Business conditions in the Saudi Arabian non-oil economy continued to strengthen at a rapid pace in October, according to latest PMI data. New orders rose sharply as domestic demand recovered from the pandemic, with the rate of growth remaining close to September’s seven-year high. Notably, output levels expanded at the sharpest rate since December 2017.

The headline seasonally adjusted IHS Markit Saudi Arabia Purchasing Managers’ Index™ (PMI) posted 57.7 in October, to indicate a sharp improvement in the health of the non-oil private sector. Despite slipping from 58.6 in September, the reading was the second-highest recorded since the start of the COVID-19 pandemic and above the long-run series average.

The 0.9-point fall in the headline PMI was largely driven by the new orders sub-index, which dropped from its seven-year high in September but was still indicative of a substantial rise in sales. The upturn in demand was widely driven by recovering spending in the domestic economy following the loosening of COVID-19 restrictions, including on travel. New export work increased to the greatest extent since May, as panellists commented on improving global trade flows.

Driven by rising sales, non-oil companies reported a marked expansion in output during October. The rate of growth accelerated from the previous month to the strongest since the end of 2017. This helped firms to keep on top of new work and reduce their backlogs, although the rate of decline in outstanding business eased to the softest since April.

**Comment**

Commenting on the latest survey results, David Owen, Economist at IHS Markit, said:

“October PMI data showed the non-oil sector recovering at a rapid pace. Growth in output was the strongest seen for nearly four years, driven by a marked rise in client demand as the lifting of COVID-19 restrictions continued to boost economic activity. New order growth ticked down from September’s recent high but remained strong, particularly compared to those seen since the start of the pandemic.

“The rate of purchase cost inflation sharpened during October, giving further signs that rising commodity prices are feeding through to firms’ balance sheets. With confidence towards sales prospects running strong, businesses were able to pass on costs to customers with the quickest rise in output prices since August 2020.”

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Purchasing activity meanwhile grew at the quickest rate in three months, as firms looked to support stock levels as new orders increased. Both input buying and inventories expanded sharply. Supplier performance in the non-oil sector improved for the second straight month in October. Businesses often found that vendors were able to make quicker deliveries in response to their requests. The latest reduction in lead times was the fastest since June.

Employment numbers also rose, continuing the growth sequence seen in each month since April. However, the rate of job creation was only marginal, as sufficient capacity to meet demand meant that firms often chose to keep staffing levels unchanged.

Input costs continued to rise solidly during October. The rate of purchase cost inflation quickened to an 11-month high, as greater raw material prices and freight rates were highlighted by surveyed firms.

Furthermore, there was a much quicker mark-up in output prices compared to that seen in September, and the strongest recorded in over a year. Anecdotal evidence suggested that the robust recovery in demand encouraged firms to pass on rising costs to their clients.

Business expectations for the next 12 months ticked down in October but remained strong compared to the 2021 average. Firms hoped that the recovery in activity and sales will continue as the economy emerges from COVID-19 restrictions.

Methodology
The IHS Markit Saudi Arabia PMI® is compiled by IHS Markit 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.

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.

Data were collected 12-21 October 2021.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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