# SABB HSBC Saudi Arabia PMI™

# Sharpest rise in new orders for 11 months supports continued growth in May

# **Summary**

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

Demand for Saudi Arabian private sector goods and services remained strong in May, with new orders rising at the fastest rate for almost a year. Output and employment levels were increased over the month as a result, though rates of growth in each case were slightly slower than in April. Inevitably, cost pressures remained strong as demand pressures filtered through into both the materials and labour markets.

Saudi Arabia's non-oil private sector economy continued to expand at a robust pace during May. This was highlighted by the headline PMI posting at 60.4, unchanged since April's nine-month high and above the historical series trend.

May saw new business placed at Saudi Arabian non-oil private sector firms increase at a marked and accelerated rate – the fastest in 11 months. Data showed that, while international sales continued to increase, the domestic market remained the predominant factor driving growth.

In line with a rise in new orders, KSA non-oil private sector companies expanded production levels and recruited additional staff during May. In both cases, however, growth was slightly weaker than during the previous survey period. Anecdotal evidence suggested that job creation, in a number cases, also reflected expectations of increasing workloads in the coming months.

Despite a rise in staffing capacities, backlogs of work increased for the eighth month in a row during May. The rate of growth was broadly unchanged since April, and faster than the series average.

Slowing only slightly on April's series-record high, cost inflation facing Saudi Arabian non-oil private sector firms remained sharp in May. Both purchase prices and staff costs increased over the month, the former again at the faster rate. Inputs reported to be up in price included food, oil and steel.

With demand remaining strong, KSA non-oil private sector firms were able to pass on at least part of the burden of higher costs to clients. Charge inflation rose to the strongest for 11 months.

Further highlighting expectations for growth in the near term, businesses stepped up their purchasing activity and accumulated stocks of inputs at the sharpest rate for a year. Despite this, competition among vendors ensured that their delivery performance improved, with lead times shortening for a tenth successive month in May.

# **Key points**

- Continued improvement in market conditions led to further marked rise in new business
- Output and employment both increased, albeit at slower rates
- Cost pressures remained elevated

#### **Historical Overview**

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Sources: Markit, HSBC.







# For further information, please contact:

#### **SABB**

Ibrahim Abo-Mouti, Head of Corporate Communications
Telephone +966-1-276-4041
Email ibrahimabomouti@sabb.com

Abdul Nasser Al Salti, Senior Manager, Media Relations Telephone +966-1-276-4450 Email abdulnasser.alsalti@sabb.com

# **HSBC**

Simon Williams, Chief Economist, HSBC Middle East & North Africa Telephone +971-4-423-6925 Email simon.williams@hsbc.com

#### **Markit**

Paul Smith, Senior Economist Telephone +44-1491-461-038 Email paul.smith@markit.com Rachel Harling, Corporate Communications
Telephone +44-20-7064-6283
Mobile +44-782-789-1072
Email rachel.harling@markit.com

#### **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<sup>TM</sup> (PMI<sup>TM</sup>)* 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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

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