

SABB HSBC Saudi Arabia PMI™

Growth of KSA non-oil economy accelerates as new order inflows strengthen

Summary

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

The Saudi Arabia non-oil producing sector continued to report strong growth of both business activity and new orders in September. The headline PMI rose to 60.3, up from 58.3 in August, to reach a four-month high. The average PMI reading through the third quarter of 2012 (58.9) was below the average for Q2, but nonetheless broadly in line with the survey trend.

Business activity rose at the fastest pace since April, underpinned by accelerated growth of incoming new work. Over 55% of the survey panel signalled an increase in total new business, reflecting reports of improved inflows from both domestic and export clients. After easing to a 21-month low in August, the rate of expansion in new export orders accelerated sharply to a seven-month peak.

Strong growth of incoming new business exerted further pressure on capacity, with September seeing backlogs of work rise for the second straight month. The rate of increase was broadly similar to the prior month and above the average for the survey history.

Improved operating conditions and rising levels of outstanding business encouraged companies to increase employment. Payroll numbers rose for the twelfth consecutive month, with the pace of jobs growth the sharpest since April. The continued strengthening of the labour market exerted upward pressure on average wages and salaries, which rose solidly over the month. Higher payroll costs were also linked to recent contract negotiations and the rising cost of living.

Average purchase prices also increased during the latest survey period. However, the rate of inflation slowed further and was the weakest for over two years. With payroll costs rising at a faster pace, and purchase price inflation easing, the rate of increase in overall costs was broadly similar to that signalled in August.

Companies passed on part of the increase in costs to clients in the form of higher charges during September. Average output prices rose marginally, following a slight

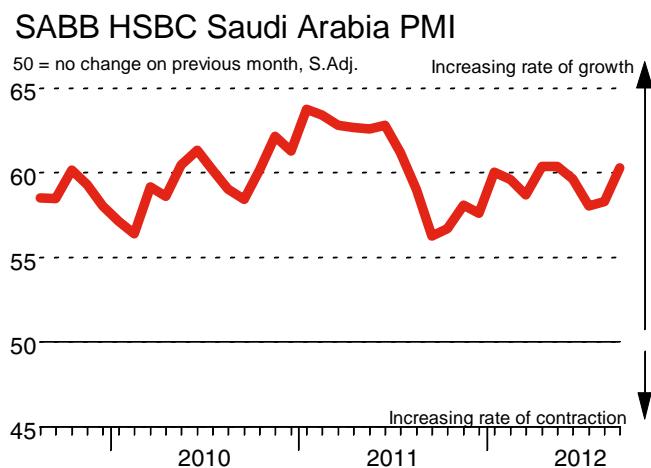
decrease in August. A number of firms reported that their pricing power was still being constrained by competitive pressures.

Purchasing activity rose at the fastest pace for five months in September, leading to a further robust increase in inventory holdings. Over a third of surveyed companies reported higher levels of input buying during the latest survey period. Meanwhile, average vendor performance showed a further marked improvement, as surveyed companies benefited from successful negotiations and regular order placement.

Key points

- Headline PMI™ rises to a four-month high of 60.3
- Accelerated growth of business activity
- Stronger inflows of both total new orders and new export business
- Jobs growth recorded for twelfth month running

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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About PMIs:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

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