SABB HSBC Purchasing Managers' Index™

compiled by markit

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SABB HSBC Saudi Arabia PMI™

Output growth eased from November's peak, while input price inflation hit series record high.

Key findings:

- Activity and new work continued to grow sharply.
- Job creation remained robust.
- Total input cost inflation accelerated to series record high.

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for December 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.

At 61.3 in December, the headline index was down slightly from November's series record high of 62.2. Nevertheless, the latest reading signalled another considerable gain in the health of the Saudi Arabian non-oil private sector. Moreover, the rate of the improvement remained above the series trend.

Activity levels continued to grow in the final month of the year. Although the rate of increase moderated slightly from November's peak, it was nonetheless sharp. Anecdotal evidence showed that output was raised to accommodate another inflow of new business.

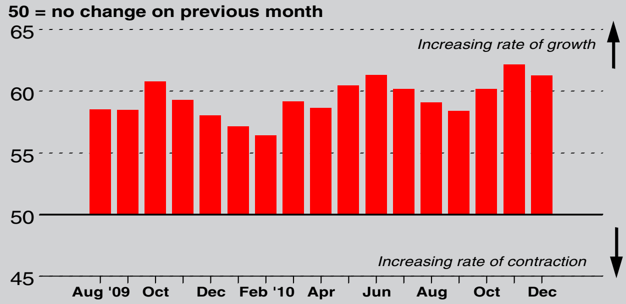
New order receipts increased at a substantial rate during December as market conditions improved. A combination of promotional work, good business reputations and company expansions also helped stimulate demand. Although export growth picked up sharply on the month, data suggested that the domestic market remained the principal driver of total new order expansion.

In order to keep output growth in line with the upward trend in demand, Saudi Arabian non-oil private sector firms took on new staff, raised buying activity and built up inventories in December. Both employment and input stocks increased markedly, while purchases rose considerably. Even so, supplier performance continued to improve, which panellists linked to strong competition amongst vendors and prompt payment for goods received.

Another expansion of new work led to a build up of backlogs during December. Outstanding business accumulated solidly, albeit to a lesser extent than over the previous two survey periods.

Total input price inflation accelerated to a series record pace at the end of the fourth quarter, driven by steeper rises in both purchasing and staff costs. The former increased at a sharp and accelerated pace that was a new series record. Reports linked greater purchasing costs to higher raw material prices, which resulted from greater market demand and unfavourable exchange rates. Meanwhile, employee payments increased at a moderate rate that was the most marked since May.

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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Local vision, international expertise

HSBC
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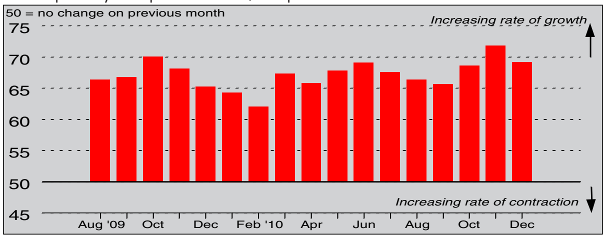
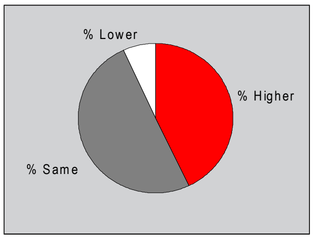
Output Index

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

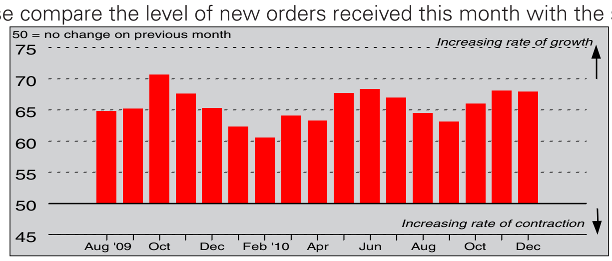


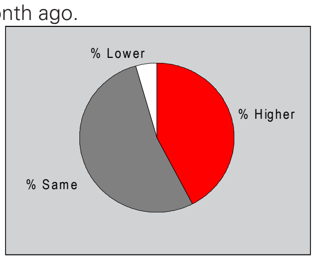


Although the seasonally adjusted Output Index slipped from November's peak in December, it continued to signal a substantial monthly increase in KSA non-oil private sector activity. Approximately 43% of the survey panel raised output since November, citing good business conditions and gains in new orders.

New Orders Index

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

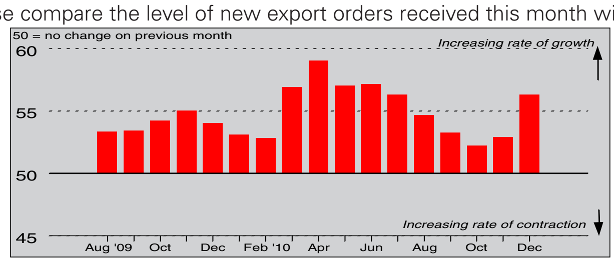


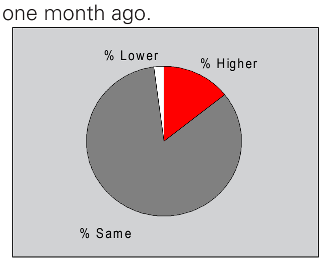


Virtually unmoved in December, the seasonally adjusted New Orders Index pointed to another sharp increase in new business across Saudi Arabia's non-oil private sector. Reports showed that a combination of favourable market conditions, successful advertising campaigns and company expansions boosted demand.

New Export Orders Index

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

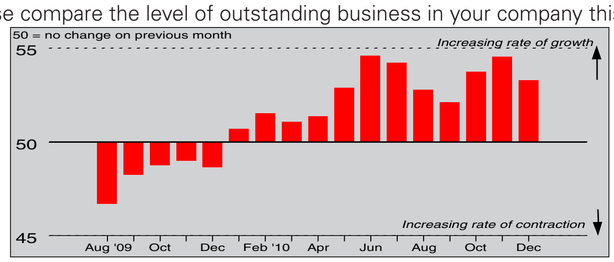


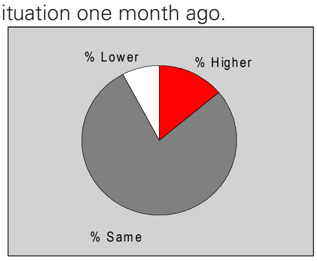


Growth of new export business picked up sharply for KSA non-oil private sector firms at the end of Q4. The latest expansion was marked and the fastest since July. Respondents stated that good market conditions abroad and strong company reputations drove demand. Some panellists mentioned improved business from Africa.

Backlogs of Work Index

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

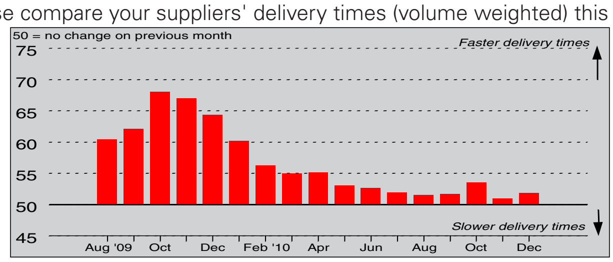


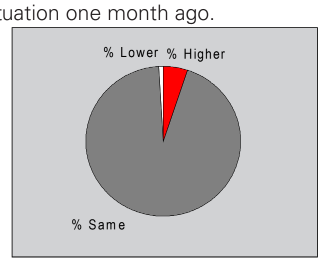


With new order levels rising further in December, data suggested that Saudi Arabian non-oil private sector firms were finding it difficult to keep on top of workloads. Backlogs accumulated for the twelfth month running and at a sharper pace than the average for the sequence. That said, the rate of increase eased to a three-month low.

Suppliers' Delivery Times Index

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

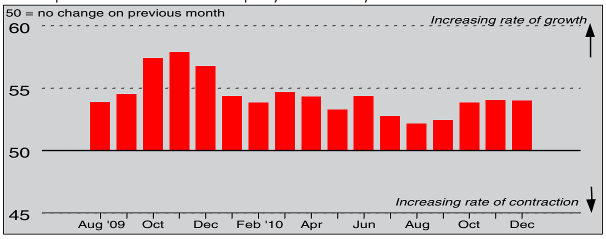


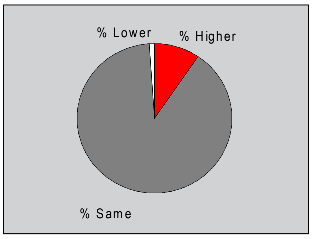


Continuing the series trend, delivery times for raw materials and semi-finished goods to KSA non-oil private sector companies shortened in December. Moreover, the rate of improvement accelerated slightly since November. Anecdotal evidence suggested that intense competition amongst suppliers and prompt payments for goods received were the principal reasons for better vendor performance.

Employment Index

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

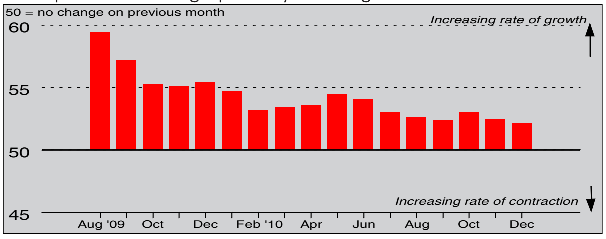


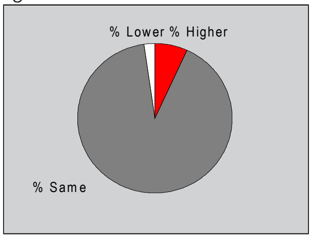


Job creation across Saudi Arabia's non-oil private sector remained robust in December, with one-tenth of survey participants hiring new staff. Firms cited heavier business requirements, resulting from greater market demand and company expansions, as the main impetus to employment growth.

Output Prices Index

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

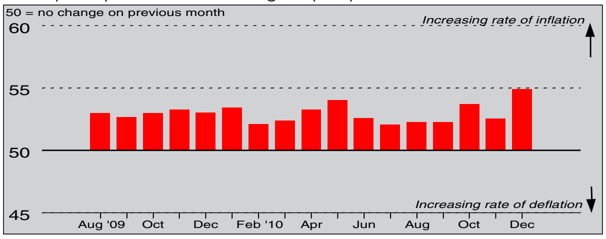


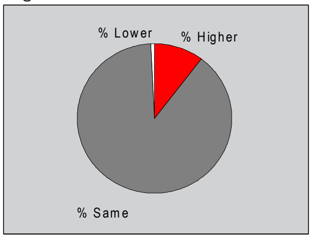


Prices charged for Saudi Arabian non-oil private sector goods and services continued to rise in December. Output price inflation was moderate and the weakest in the survey history. Respondents commented on higher raw material costs and stronger market demand as the key factors underpinning decisions to increase tariffs.

Overall Input Prices Index

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

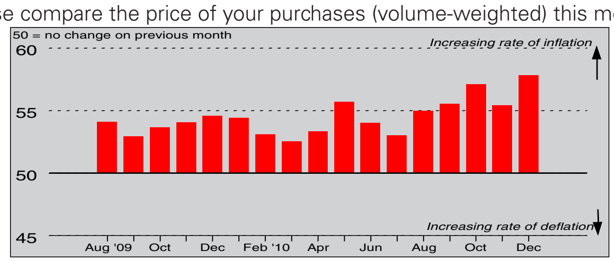


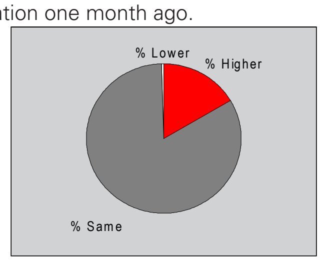


Reflecting faster rises in both purchase and staff costs, total input price inflation in the KSA non-oil private sector accelerated to a series record during December. One-tenth of panellists saw their average input costs grow on the month – approximately ten times the proportion that noted a decrease.

Input Costs: Purchase Prices Index

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

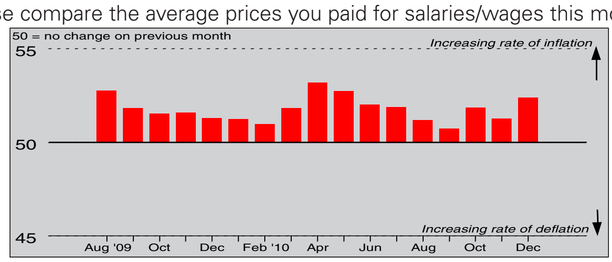


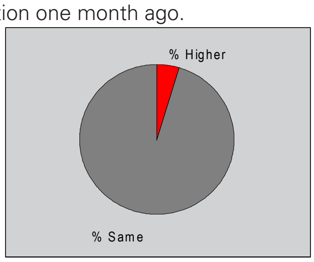


The cost of buying raw materials and semi-finished goods in the Saudi Arabian non-oil private sector rose sharply in December. Furthermore, the rate of inflation was the most pronounced in the series to date. Panellists reported that purchase prices increased on the back of higher demand for commodities and unfavourable exchange rate fluctuations.

Input Costs: Staff Costs Index

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

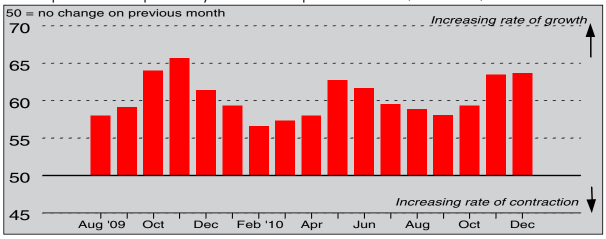


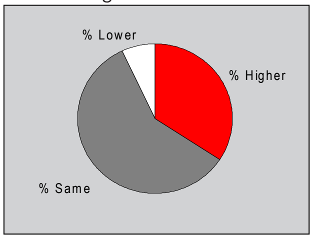


KSA non-oil private sector companies continued to raise salaries and wages during the latest survey period. Employment costs increased at a moderate rate that was the sharpest since May. Respondents linked this to a strong business performance and the need to compensate staff for higher living costs.

Quantity of Purchases Index

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

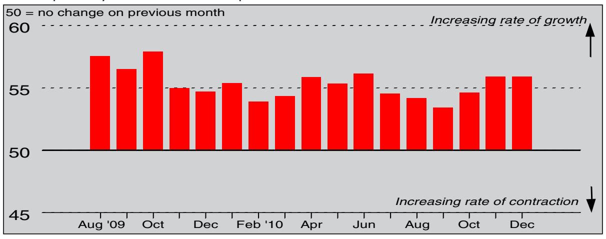


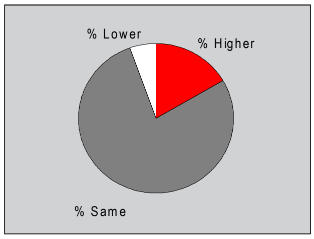


Reflecting another increase in new orders, as well as expectations of further growth in the near future, Saudi Arabian non-oil private sector companies raised buying activity in December. Input acquisitions expanded sharply and at the fastest rate for over a year, with 34% of panel members noting an increase.

Stocks of Purchases Index

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

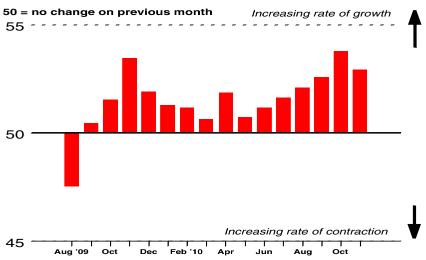




Unmoved in December, the seasonally adjusted Stocks of Purchases Index indicated another marked increase in input holdings at KSA non-oil private sector companies. Inventories have accumulated during every month of the survey's history. Reports showed that growth reflected another rise in buying activity.

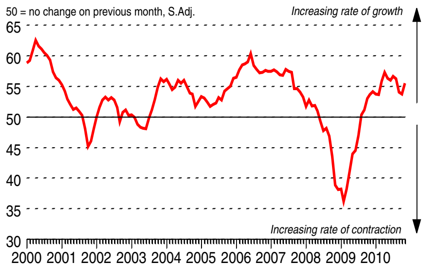
International PMI summary

UAE Purchasing Managers' Index™



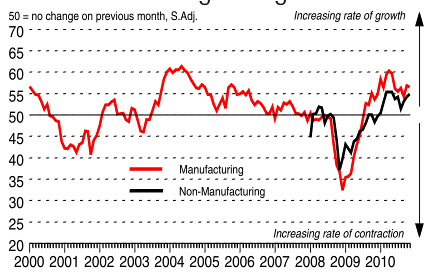
Source: Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

Latest data pointed to further improvement in the UAE's non-oil private sector economy during November. Although the headline seasonally adjusted HSBC United Arab Emirates PMI slipped to 52.9 in November, from October's peak of 53.8, the latest reading pointed to a solid gain in the health of the sector.

The Markit Eurozone Composite Output Index rose to a three-month high of 55.5 in November, up from 53.8 in October. However, the average index reading so far in Q4 (54.6) remained below that for Q3 (55.7). Output has increased in each of the past sixteen months.

At 56.6 in November, the headline ISM US Manufacturing PMI was fractionally below October's 56.9. The latest figure signalled another strong improvement in the health of the US manufacturing economy. A headline ISM US NMI reading of 55.0, up from 54.3, showed that the performance of the non-manufacturing sector improved.

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