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SABB HSBC Saudi Arabia PMI™

PMI rises in October, but remains close to September's series-record low

Key findings:

- Output and new order growth both accelerate
- Employment levels broadly unchanged
- Input cost pressures tick up slightly, while charge inflation hits series record low

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

Please note that following re-estimation of recent seasonality, the seasonally adjusted data for a number of variables have been revised from figures published last month.

After a relatively subdued September, when output growth hit a series record low, expansion of new work slowed sharply and employment fell for the first time in the survey history, October's PMI data showed an improved trend. Although remaining well below highs seen earlier in the year, expansions in both activity and new orders picked up, while staffing levels returned to growth (albeit marginal).

Reflecting improvements in its key components, the PMI registered 56.7 in October (up slightly from September's upwardly-revised series low of 56.3), and signalled a stronger gain in the health of Saudi Arabia's non-oil private sector.

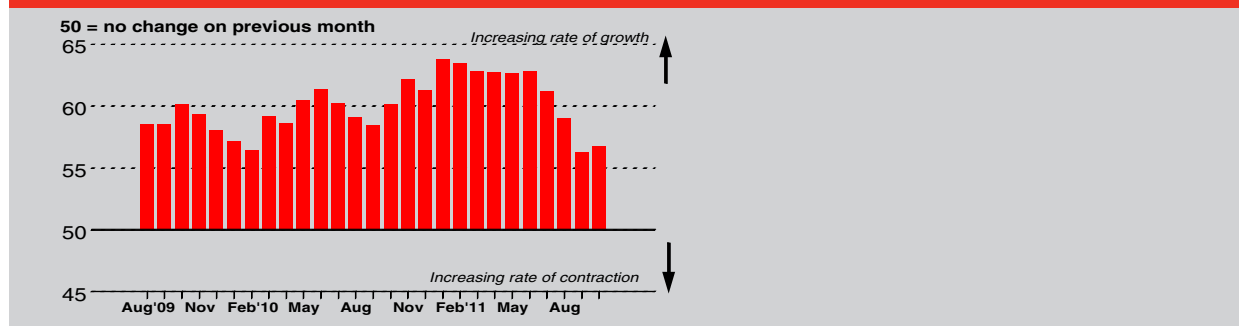
Boosted by better market conditions and advertising campaigns,

demand for Saudi Arabian non-oil private sector goods and services rose in October, supporting a sharper rise in total new orders. New export business also increased at a faster rate than in September. Consequently, companies stepped up their activity levels, purchased additional inputs and raised inventories. Output and buying activity growth rates were robust but below-average. The corresponding increase in stocks was much more modest, reflecting largely sufficient holdings at many companies.

Despite stronger growth of new business, firms largely kept on top of their workloads in October, as shown by a marginal rise in backlogs and broadly no-change in employment levels. Workload management was aided by a further improvement in average vendor performance – lead times shortened to the greatest extent for one-and-a-half years.

October's price indicators pointed to only a fractional rise in input cost pressures and a further easing in charge inflation to a series record low. Both purchase prices and staff costs rose more sharply during the latest survey period, which panellists respectively linked to higher raw material prices and better company performance. Meanwhile, selling prices rose only modestly as the vast majority of monitored firms maintained their tariffs since September.

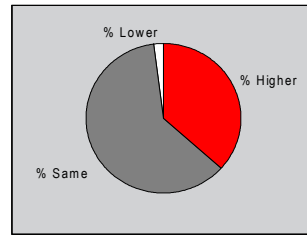
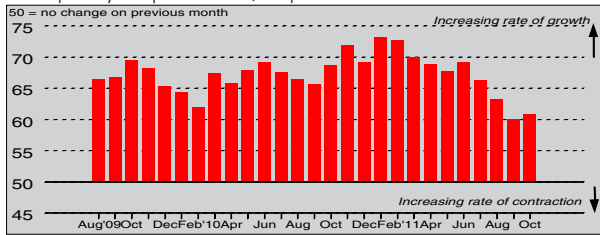
SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™)



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

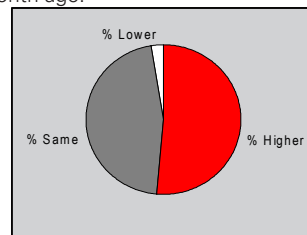
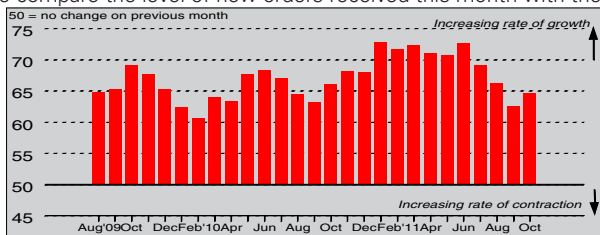
Q. Please compare your production/output this month with the situation one month ago.



Non-oil private sector activity growth accelerated slightly at the start of Q4, but remained close to September's series record low and well below the highs seen earlier in the year. Panellists linked greater activity to more new business wins. Broken down by company size, data showed that the rate of expansion was most pronounced at small firms.

New Orders Index

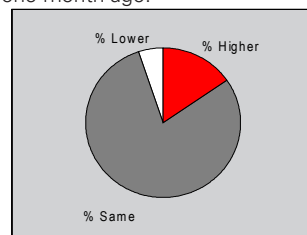
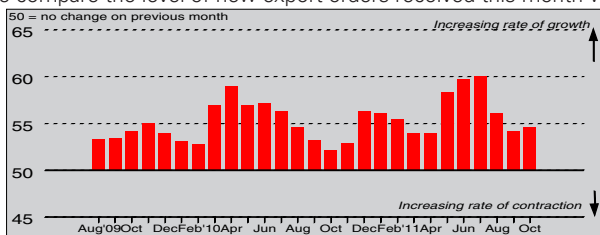
Q. Please compare the level of new orders received this month with the situation of one month ago.



Latest data signalled further inflows of new business to the Saudi Arabian non-oil private sector in October. Although the rate of increase accelerated from September's 19-month low, it remained weaker than the series trend. Better market conditions, strong demand and advertising campaigns were all cited by panellists as reasons for growth.

New Export Orders Index

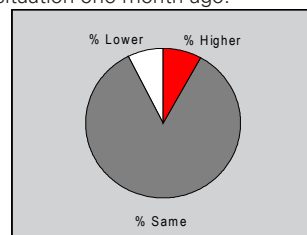
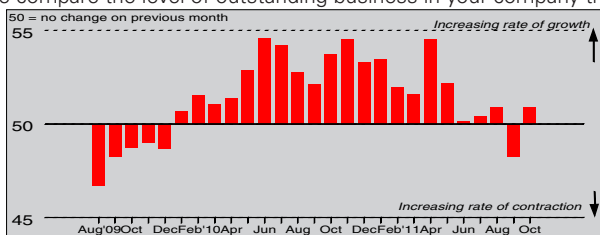
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Foreign demand for Saudi Arabian non-oil private sector goods and services improved in October, supporting a sharper rise in new export orders. Over 15% of monitored companies saw an increase in new work from abroad, attributing this to favourable business conditions. However, the rate of expansion remained below the average for the 27-month series history.

Backlogs of Work Index

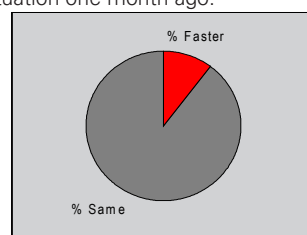
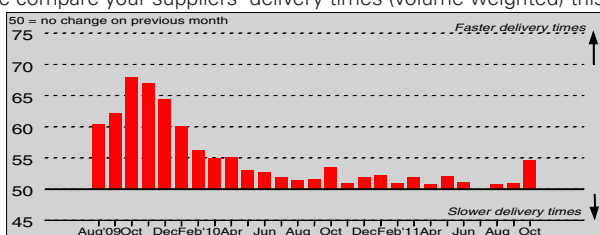
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



A slight rise in unfinished business was recorded during the latest survey period, following a modest decline in September. Anecdotal evidence indicated that an increase in new projects was the main reason for higher backlogs, although some firms noted technical problems. Data suggested that October's build-up in work outstanding was centred on large companies.

Suppliers' Delivery Times Index

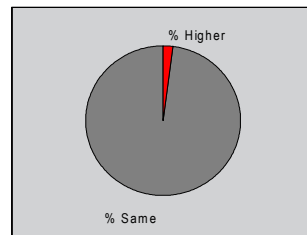
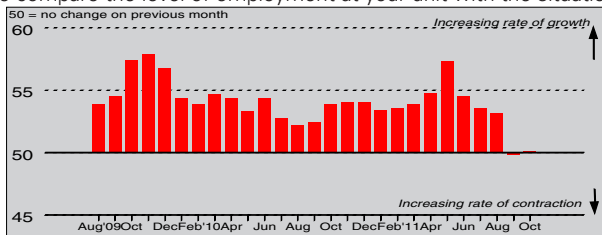
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



KSA non-oil private sector firms reported quicker input deliveries in October. Lead times have now shortened for three straight months, with the latest improvement the most marked for one-and-a-half years. Good business relationships and strong competition amongst suppliers were cited as the principal factors behind faster deliveries.

Employment Index

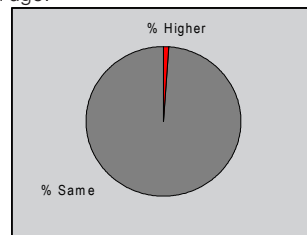
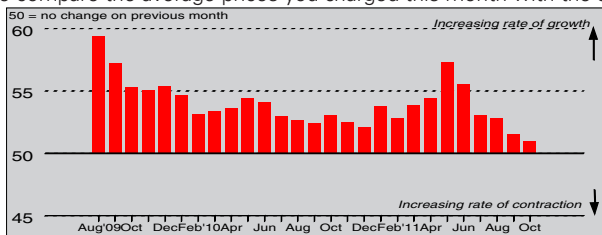
Q. Please compare the level of employment at your unit with the situation one month ago.



Most monitored companies (98%) made no changes to staffing levels in the latest survey period. Consequently, the seasonally adjusted Employment Index posted close to the neutral mark of 50.0. Where additional workers were taken on, panellists commented on greater business requirements. Large firms recruited new personnel at a faster rate than SMEs in October.

Output Prices Index

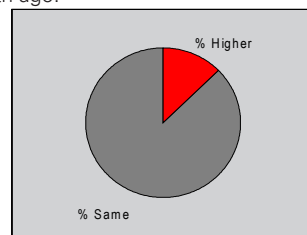
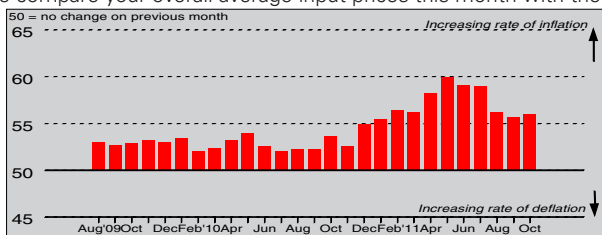
Q. Please compare the average prices you charged this month with the situation one month ago.



Charge inflation moderated further in October, hitting a series record low. The vast majority of companies monitored by the survey (99%) maintained their tariffs since September. Where selling prices were increased, respondents mentioned efforts to compensate for rising input costs.

Overall Input Prices Index

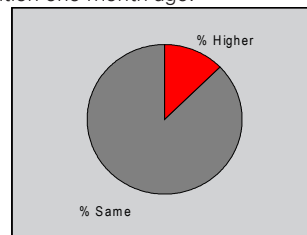
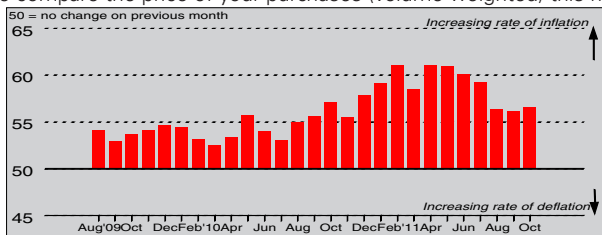
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input cost inflation accelerated slightly at the start of Q4, but nevertheless remained milder than the sharp rates of increase recorded earlier in the year. Data suggested that the faster rise in total input costs reflected stronger upward pressure from both purchase price and staff cost inflation.

Input Costs: Purchase Prices Index

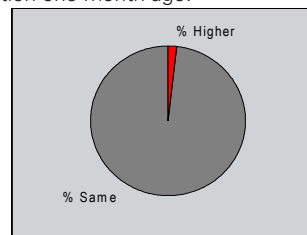
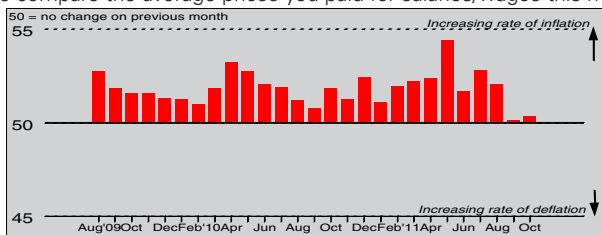
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



October saw a slight acceleration of purchase price inflation across the Saudi Arabian non-oil private sector. Respondents linked higher purchase costs to rising raw material prices. Medium- and large-sized companies registered stronger inflation than small firms during the latest survey period.

Input Costs: Staff Costs Index

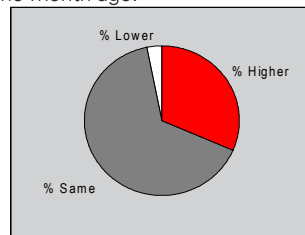
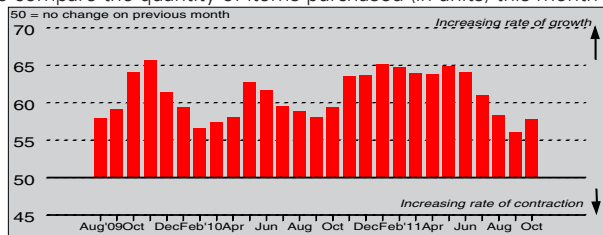
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



The seasonally adjusted Staff Costs Index moved higher in October, after slipping to a series record low in September. However, the latest reading was only fractionally above the previous month, indicating that salary and wage inflation remained muted. In the 2% of cases where employee remuneration was increased, panellists cited better company performance.

Quantity of Purchases Index

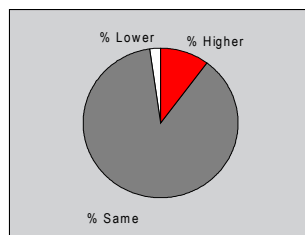
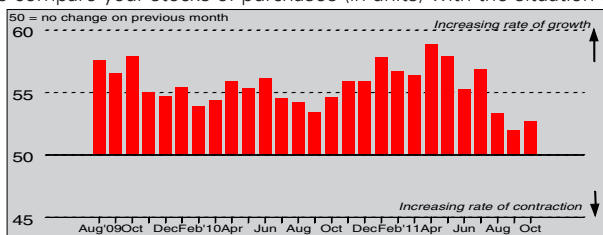
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In response to strengthened market demand, expectations of further improvements in business conditions and efforts to build stocks, Saudi Arabian private sector companies purchased more inputs during October. Buying activity rose at an accelerated rate as a result. Large firms increased their input purchases to a greater extent than SMEs.

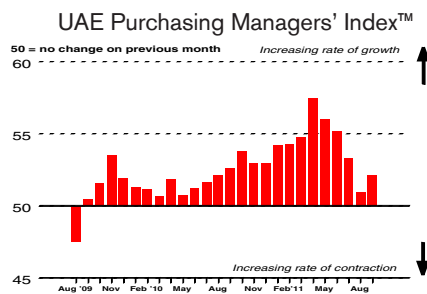
Stocks of Purchases Index

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

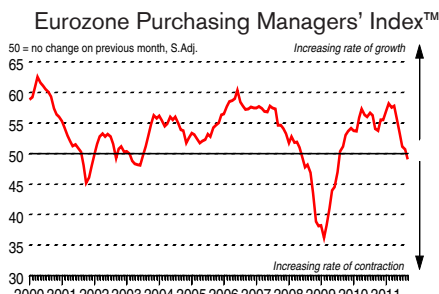


Reflecting a pick-up in buying activity, input stocks at Saudi Arabian non-oil private sector companies rose during October. Although the rate of increase was more pronounced than in September, it remained weaker than the long-run series average and well below the survey record rates recorded earlier in the year.

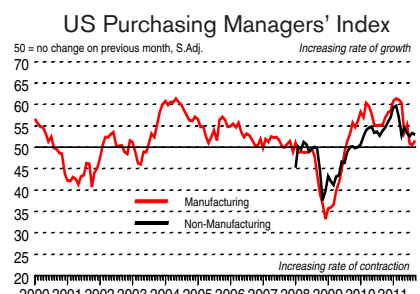
International PMI summary



Source: Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

UAE non-oil private sector business conditions strengthened in September, following a relatively weak month in August. This was shown by a HSBC United Arab Emirates PMI reading of 52.1 (up from 50.9). Supported by a sharper rise in new business, output picked up from stagnation and job creation accelerated. However, the overall pace of improvement remained muted in relation to the rates recorded in the first half of the year.

At 49.1, down from 50.7 in August, the final Eurozone PMI Composite Output Index for September signalled the first drop in private sector activity since July 2009. The final reading was broadly unchanged on the earlier flash estimate of 49.2. The average reading for the third quarter as a whole was just 50.3 – signalling a stagnation of activity – down from 55.6 in Q2 and 57.6 in Q1.

The ISM US Manufacturing PMI rose from August's 25-month low of 50.6 to a three-month high of 51.6 in September, pointing to a stronger improvement in business conditions. The pick-up in the headline index reflected renewed growth or output and stronger gains in employment. In contrast, the Non-Manufacturing Index slipped marginally to 53.0, from 53.3 in the previous month.

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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