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## SABB HSBC Saudi Arabia PMI™

PMI hits new low in September as output growth slows further and employment levels fall

### Key findings:

- Output and new order growth both at series-record lows
- Drop in staffing recorded for first time in series history
- Price pressures continue to ease

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

The pace of improvement in Saudi Arabian non-oil private sector operating conditions eased further at the end of the third quarter, as growth rates of both output and new orders cooled to series-record lows and employment fell for the first time in the survey history. The PMI slipped further, reaching a new low of 54.5 (from 57.9 in August). Meanwhile, September data showed a further slowdown in input price inflation.

Growth of incoming new business continued to slow during the latest survey period, reaching a new survey low. Nevertheless, the rate of increase remained strong and panellists commented on a favourable economic environment and new product launches. Some companies indicated that government spending had improved business conditions. Overall new work increased to the greatest extent at medium-sized companies. Meanwhile,

new export orders rose at the mildest rate for ten months.

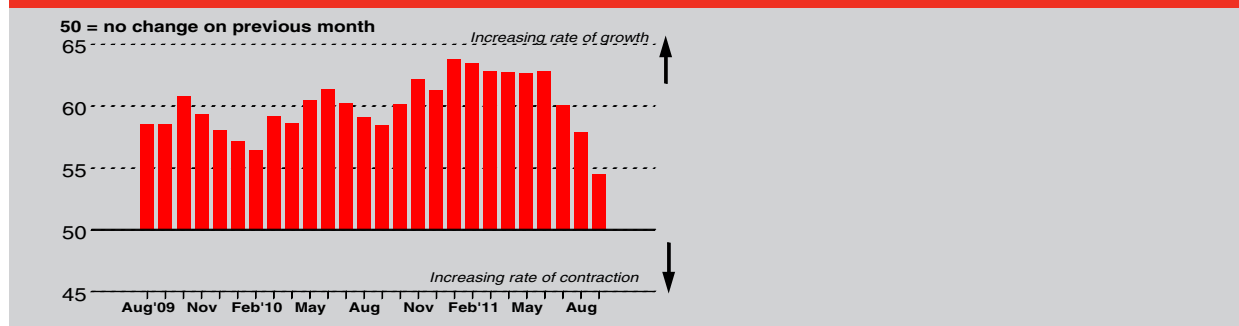
Expansions in output, buying activity and input stocks all slowed further during September, in line with the easing trend in new order growth. In each case, the rate of increase was a series-record low.

Lead times shortened for the second month running in September, and to a greater extent than in August. Reports indicated that better supplier performance resulted from sufficient capacity at their units and efficient service. However, the rate of improvement remained modest by historical standards.

There was evidence of spare capacity at Saudi Arabian non-oil private sector firms in September, as both backlogs and staffing levels fell slightly. Outstanding work declined for the first time since December 2009, while employment contracted for the first time in the series history.

September's price indicators pointed to further moderations in rates of inflation of both input costs and charges. Overall input costs increased at the slowest rate for eight months, which reflected milder rises in both purchase and staff costs. Output prices, meanwhile, increased at the weakest pace in the survey history.

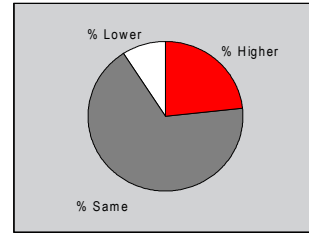
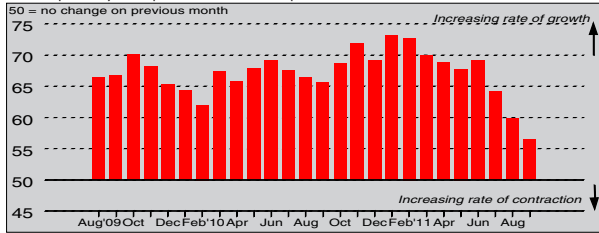
### SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™)



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 non-oil private sector 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 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. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

**Output Index**

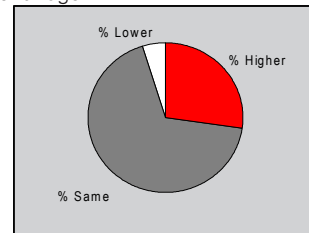
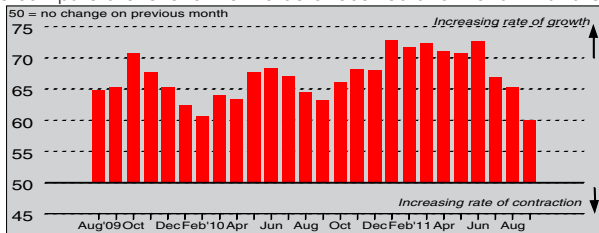
Q. Please compare your production/output this month with the situation one month ago.



In line with an easing trend in new order growth, Saudi Arabian non-oil private sector output rose at the slowest pace in the series history in September. Nevertheless, the rate of increase remained strong, with over 23% of the survey panel raising activity levels on the month. This compared with just 9% that cut output. Medium-sized companies raised output faster than large or small firms.

**New Orders Index**

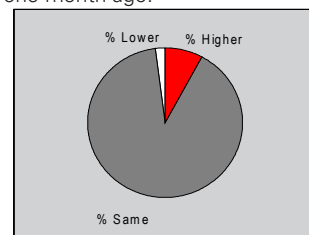
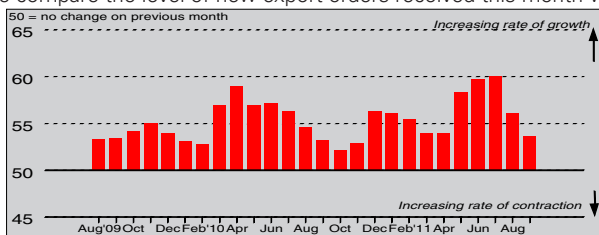
Q. Please compare the level of new orders received this month with the situation of one month ago.



The seasonally adjusted New Orders Index continued to slide at the end of Q3, reaching a survey-record low. Even so, the index remained at a level consistent with a strong rate of expansion. Respondents stated that a good economic environment and new product launches supported market demand for their goods and services. Some firms indicated that government spending had improved business conditions.

**New Export Orders Index**

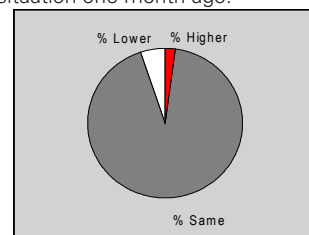
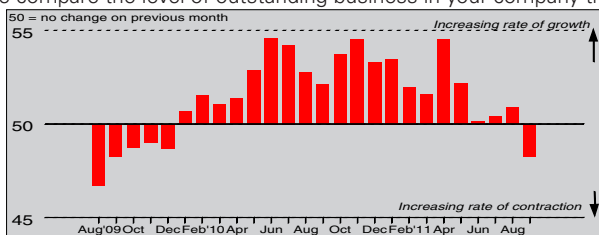
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Although growth of new export business was solid in September, the rate of increase was the least marked for ten months. In the 8% of cases where external demand improved, respondents commented on favourable market conditions and new product launches. The vast majority of panel members (90%) saw no change in new export order levels.

**Backlogs of Work Index**

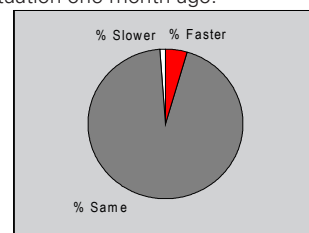
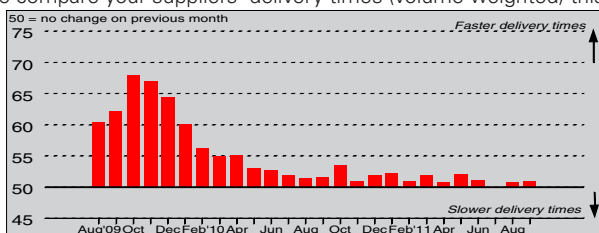
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at KSA non-oil private sector firms fell in September for the first time since December 2009. However, the rate of decline was only slight. Survey participants indicated that workloads were manageable and that orders were both efficiently processed and dispatched on time.

**Suppliers' Delivery Times Index**

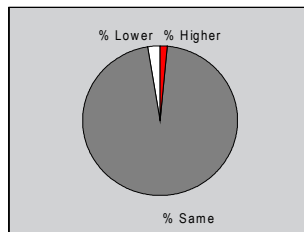
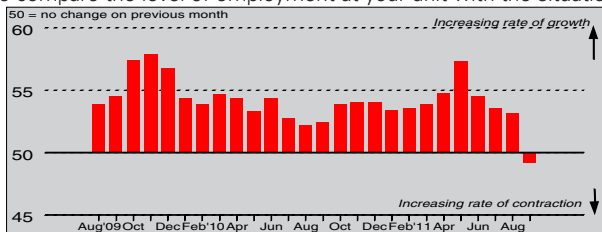
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average vendor performance improved for the second consecutive month in September, and to a greater extent than during August. Companies monitored by the survey stated that input deliveries were faster due to both sufficient capacity and efficient service at suppliers. However, compared to the series trend, the rate of improvement remained modest.

**Employment Index**

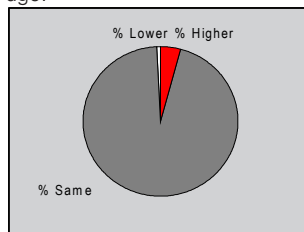
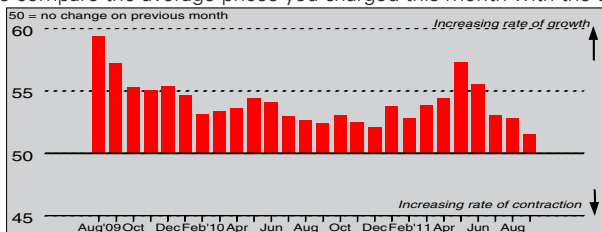
Q. Please compare the level of employment at your unit with the situation one month ago.



Overall employment in the Saudi Arabian non-oil private sector fell in September for the first time in the survey history. However, with 96% of respondents maintaining workforce levels since August, the rate of reduction was only marginal. Large firms saw the greatest decrease in personnel, while small companies continued to hire.

**Output Prices Index**

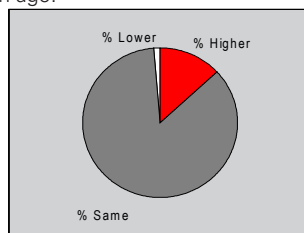
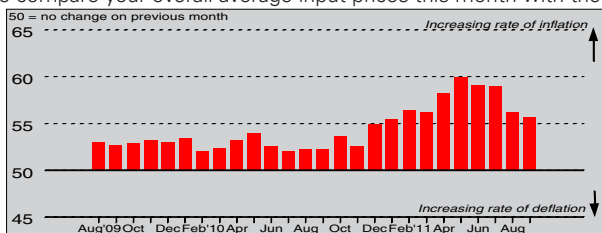
Q. Please compare the average prices you charged this month with the situation one month ago.



September's rise in KSA non-oil private sector selling prices reflected both input cost inflation and stronger market demand, according to respondents. Charges have risen in each month of the survey's history, although the latest increase was only modest and the mildest to date. Inflation was broad-based across all three company size categories.

**Overall Input Prices Index**

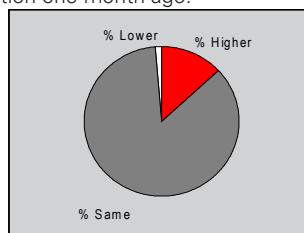
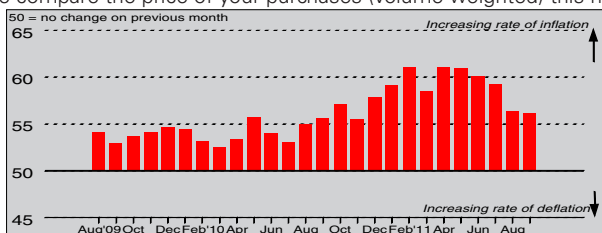
Q. Please compare your overall average input prices this month with the situation one month ago.



Total cost pressures faced by Saudi Arabian non-oil private sector firms continued to ease during the latest survey period, reaching an eight-month low. Data suggested that September's slowdown in overall input price inflation reflected weaker rises in purchase and, to a greater extent, staff costs.

**Input Costs: Purchase Prices Index**

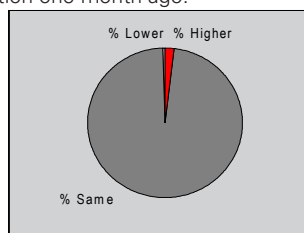
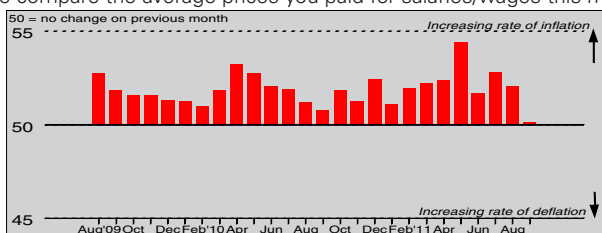
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Almost unmoved since August, the seasonally adjusted Purchase Prices Index signalled another strong rate of inflation in September. Reports indicated that higher raw material prices were the principal source of rising purchase costs. The rate of increase was broadly in line with the long-run series average.

**Input Costs: Staff Costs Index**

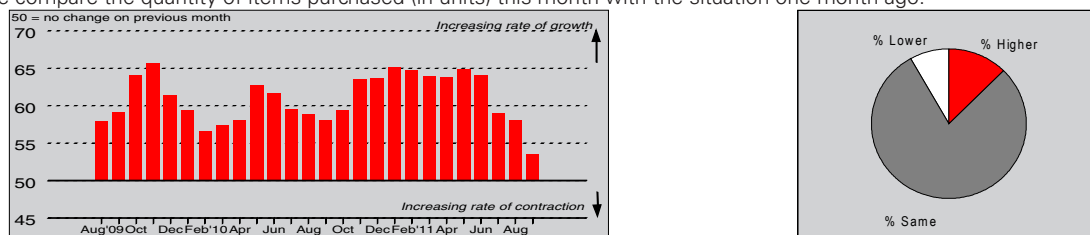
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff cost inflation at Saudi Arabian non-oil private sector firms moderated to near-stagnation in September and was the weakest in the series history. Less than 2% of panel members reported an increase in their average staff costs on the month, while the vast majority (98%) noted no change.

### Quantity of Purchases Index

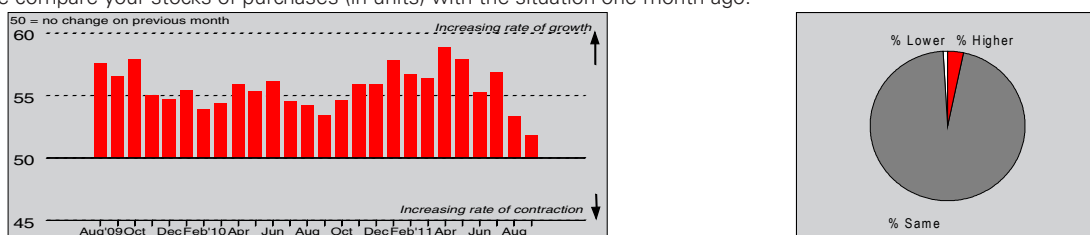
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Reflecting slower new order growth, input acquisitions at KSA non-oil private sector companies rose at the weakest pace in the series history in September. Where purchasing increased since August, panel members indicated that greater output requirements and stock building were the principal factors. The rise in buying activity was the most pronounced at medium-sized companies.

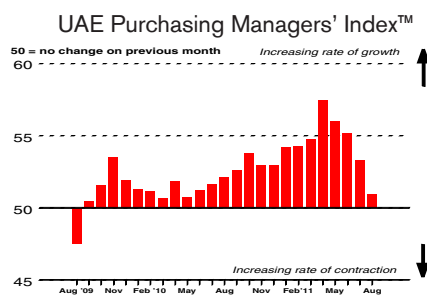
### Stocks of Purchases Index

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



Input stocks continued to accumulate during September as output requirements increased. Optimism regarding future activity levels and expectations of strengthening input cost inflation were also cited by panellists as reasons for greater holdings. However, the rate of growth in inventories cooled further to a series-record low.

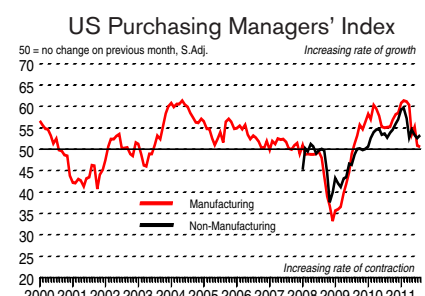
### International PMI summary



Source: Markit.



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Source: Institute for Supply Management (ISM).

At 50.9, the HSBC United Arab Emirates PMI continued to signal expansion in August, but it was only slightly above the no-change mark of 50.0 and well below the highs reached in Q2. Down from 53.3 in July, the latest reading was also a 15-month low. Underlying the weaker headline figure were slower rises in both new business and employment, a stagnation of output and a fall in input stocks.

The slowdown in Eurozone private sector growth continued in August. At a two-year low of 50.7, down from 51.1 in July, the Eurozone PMI Composite Output Index signalled the second-weakest rate of expansion since the recovery began in August 2009. The weaker output trend was driven by a decline in manufacturing production, the first since July 2009, and a weaker service sector performance.

Reflecting the first drop in output for 27 months and another decline in new orders, the ISM US Manufacturing PMI fell from 50.9 in July to 50.6 in August. Its other components (employment, input stocks and delivery times) prevented the headline index from falling below the neutral 50.0 mark. In contrast, the Non-Manufacturing Index picked up in August to 53.3. However, it remained close to July's 17-month low of 52.7.

### 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. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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