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SABB HSBC Saudi Arabia PMI™

PMI rises to highest level in six months as output and new order growth picks-up

Key findings:

- · Business conditions improve at an accelerated rate
- · Output and new order indices hit seven and six-month highs respectively
- Employment growth quickens to fastest pace since last August

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

Rising to 60.0 in January, from 57.7 in December, the PMI signalled a robust start to the year for firms operating in Saudi Arabia's non-oil private sector. The improvement in business conditions was supported by an acceleration of already strong growth rates of both new orders and output over the month.

New business received by Saudi Arabian non-oil producing businesses increased at a marked rate during January. Overall new order growth accelerated to a six-month high, while new business from abroad grew at a stronger rate for the second successive survey period. As a result, backlogs of work were accumulated for the fourth month running, and at the fastest pace since April 2011.

The improvement in demand and higher backlogs encouraged companies to increase their output levels further in January. The rate of expansion was marked, and stronger than in any month in the second half of 2011. A number of panellists also perceived that an improved business environment contributed to the increase.

Strong business sentiment was also apparent as businesses increased employment and purchasing activity to help meet existing and expected future activity requirements. The pace of job creation quickened for the third consecutive month during January, but nevertheless remained below the long-run series average. Greater acquisitions of inputs boosted stocks held by non-oil producing companies. The rate of expansion in purchases held quickened to its fastest pace in six months.

However, revenue improvements were offset to some extent by rising input costs. Strengthening cost pressures were amplified by higher purchasing prices during January. Non-oil producing firms registered a robust rate of purchasing price inflation, a marked difference to the near one-and-a-half-year-low recorded in December. The rate at which salary payments increased also quickened over the month.

Despite growing demands, vendor performance continued to improve, with lead times shortening at a faster pace. The reduction in suppliers' delivery times extended the current sequence of improvements to six months.



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 pri-The SABB H305 Satural Authority in the Satural National Managers index (FMI) is a composite inductor designed to provide all overall view or activity in the Satural National Indicator water 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.

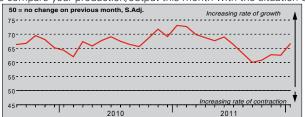


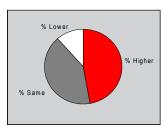




Output Index

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



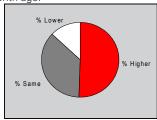


Activity in Saudi-Arabia's non-oil private sector increased markedly in January. While the rate of expansion quickened to a seven-month high, the acceleration of growth was not sufficient to bring the seasonally adjusted Output Index reading above the series average. Dealing with backlogs, increased sales and an improving business environment were all cited as reasons for the increase in output by panel members.

New Orders Index

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

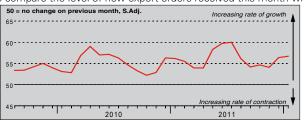


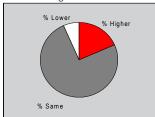


New orders received by KSA's non-oil private sector companies rose sharply during January. The seasonally adjusted index indicated the quickest expansion in new business for six months, having been relatively subdued in comparison to the long-run series average during the second half of 2011. Over half of all panellists noted an expansion in order books, many of whom noted that this was predominantly driven by domestic clients.

New Export Orders Index

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

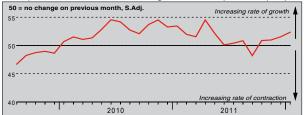


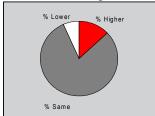


The growth of new business orders from foreign clients accelerated further during January. The seasonally adjusted New Export Orders Index reached its highest level since July 2011, pointing towards a strengthening in demand from abroad. Over 18% of survey members noted a rise in new export orders, while less than 7% recorded a decline.

Backlogs of Work Index

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





Saudi Arabian non-oil producing companies, continued to accumulate backlogs of work at the beginning of Q1. Furthermore, the rate at which outstanding business built-up accelerated from December to the quickest pace for nine months. Marked new order growth was the most common reason given by survey respondents for the latest increase in backlogs of work.

Suppliers' Delivery Times Index

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



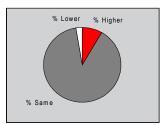


The seasonally adjusted Suppliers' Delivery Times Index rose from December to signal a robust improvement in vendor performance. Lead times in January shortened from the previous survey period, with over 15% of all survey members recording faster delivery schedules. As a result, the headline index was at its second highest since February 2010.

Employment Index

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



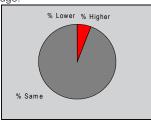


Employment in the Saudi Arabian non-oil private sector continued to rise in the first month of 2012. Moreover, the rate of job creation accelerated to the quickest since August, pushing the seasonally adjusted Employment Index to a level just below the series average. Where net hiring was registered, greater activity, confidence, and government policies were the most commonly cited reasons from survey members.

Output Prices Index

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



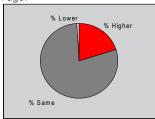


Non-oil private sector companies in Saudi Arabia increased output prices during January. The rate of inflation was solid, but the seasonally adjusted Output Prices Index remained below the long-run average for the survey, after hitting a record low during December. Many panellists mentioned that they had raised their output prices due to strong demand and increasing costs.

Overall Input Prices Index

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

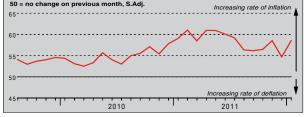


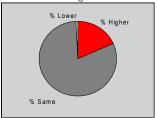


The seasonally adjusted Overall Input Prices Index rebounded during January, having fallen to a 13-month low in the previous survey period. The rise in input prices was marked, accelerating to the second quickest pace since July 2011. Saudi Arabia's non-oil private sector firms have recorded overall input cost inflation in each month since data collection began in August 2009.

Input Costs: Purchase Prices Index

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



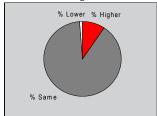


Having eased to a near one-and-half-year-low in December, the rate of purchase price inflation accelerated to a robust pace in January. Approximately 18% of panellists registered an increase in purchasing prices, compared to less than 1% that recorded a decline. Many survey members suggested that higher global prices and greater demand were the primary causes of continued cost inflation.

Input Costs: Staff Costs Index

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

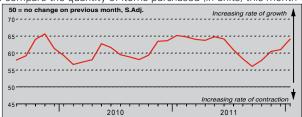


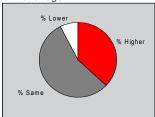


Saudi Arabia's non-oil producing private sector companies recorded a rise in staff costs during January. The increase in salary costs was solid, and quicker than the average for 2011. However, the vast majority of panellists (almost 90%) reported no-change in wage costs when compared to the previous month.

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 continued to acquire inputs during January. Moreover, the rate of growth accelerated to a marked pace, the quickest recorded since June 2011, as over a third of monitored companies reported a rise in purchases over the latest survey period. Anecdotal evidence attributed the latest rise to accelerated growth of new orders.

Stocks of Purchases Index

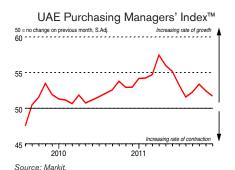
Q. Please compare your stocks of purchases (in units) with the situation one month ago.





Input stocks held by KSA non-oil private sector companies increased solidly in January. Purchases were accumulated at a quicker rate than in any of the previous six survey periods, with over 16% of panellists recording a rise in stock levels. A number of firms cited greater purchasing activity and large order books as the reason for holding more purchases than in December.

International PMI summary



Falling to a four-month low of 51.7 in December, December PMI™ survey data pointed to an easing in UAE non-oil private sector growth. Output and total new business both rose at weaker rates, while staffing levels were unchanged. Data also implied that backlog depletion continued to support activity.

Eurozone Purchasing Managers' IndexTM 50 = no change on previous month, S.Adj. Increasing rate of growth 65 60 45 40 35 70 purusapurusapurusapurusapurusapurusapurusapurusapurusapurusapurusapurusapurusapurusapurusapurus

Source: Markit.

Business activity in the Eurozone private economy contracted for the fourth straight month in December. At 48.3, up from 47.0 in the previous month, the Markit Eurozone PMI[®] Composite Output Index signalled the weakest rate of decline for three months.



Source: Institute for Supply Management (ISM).

The ISM US Manufacturing PMI climbed to a six-month high of 53.9 in December, indicating solid growth in the sector. The expansion was supported by marked growth of both output and new orders. Meanwhile, the Non-Manufacturing Index rose to 52.6. The solid improvement in business conditions was insufficient, however, to increase employment.

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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