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## SABB HSBC Saudi Arabia PMI™

February PMI signalled further strong improvement in business conditions, but input price inflation reached fresh series record.

### Key findings:

- Both output and new order growth remained strong, despite slowing.
- Job creation was solid.
- Purchasing cost inflation picked up to new series record high.

**The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for February 2011 – 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.**

Business conditions in the KSA non-oil private sector remained favourable in February, supporting further strong expansions in new business and activity, as well as continued growth of employment. However, input price inflation picked up to a series record peak.

The headline PMI registered 63.4 in February, fractionally below January's record of 63.8. The latest figure pointed to another sharp improvement in the health of Saudi Arabia's non-oil private sector.

Receipts of new work continued to grow in February, and at a considerable rate. Respondents stated that improved market conditions, advertising and competitive prices helped to support demand for the sector's goods and services. However, the rate of increase eased since January. New export orders rose at a weaker rate than total new business, suggesting that domestic demand remained the key driver of expansion.

As volumes of new business rose in February, outstanding work accumulated. Backlogs built up for the fourteenth straight month,

although the rate of increase eased to a modest pace.

To keep up with rising new order levels, KSA non-oil private sector companies took on additional staff, increased purchasing and built up stocks in February. The rate of job creation was solid and little-changed since January, while both buying activity and input holdings grew strongly (albeit to lesser extents than in the previous month). Reports indicated that some input purchases were made to hedge against future commodity price inflation.

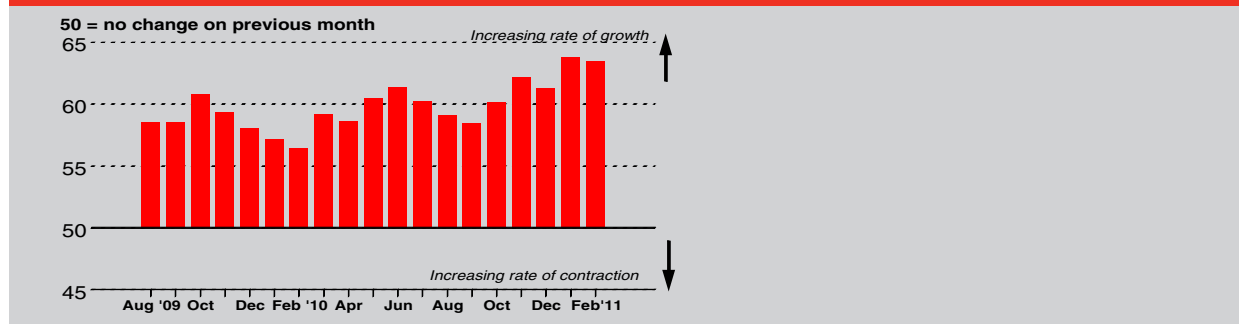
Lead times on deliveries of raw materials and semi-finished goods shortened again in February. Vendor performance has improved in each month of the survey's history. Panellists linked faster deliveries to competition amongst suppliers and efficient service.

Maintaining the series trend, prices paid for inputs by Saudi Arabian non-oil private sector firms rose in February. Moreover, the rate of inflation picked up to a series record pace. Anecdotal evidence highlighted greater fuel and raw material costs, as well as unfavourable exchange rates, as the principal drivers of inflation.

To motivate staff in the face of rising workloads and increased living costs, companies raised wages and salaries during the latest survey period. Staff cost inflation rose to a modest pace as a result.

In order to compensate for input price inflation, and also to take advantage of strong market demand, firms raised their tariffs in February. Charges increased at a moderate pace, but to a lesser extent than in January.

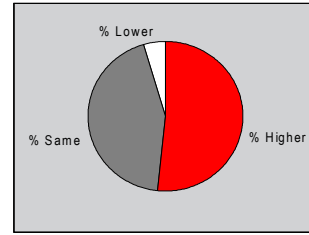
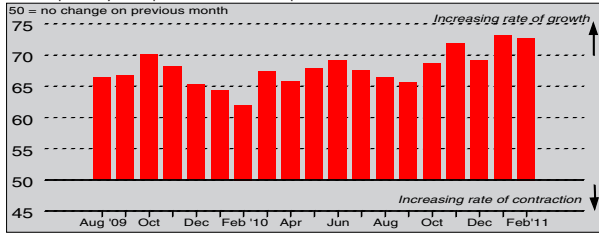
### SABB HSBC Saudi Arabia PMI



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.

**Output Index**

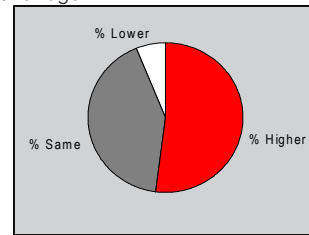
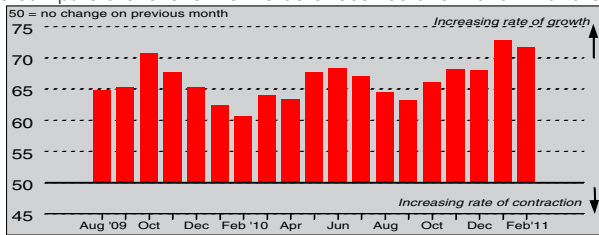
Q. Please compare your production/output this month with the situation one month ago.



Supported by further gains in new business, Saudi Arabian non-oil private sector activity continued to grow in February. The rate of expansion was sharp and only slightly slower than January's series record, with around 52% of panel members noting an expansion. In contrast, just 5% reduced output on the month.

**New Orders Index**

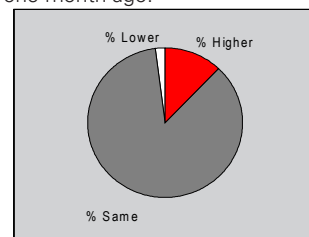
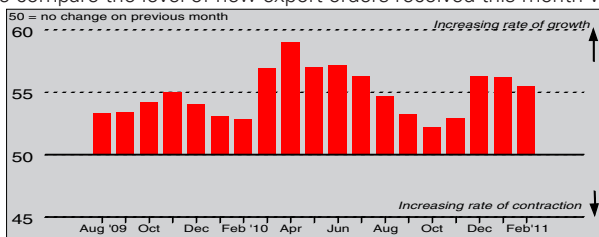
Q. Please compare the level of new orders received this month with the situation of one month ago.



The seasonally adjusted New Orders Index slipped slightly from January's series record peak in February, but remained elevated. Growth was considerable and reflected good business conditions, promotional activities and competitive prices, according to respondents. Data suggest that domestic demand remained the main driver of the rise in total new work.

**New Export Orders Index**

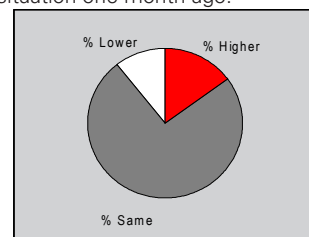
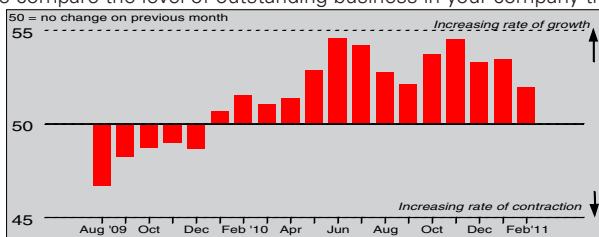
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export business taken by KSA non-oil private sector companies rose markedly during February. That said, the rate of increase was slightly slower than in the previous two survey periods. Panellists indicated that foreign demand was supported by favourable business conditions abroad. New export work has risen in each month of the survey's nineteen-month history.

**Backlogs of Work Index**

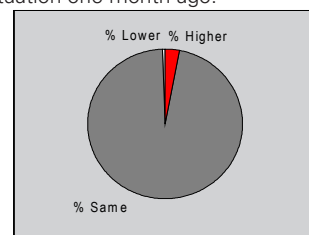
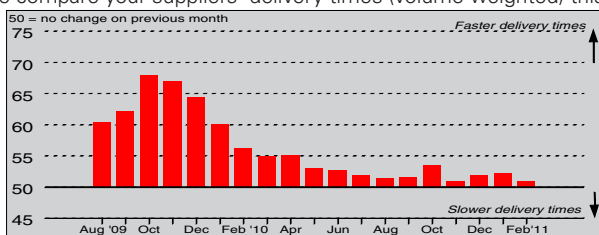
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Further backlog accumulation was reported by Saudi Arabian non-oil private sector firms in February. Outstanding business grew for the fourteenth consecutive month as workloads increased. However, the rate of expansion slowed to a modest pace that was the mildest since last April.

**Suppliers' Delivery Times Index**

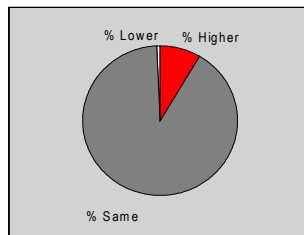
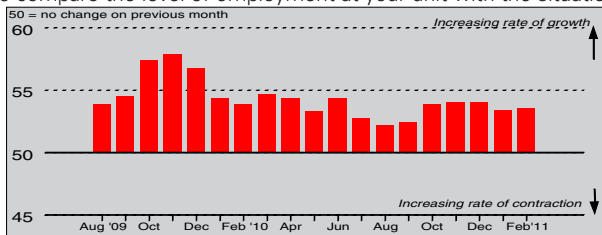
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



In spite of stronger demand for inputs, supplier delivery times shortened during February, as has been the case throughout the series history. The latest drop in lead times was modest and the mildest for three months. Companies cited competition amongst vendors and efficient service as the key factors behind improved performance.

**Employment Index**

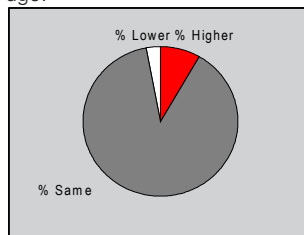
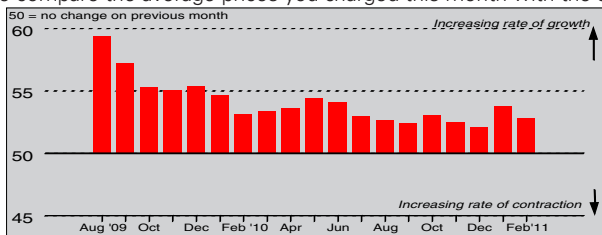
Q. Please compare the level of employment at your unit with the situation one month ago.



Almost unmoved since January, the seasonally adjusted Employment Index signalled another solid increase in staffing across the KSA non-oil private sector in February. Anecdotal evidence showed that improved business conditions and greater market demand spurred companies to hire additional workers.

**Output Prices Index**

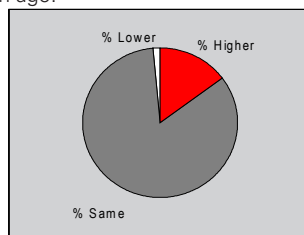
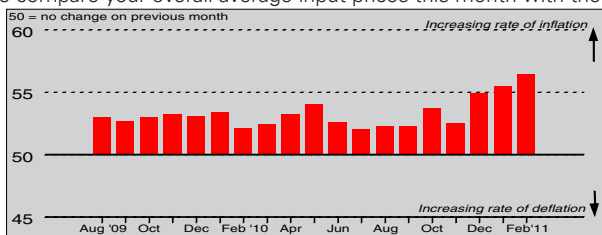
Q. Please compare the average prices you charged this month with the situation one month ago.



Prices charged for goods and services by KSA non-oil private sector companies rose moderately during the latest survey period. Respondents stated that the increase was principally to compensate for input cost inflation and to take advantage of stronger market demand. However, the rate of inflation eased since January.

**Overall Input Prices Index**

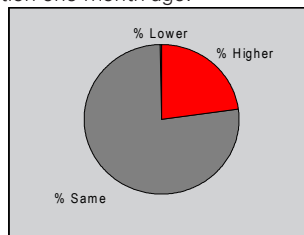
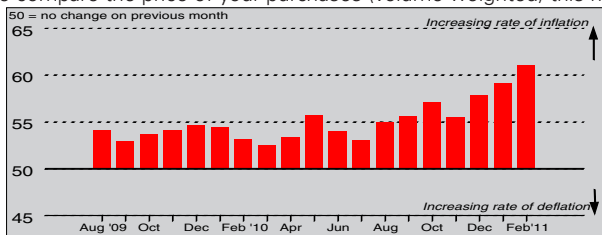
Q. Please compare your overall average input prices this month with the situation one month ago.



Faster rises in both purchasing and personnel costs drove the seasonally adjusted Overall Input Prices Index to a new series record peak in February. The latest reading pointed to a marked rate of increase. Data showed that escalating purchasing costs remained the principal force behind total input price inflation.

**Input Costs: Purchase Prices Index**

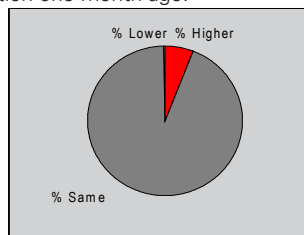
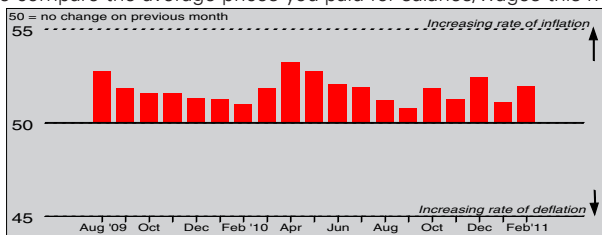
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchasing cost inflation hit a new series record pace during February, with 23% of respondents noting an increase on the month. In contrast, less than 1% saw a decline. The latest rise was substantial, with panel members linking inflation to greater fuel and raw material prices, as well as unfavourable exchange rates.

**Input Costs: Staff Costs Index**

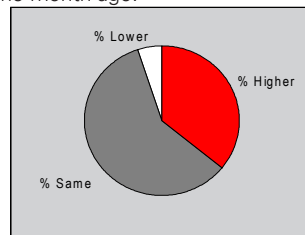
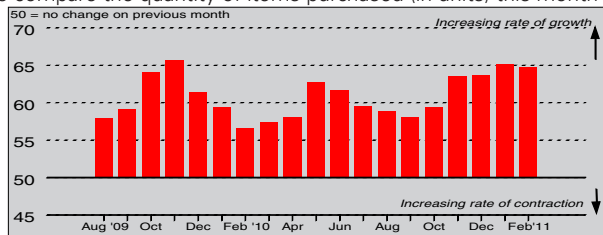
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



A combination of growing workloads and increased living costs led Saudi Arabian non-oil private sector firms to raise wages and salaries during February. Staff cost inflation accelerated to a modest pace, although the rate of increase remained below the seven-month high recorded in December.

**Quantity of Purchases Index**

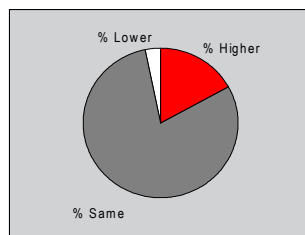
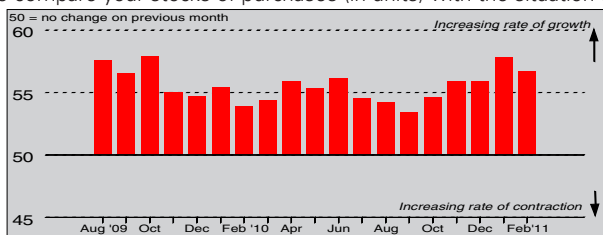
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Saudi Arabian non-oil private sector firms raised buying activity in line with new order growth during February. Input purchases expanded at a strong rate, but more slowly than in January. Some firms stated that additional inputs were acquired in order to hedge against future commodity price increases.

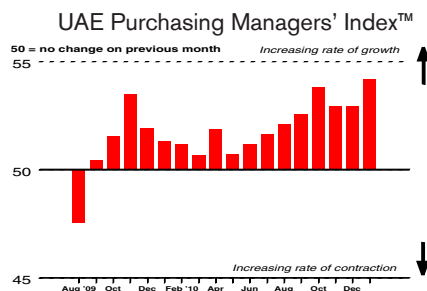
**Stocks of Purchases Index**

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



To accommodate rising levels of new business, but also in anticipation of further demand growth in future, KSA non-oil private sector firms accumulated input stocks during February. Although the rate of increase slowed on the month, it remained marked and above the series trend with 17% of panel members noting an expansion.

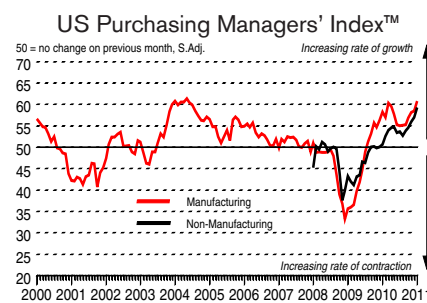
**International PMI summary**



Source: Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

Boosted by improved readings from its key components, the headline seasonally adjusted HSBC United Arab Emirates PMI rose to a survey record peak in January. At 54.2, up from 53.0 in December, the latest reading signalled a robust improvement in the health of the sector.

Growth of Eurozone private sector business activity accelerated to a nine-month high in January. The Eurozone Composite Output Index rose to 57.0, up from 55.5 in December. Incoming new orders, meanwhile, rose to the greatest extent since August 2007.

Climbing to its highest level in over six-and-a-half years in January (60.8, from 58.5 in December), the ISM US Manufacturing PMI signalled a substantial improvement in business conditions across the US manufacturing economy. Meanwhile, the ISM NMI climbed to a series record peak of 59.4.

**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.

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