SABB HSBC Saudi Arabia PMI™

Improvement in operating conditions remains strong, despite PMI hitting three-month low

Summary

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for March 2012 – a monthly report issued by the bank and HSBC. It reflects the economic performance of Saudi Arabian non-oil producing private sector companies through the monitoring of a number of variables, including output, orders, prices, stocks and employment.

Saudi Arabian non-oil private sector companies continued to benefit from favourable business conditions in March. Solid market demand boosted new order levels and led to another strong rise in output. Panellists indicated that budget stimulus measures had, in part, strengthened domestic demand while the rising oil prices had the knock-on impact of increased spending across the GCC economies.

Registering 58.7 in March, the headline PMI was down on February's reading of 59.6. Nevertheless, the latest figure was consistent with a strong improvement in operating conditions across the Saudi Arabian non-oil private sector.

Favourable economic conditions across the GCC region were a key reason for stronger market demand in March, according to panellists. Overall incoming new work rose at a sharp pace, albeit the slowest for three months. Foreign demand was solid, but anecdotal evidence indicated a divergence between new export business growth from clients in the Middle East and weaker spending from European customers.

Rising levels of new business put pressure on capacity during March. Despite another increase in employment, backlogs accumulated at a solid pace. Reports indicated that a number of firms had delayed production due to preparation for new work.

Strong current inflows of new work, and an anticipation of further improvements in demand, meant that KSA non-oil private sector firms raised buying activity at a marked rate in March. This in turn led to higher input stocks.

Despite stronger demand for inputs, suppliers' delivery times continued to shorten during March. The rate of improvement in vendor performance was the weakest for six months, however. Panellists cited efficient service and competition amongst suppliers as the principal reasons for faster deliveries.

Overall input price inflation faced by Saudi Arabian nonoil private sector companies eased during March, falling notably from February's nine-month high. Rising purchase prices continued to provide the main impetus to total input cost inflation. Purchasing prices were pushed up by higher prices for fuel, raw material and foodstuffs on the month. Staff costs meanwhile rose at a slower pace over the survey period.

Saudi Arabian non-oil private sector firms raised their charges in March. Output price inflation was the strongest for eight months, as reports indicated that firms sought to pass on increased cost burdens amid favourable underlying demand conditions.

Key points

- PMI falls for second-successive month, but is broadly in line with survey average
- Output and new orders continue to grow at a marked rates
- Input price inflation eases to weakest rate in 2012 so far
- Charges rise at fastest pace for eight months

Historical Overview

2010

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' IndexTM (PMITM)* 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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