SABB HSBC Purchasing Managers' Index™

compiled by markit

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SABB HSBC Saudi Arabia PMI™

PMI hit series record high in November, pointing to sharp improvement in business conditions.

Key findings:

- Activity and new orders rose sharply.
- Job creation picked up to robust pace.
- Weaker rise in wages tempered marked increase in purchasing costs.

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for November 2010 – a monthly report issued by the bank and HSBC. It reflects the economic performance of Saudi Arabian non-oil producing private sector companies and establishments through the monitoring of a number of variables, including output, new orders, exports, input prices, output prices, quantity of purchases, stocks and employment.

The headline index climbed to 62.2 in November – its highest level to date – up from 59.9 in October. The reading signalled another sharp improvement in the health of Saudi Arabia's non-oil private sector economy. Underlying the improvement in the PMI were faster increases in output, new orders, employment and input stocks as well as a slower shortening of supplier lead times.

New order receipts at Saudi Arabian non-oil private sector companies grew substantially during November, and at the fastest rate for five months. Panellists linked stronger demand to an improved economic environment and good company reputations. Data suggested that the domestic market remained the key driver of total new business growth, although new export work rose at a slightly sharper rate than in October.

Further growth of new orders spurred firms to raise output again during November. Activity levels rose rapidly since October and at a series record rate. However, this was not sufficient to clear work-in-hand, which continued to accumulate, and at a faster rate.

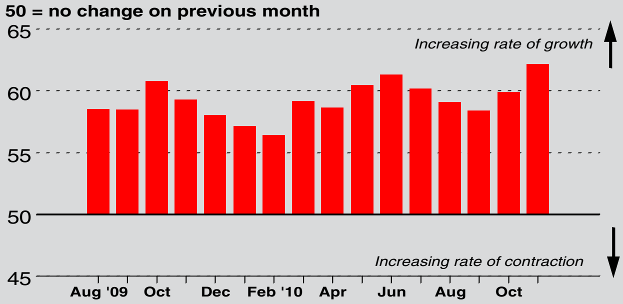
Companies hired extra staff, acquired additional inputs and built up stocks of purchases in November to accommodate new order growth and expectations of further expansion in the near future. All three increased at faster rates - the latter noticeably.

Despite greater demand for inputs from the KSA non-oil private sector, supplier delivery times continued to shorten during the latest survey period. This suggests that workloads at vendors remained manageable. However, the rate of improvement moderated since October.

Input cost inflation across the Saudi Arabian non-oil private sector eased during November to a moderate pace. The slowdown reflected weaker rises in both purchasing and staff costs. While the latter eased to only a modest rate, the former remained marked. Anecdotal evidence highlighted greater raw material and fuel prices as the key factors behind increased purchasing costs. Where wages were raised, panellists commented on better business conditions.

To compensate for rising input costs, but also to improve profit margins, KSA non-oil private sector companies increased their charges in November.

SABB HSBC Saudi Arabia PMI



The SABB HSBC Saudi Arabia Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the Saudi Arabia economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

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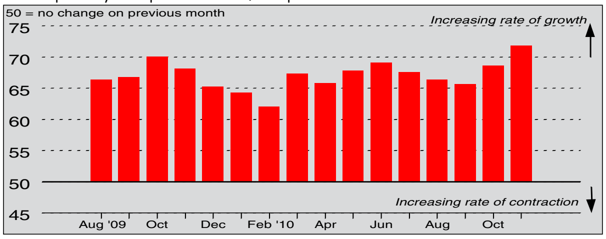
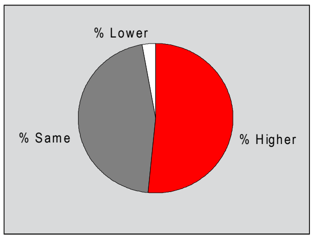
Output Index

Q. Please compare your production/output this month with the situation one month ago.

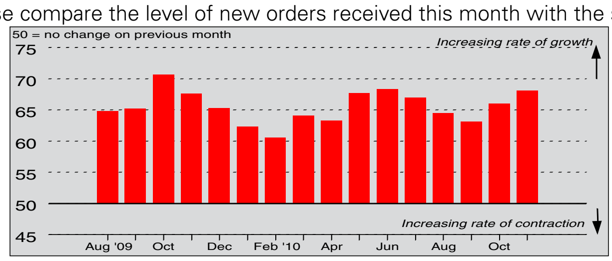


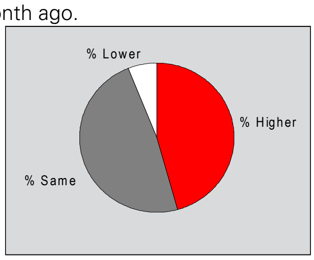


The seasonally adjusted Output Index climbed to a series record high in November. The latest reading pointed to a rapid monthly increase in Saudi Arabian non-oil private sector activity. Around 52% of respondents raised output since October, citing favourable business conditions and further gains in new work.

New Orders Index

Q. Please compare the level of new orders received this month with the situation of one month ago.

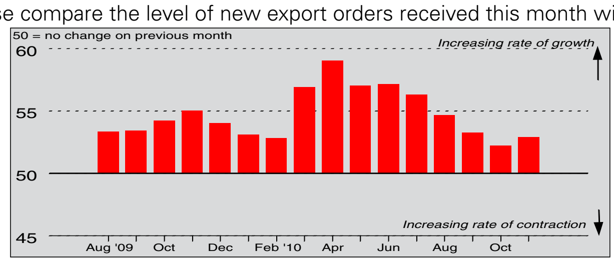


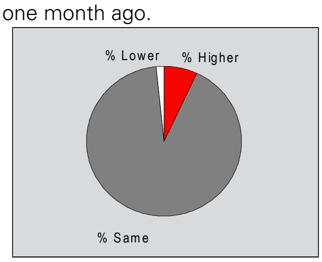


Growth of new orders at KSA non-oil private sector firms accelerated to a substantial rate during the latest survey period. Moreover, the increase was comfortably above the series trend. Improving economic conditions and good company reputations were the main reasons given by panellists for November's expansion.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

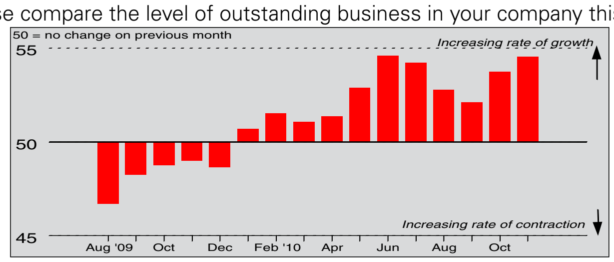


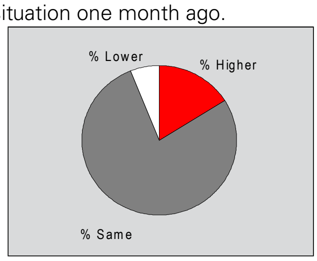


Foreign demand for Saudi Arabian non-oil private sector goods and services improved in November, resulting in another rise in new business. The rate of increase was solid and up slightly on October's survey record low. Nevertheless, the rate of growth remained below the average for the past year.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

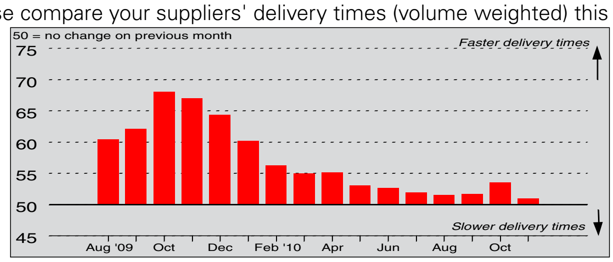


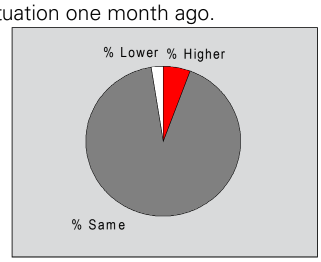


Extending the current sequence of accumulation to eleven months, outstanding business in the KSA non-oil private sector rose during November. The rate of increase was robust and the second-fastest in the series history. Respondents stated that new work was received at a faster rate than it could be completed.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

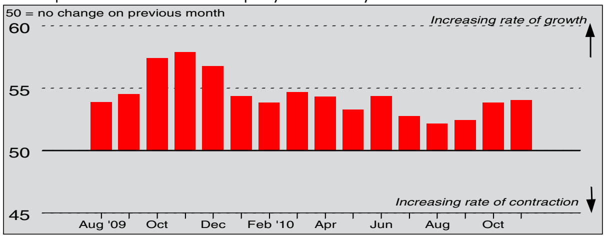


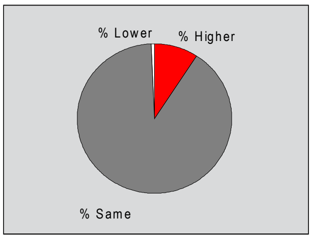


Despite a sharp pick-up in demand for inputs from KSA non-oil private sector firms in November, data suggested that suppliers were coping with their workloads. Highlighting this, lead times on deliveries of raw materials and semi-finished goods continued to shorten. However, the rate of improvement was only modest and the slowest in the sixteen-month history of the survey.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

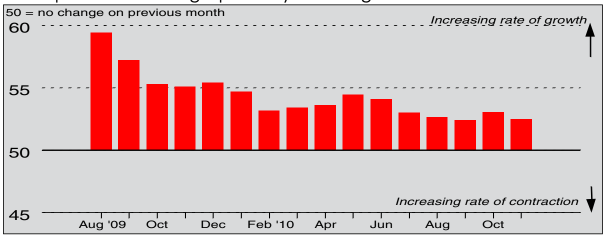


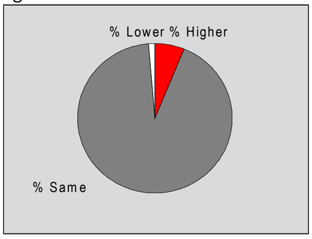


To accommodate greater business requirements, Saudi Arabian non-oil private sector companies added to payrolls in November. Job creation was robust and the sharpest since June. Respondents also stated that workers were hired in anticipation of rising new business in coming months.

Output Prices Index

Q. Please compare the average prices you charged this month with the situation one month ago.

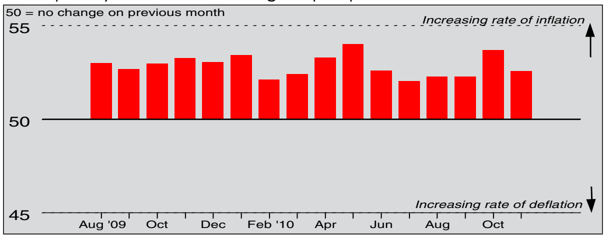


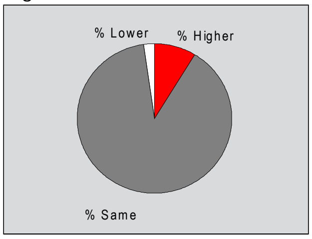


Partly to reflect increases in their input costs, but also to take advantage of favourable demand conditions, non-oil private sector firms in Saudi Arabia raised their charges in November. Output price inflation was moderate and less marked than in October. Furthermore, the rise was the second-slowest in the survey history. Reports suggested that strong competition constrained the rate of inflation.

Overall Input Prices Index

Q. Please compare your overall average input prices this month with the situation one month ago.

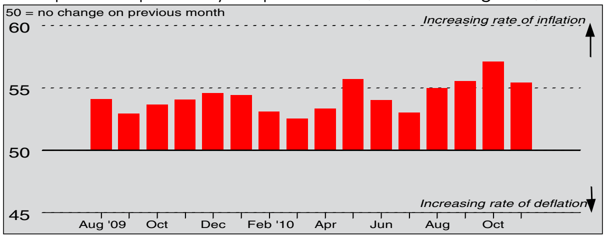


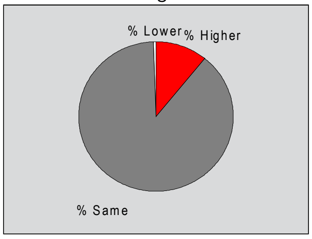


Total input cost inflation faced by Saudi Arabian non-oil private sector companies eased to a moderate pace in November. Moreover, the latest increase was slightly milder than the series trend. This slowdown reflected weaker rises in both purchasing and wage costs. Data showed that the former continued to exert the greatest upward pressure on total input prices.

Input Costs: Purchase Prices Index

Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.

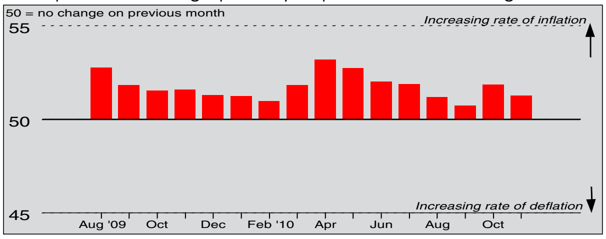


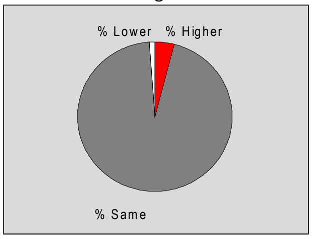


KSA non-oil private sector firms noted another rise in their average input costs during the latest survey period. Purchase price inflation was marked, despite slowing from October's series record pace. Anecdotal evidence highlighted increased fuel and raw material prices, driven up by stronger demand, as the key factors behind the latest round of inflation.

Input Costs: Staff Costs Index

Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.

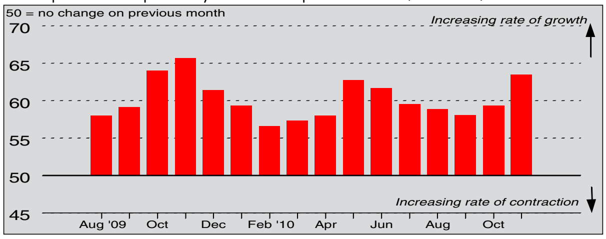


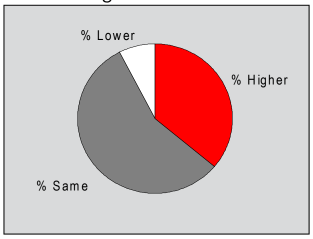


Wages in the KSA non-oil private sector continued to rise during November. Inflation was modest and slightly weaker than in the previous month. The rate of growth also remained below the series trend. Companies monitored by the survey indicated that staff payments were increased in light of better economic conditions.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

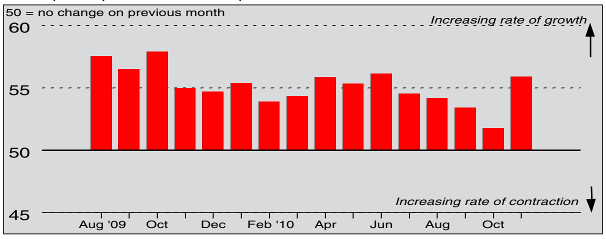


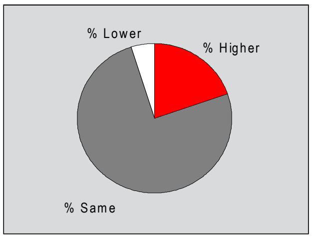


In line with the upward trends in new orders and output, Saudi Arabian non-oil private sector companies raised buying activity in November. Input acquisitions expanded sharply and at the fastest rate for a year, with 36% of the survey panel registering an increase. Stock building in anticipation of future new order growth was another reason for greater purchases, according to panel members.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



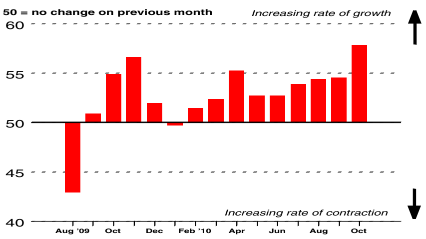


Reflecting a pick-up in purchasing activity growth in November, input stocks at KSA non-oil private sector firms accumulated at an accelerated pace. The latest increase was marked and noticeably faster than the series record low recorded in October. Inventories of purchases have risen during every month of the survey's history.

International PMI summary

UAE Purchasing Managers' Index™

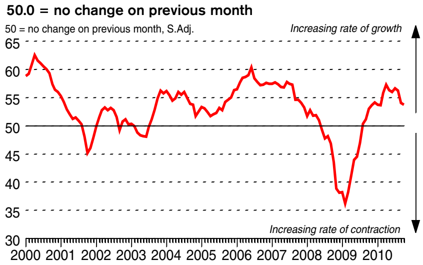
50.0 = no change on previous month



Source: Markit.

Eurozone Purchasing Managers' Index™

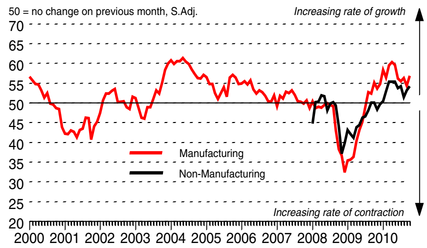
50.0 = no change on previous month



Source: Markit.

US Purchasing Managers' Index

50.0 = no change on previous month



Source: Institute for Supply Management (ISM).

Reaching a new series record peak of 53.8 in October, from 52.6 in September, the headline seasonally adjusted HSBC United Arab Emirates PMI signalled a solid gain in the health of the non-oil private sector economy. The headline index has now risen in each of the past five months.

The recovery in the Eurozone private sector economy lost further impetus at the start of the final quarter. At 53.8 in October, down from 54.1 in September, the final Markit Eurozone Composite Output Index remained above the neutral 50.0 mark for the fifteenth month running.

Buoyed by faster growth in output, new orders and employment, the headline ISM US Manufacturing PMI climbed to 56.9 in October from a ten-month low of 54.4 in September. The ISM US Non-Manufacturing Index also rose in October, reaching a three-month high of 54.3.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in approximately 400 private sector companies, which have been carefully selected to accurately represent the true structure of the Saudi Arabia economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Warning