rate of job creation slipped to the weakest seen in this period and was marginal.



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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