

SABB HSBC Saudi Arabia PMI™

Business conditions continue to improve at a marked rate

Summary

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for February 2012 – 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 continued to improve in February, support by further marked expansions in both new orders and activity, as well as accelerated growth of both employment and stocks of purchases. As a result, the headline PMI registered 59.6 in February, marginally below January's reading of 60.0. However, the improvement in the health of the economy was accompanied by faster input price inflation as demand for inputs strengthened.

Receipts of new work continued to grow in February, and at a marked rate, as respondents reported further improvements to market conditions. The latest data indicated that demand from domestic clients remained a key driver of sales. Nevertheless, new export orders rose at the strongest rate for seven months, with a number of panellists attributing the increase to targeted marketing strategies.

New business growth encouraged Saudi Arabian non-oil private sector companies to increase their output in February. The rate of expansion was sharp and only slightly slower than January's seven-month high. Backlogs of work were accumulated over the month, however, as the rate of new order growth exceeded that of activity.

To keep up with rising new order levels, KSA non-oil private sector companies increased purchasing, built up stocks and took on additional staff in February. The rate of job creation was solid and quickened to an eight-survey period high, as many panellists also noted the impact of Saudization policies. With buying activity increasing at its fastest pace for just over a year, stocks of purchases were accumulated at the strongest rate for seven-months.

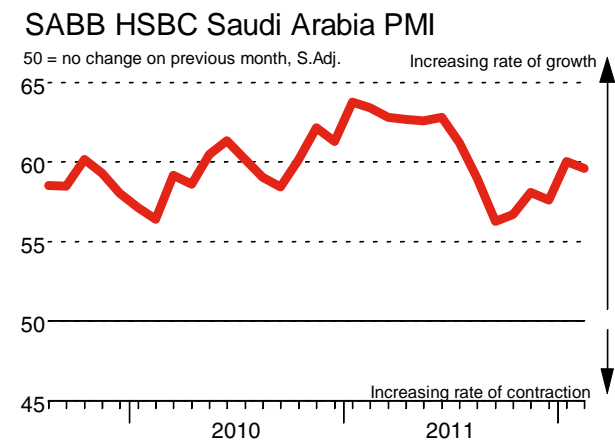
Stronger demand did have implications for cost pressures, however, as overall input price inflation accelerated to a near series record-high. Data showed that escalating purchasing costs remained the principal force behind the rise in input prices, with panellists noting higher costs from fuel to food stuffs. In contrast, salary inflation slowed to a four month-low, signalling only a modest increase in wage costs. To compensate partially for the rise in total costs, output prices were increased modestly over the survey period.

Despite growing demands, vendor performance continued to improve in February. The latest shortening in lead times was the sharpest for just over two years, with panellists citing greater competition and spare capacity as the key causes.

Key points

- PMI falls from January, but nevertheless posts second highest reading since July 2011
- Purchasing activity rises to 13-month high as new order growth remains marked
- Rate of hiring accelerates to eight-month peak
- Overall input price inflation quickens to second-fastest pace in survey's history

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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