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SABB HSBC Saudi Arabia PMI™

Total output and new order growth suffer slightly in December, but new export business rises at stronger pace

Key findings:

- PMI falls slightly to 57.7
- Weaker expansions seen in both activity and total new work
- Charge inflation eases to near-stagnation

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

The PMI slipped slightly to 57.7 at the end of the fourth quarter, from 58.1 in November. The fall in the index signalled a weaker improvement in business conditions across Saudi Arabia's non-oil private sector. Moreover, the headline index remained below its long-run average (59.9).

Behind the weaker PMI reading were slower expansions in its two largest components – output and total new work. Employment and input stocks, two of its other components, rose at slightly faster rates.

Incoming new work to the Saudi Arabian non-oil private sector continued to rise during the latest survey period, bolstered by a sharper expansion in new export business. However, the overall rate of growth of total new business moderated since November.

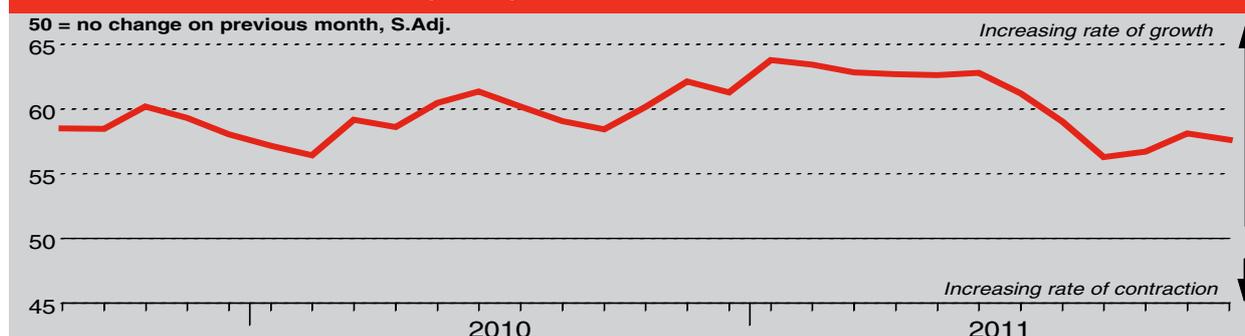
This was reflected by a slower increase in activity. Where new business and output rose in December, panel members commented on strong economic conditions, good demand, competitive selling prices and favourable exchange rates. Large firms saw the most pronounced increase in new work.

Further growth of new orders, alongside expectations of improved demand, led companies to build input stocks and take on additional staff in December. Both buying activity and input holdings rose at sharper rates, although the rise in input stocks remained weak in relation to its historic trend. Employment rose at the fastest pace since August. Large firms recruited new personnel at a faster rate than SMEs.

Respondents noted faster input deliveries in December. However, these improvements in vendor performance did not prevent further backlog accumulation in the non-oil private sector. Outstanding business rose for the third month running and at a sharper pace. Panellists attributed more work-in-hand to new order gains.

Price pressures cooled in December, with both purchase prices and staff costs rising at weaker rates, as well as charge inflation easing to near-stagnation. The vast majority of the survey panel maintained selling prices on the month.

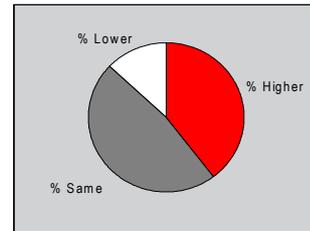
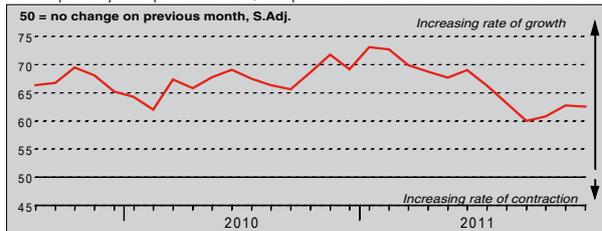
SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™)



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

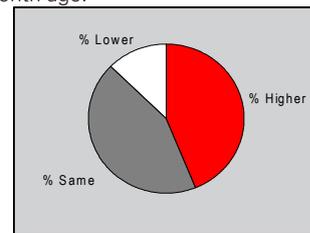
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index was almost unmoved from November's three-month high in December, signalling another solid rise in Saudi Arabian non-oil private sector activity. However, the index also remained below its long-term trend. In the 40% of cases where an increase in output was reported, improved market conditions and new order growth were cited.

New Orders Index

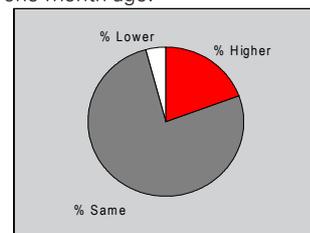
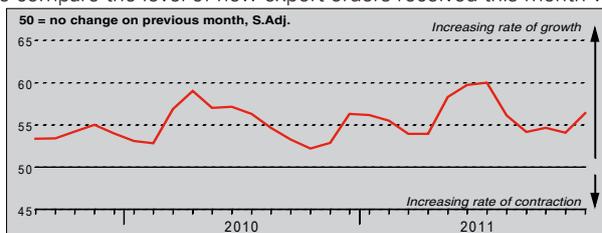
Q. Please compare the level of new orders received this month with the situation of one month ago.



KSA non-oil private sector companies recorded gains in new business during the latest survey period, as has been the case throughout the 29-month series history. Firms attributed growth to favourable economic conditions, good demand and competitive selling prices. However, the rate of increase eased since November. By company size, large firms posted the most pronounced rise in new orders in December.

New Export Orders Index

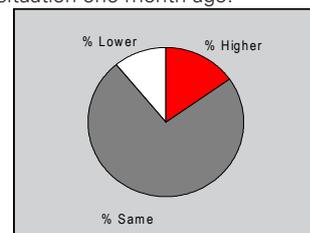
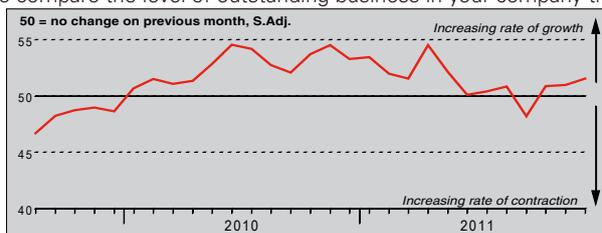
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export order growth picked up to a five-month high during December, with large companies showing the greatest gains. Moreover, the rate of increase was above the series trend. Good market conditions abroad, favourable exchange rates and competitive pricing were all cited by panel members as reasons for expansion.

Backlogs of Work Index

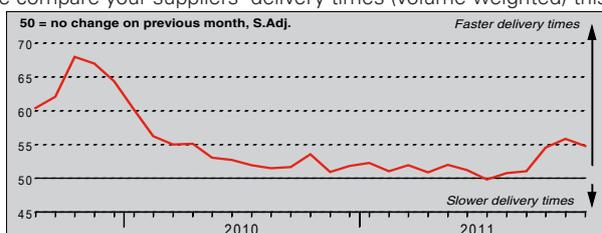
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work continued to build at the end of Q4. Although only moderate, the rate of increase was the strongest for seven months and above the long-run series average. Greater workloads and delays to deliveries were the main reasons for the latest accumulation of outstanding business, according to respondents.

Suppliers' Delivery Times Index

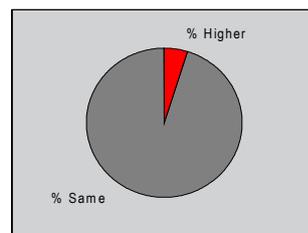
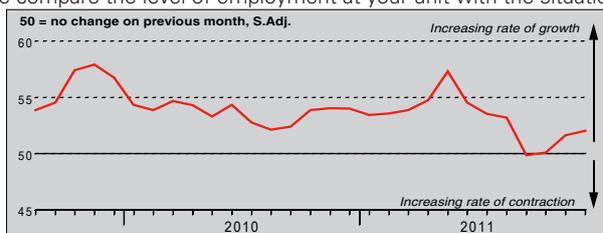
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance continued to improve in December despite demand for their supplies rising. Reports showed that good business relationships with suppliers, prompt payments for goods and strong competition amongst vendors all contributed to faster delivery times. Lead times have now shortened in each of the past five months.

Employment Index

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



Employment in the Saudi Arabian non-oil private sector rose further during December, bringing the current run of expansion to three months. Moreover, the rate of growth was the most pronounced since August. Even so, the vast majority of respondents (95%) maintained headcounts since November. Where job creation was recorded, greater business requirements was the main reason.

Output Prices Index

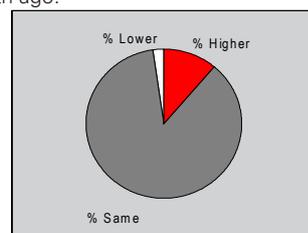
Q. Please compare the average prices you charged this month with the situation one month ago.



Prices charged for Saudi Arabian non-oil private sector goods and services continued to rise during the latest survey period. Charges have increased throughout the survey's 29-month history. However, the latest round of inflation was the weakest to date as most panellists (98%) left selling prices unchanged. Medium-sized firms raised tariffs to a greater extent than small or large firms.

Overall Input Prices Index

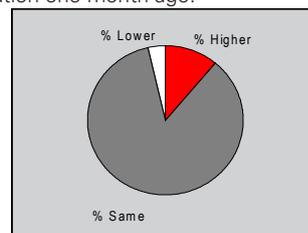
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input price inflation eased during December, reaching the lowest level for over a year. Data suggested that the slowdown emanated from weaker rises in both purchase prices and staff costs. By company size, medium firms registered the strongest total input price inflation since November.

Input Costs: Purchase Prices Index

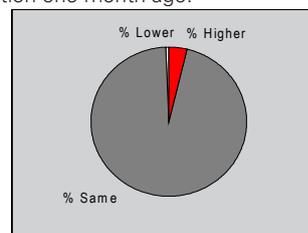
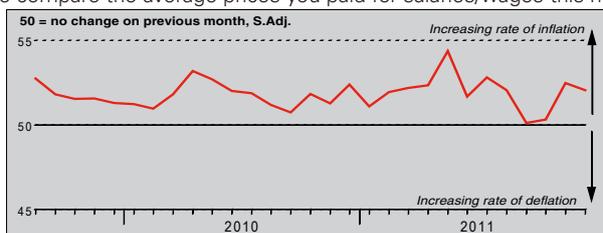
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



The seasonally adjusted Purchase Prices Index fell from November's four-month high in December, hitting a 17-month low. The dip in the index pointed to an easing in the rate of inflation, which some panellists linked to reduced prices for certain commodities. Where firms posted a rise in their average purchase costs, many commented on higher raw material costs.

Input Costs: Staff Costs Index

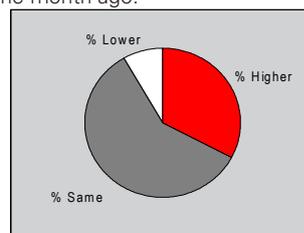
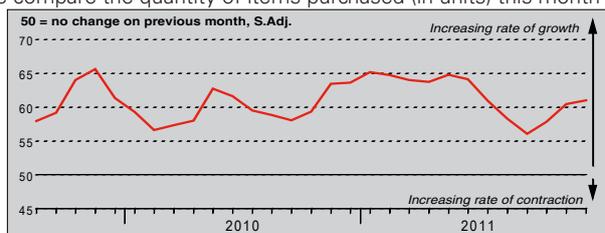
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



The rate of staff cost inflation in the Saudi Arabian non-oil private sector was little-changed in December, remaining close to November's four-month high. Panel members stated that wages and salaries were increased to reflect higher living costs. Medium-sized companies saw the greatest increase in personnel costs in the latest survey period.

Quantity of Purchases Index

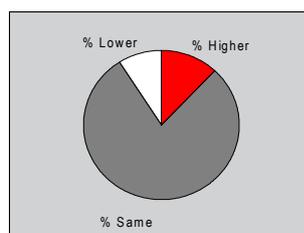
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Saudi Arabian non-oil private sector firms acquired additional inputs in December as new order levels increased. Furthermore, the rate of growth accelerated to a six-month high with around one-in-three monitored companies reporting a rise in purchases on the month. Data showed that buying activity increased to the greatest extent at large firms.

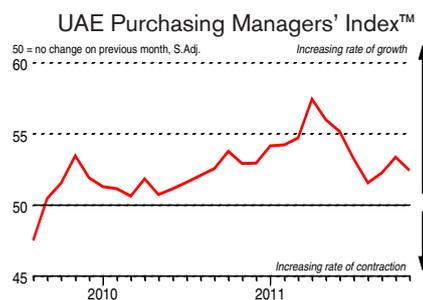
Stocks of Purchases Index

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



December saw further growth of input stocks across the KSA non-oil private sector. However, the rate of expansion remained below the series trend, despite picking up since November. The main reason for the relatively slow rate of increase was that many companies already had sufficient stock holdings. Where inventories rose, greater business requirements or expectations of improved demand were cited.

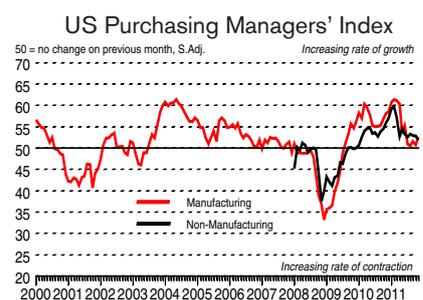
International PMI summary



Source: Markit.



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Source: Institute for Supply Management (ISM).

Registering 52.5 in November, down from 53.4 in October, the HSBC United Arab Emirates PMI signalled a weaker improvement in the health of the sector. Overall UAE non-oil private sector business conditions continued to improve in November, with output, new orders and employment all rising further. However, rates of increase in new business and staffing slowed.

The Eurozone private sector economy contracted for the third month running in November. At 47.0, up from 46.5 in October, the Eurozone PMI Composite Output Index signalled a slight easing in the rate of decline. Output of the combined manufacturing and service sectors declined across all of the big-four nations for the first time since July 2009.

The ISM US Manufacturing PMI climbed to a five-month high of 52.7 in November, from 50.8. Supporting this upward movement were sharp rises in both the output and new orders indices. The Non-Manufacturing Index, meanwhile, fell to a 22-month low of 52.0 (from 52.9). Weighing on the NMI was a contraction in employment, which occurred despite sharper growth of activity and new work.

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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