

SABB HSBC Saudi Arabia PMI™

Business conditions continue to improve at a marked rate

Key findings:

- PMI falls from January, but nevertheless posts second highest reading since July 2011
- Purchasing activity rises to 13-month high as new order growth remains marked
- Rate of hiring accelerates to eight-month peak

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

Business conditions in the KSA non-oil private sector continued to improve in February, support by further marked expansions in both new orders and activity, as well as accelerated growth of both employment and stocks of purchases. As a result, the headline PMI registered 59.6 in February, marginally below January's reading of 60.0. However, the improvement in the health of the economy was accompanied by faster input price inflation as demand for inputs strengthened.

Receipts of new work continued to grow in February, and at a marked rate, as respondents reported further improvements to market conditions. The latest data indicated that demand from domestic clients remained a key driver of sales. Nevertheless, new export orders rose at the strongest rate for seven months, with a number of panellists attributing the increase to targeted marketing strategies.

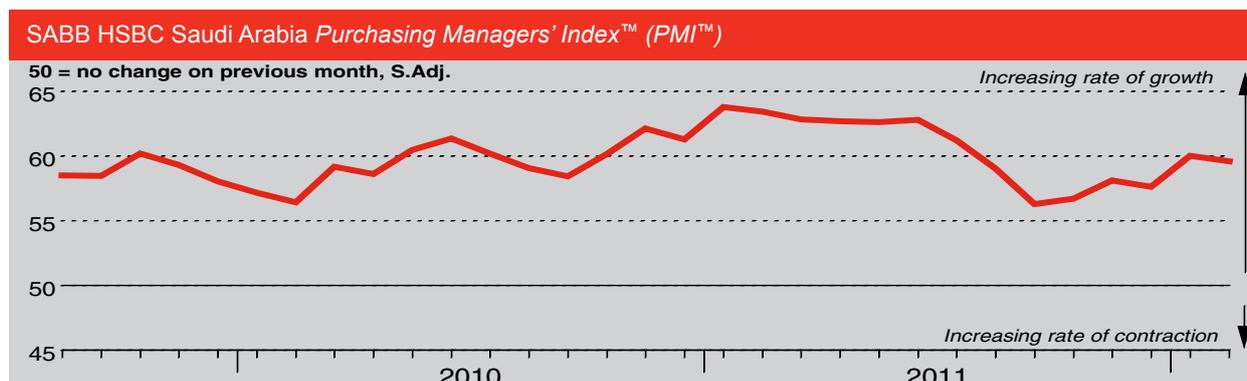
New business growth encouraged Saudi Arabian non-oil private sector companies to increase their output in February. The rate

of expansion was sharp and only slightly slower than January's seven-month high. Backlogs of work were accumulated over the month, however, as the rate of new order growth exceeded that of activity.

To keep up with rising new order levels, KSA non-oil private sector companies increased purchasing, built up stocks and took on additional staff in February. The rate of job creation was solid and quickened to an eight-survey period high, as many panellists also noted the impact of Saudization policies. With buying activity increasing at its fastest pace for just over a year, stocks of purchases were accumulated at the strongest rate for seven-months.

Stronger demand did have implications for cost pressures, however, as overall input price inflation accelerated to a near series record-high. Data showed that escalating purchasing costs remained the principal force behind the rise in input prices, with panellists noting higher costs from fuel to food stuffs. In contrast, salary inflation slowed to a four month-low, signalling only a modest increase in wage costs. To compensate partially for the rise in total costs, output prices were increased modestly over the survey period.

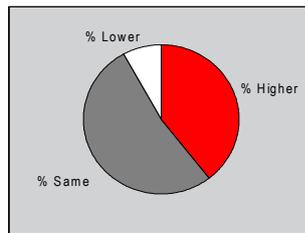
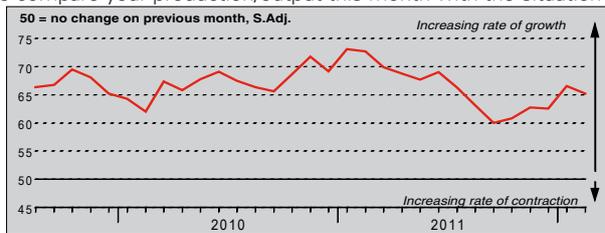
Despite growing demands, vendor performance continued to improve in February. The latest shortening in lead times was the sharpest for just over two years, with panellists citing greater competition and spare capacity as the key causes.



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

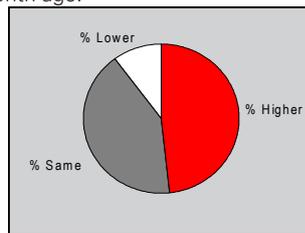
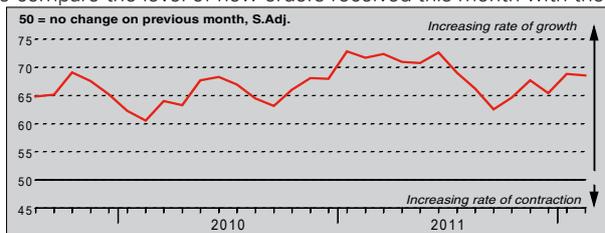
Q. Please compare your production/output this month with the situation one month ago.



Supported by further gains in new business, Saudi Arabian non-oil private sector activity continued to grow in February. The rate of expansion was sharp and only slightly slower than January's seven-month high, with around 40% of panel members noting an expansion. In contrast, just 8% registered a reduction in output over the month

New Orders Index

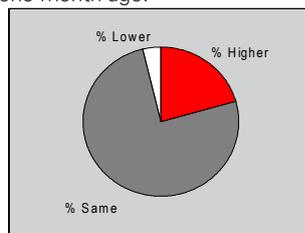
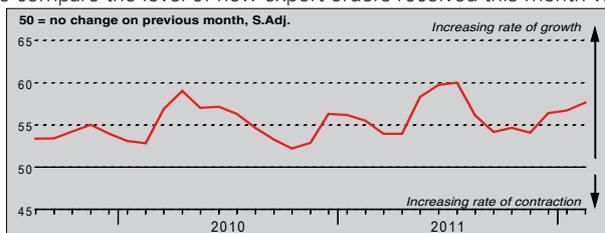
Q. Please compare the level of new orders received this month with the situation of one month ago.



The seasonally adjusted New Orders Index slipped fractionally from January's six-month high in February, but remained above the 31-month survey average. Growth was again marked and reflected improved market conditions, promotional activities and competitive prices, according to respondents. Data suggest that domestic demand remained a key driver of the rise in total new work.

New Export Orders Index

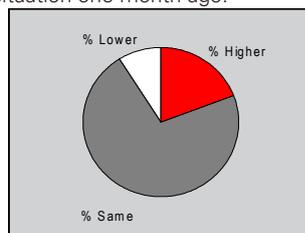
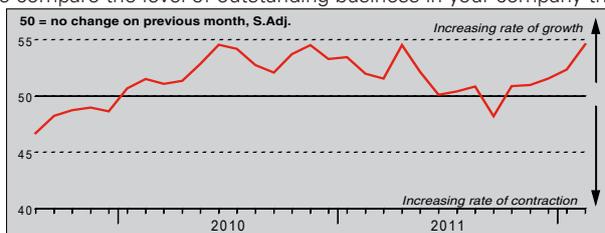
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export business received by KSA non-oil private sector companies rose at a strong rate during February. Furthermore, the pace of increase accelerated for the third month running and was the quickest since July 2011. A number of panellists indicated that improved business conditions abroad and targeted marketing strategies supported foreign demand over the month.

Backlogs of Work Index

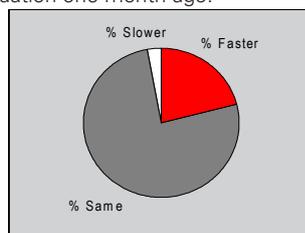
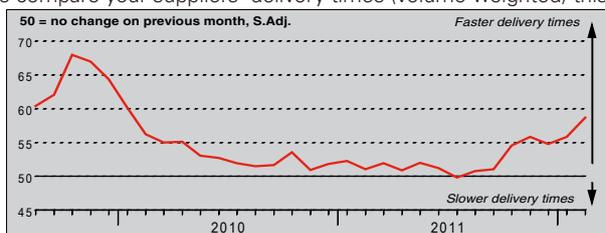
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Further backlog accumulation was reported by Saudi Arabian non-oil private sector firms in February. Outstanding business grew for the fifth consecutive month as new orders continued to increase. Moreover, the rate of expansion quickened to a solid pace, the joint fastest recorded since data collection began in August 2009.

Suppliers' Delivery Times Index

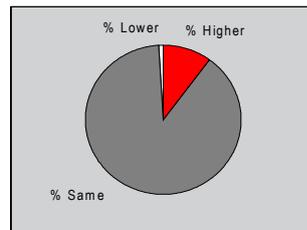
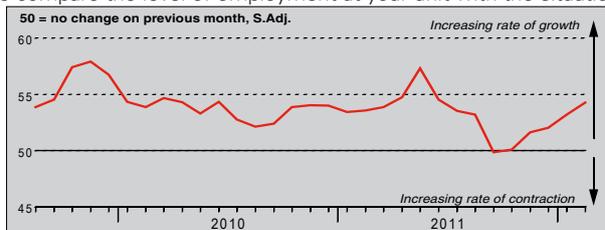
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Despite stronger demand for inputs, supplier delivery times shortened during February, as has occurred in all but one month since the survey began. The latest improvement in lead times was marked, and the sharpest for just over two years. Companies cited competition amongst vendors and spare capacity at suppliers as the key factors behind the improved performance.

Employment Index

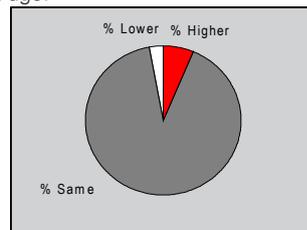
Q. Please compare the level of employment at your unit with the situation one month ago.



Rising on the previous month, the seasonally adjusted Employment Index signalled a solid increase in staffing across the KSA non-oil private sector in February. Anecdotal evidence suggested that rising new order volumes, government work force programmes and continued improvements in macroeconomic conditions had encouraged companies to hire workers at the quickest rate for eight months.

Output Prices Index

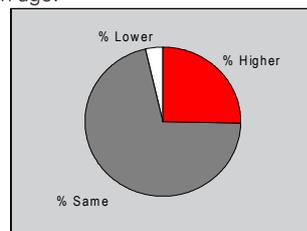
Q. Please compare the average prices you charged this month with the situation one month ago.



Prices charged for goods and services by KSA non-oil private sector companies rose modestly during the latest survey period. However, the rate of inflation eased from January, keeping the seasonally adjusted Output Prices Index below its long-run average. A number of respondents stated that the increase was principally to compensate for input cost inflation, while some others attributed the rise to stronger market demand.

Overall Input Prices Index

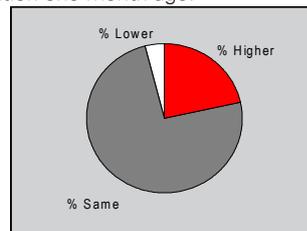
Q. Please compare your overall average input prices this month with the situation one month ago.



Rises in both personnel and purchasing costs drove the seasonally adjusted Overall Input Prices Index to a near series record peak in February. The latest reading pointed to a marked rate of inflation. Data showed that escalating purchasing costs remained the principal force behind total input price inflation.

Input Costs: Purchase Prices Index

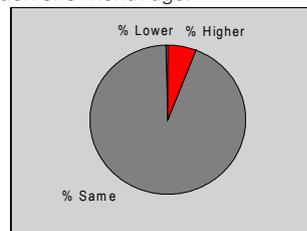
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchasing cost inflation accelerated to an eight-month high during February, with approximately 22% of respondents noting an increase on the month. In contrast, just 4% noted a decline. Panel members said that purchasing prices had risen across the board, noting greater food stuffs, fuel, raw material, and transportation costs on the month.

Input Costs: Staff Costs Index

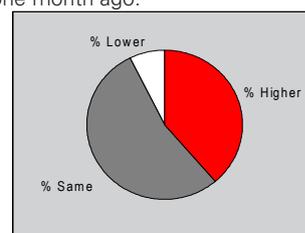
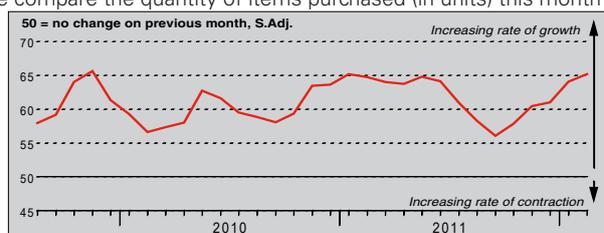
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



A combination of higher living costs, increased employee effort and Saudization costs led Saudi Arabian non-oil private sector firms to raise wages and salaries during February. Staff cost inflation slowed to a modest pace, however, and was the weakest recorded since last October.

Quantity of Purchases Index

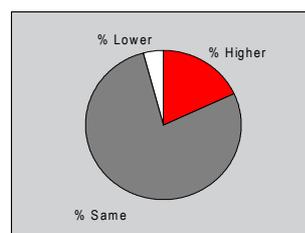
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Saudi Arabian non-oil private sector firms raised buying activity in line with new order growth during February. Input purchasing expanded at a marked rate, the strongest for just over a year. Some firms also stated that additional inputs were acquired as they expect demand to strengthen further over the coming months.

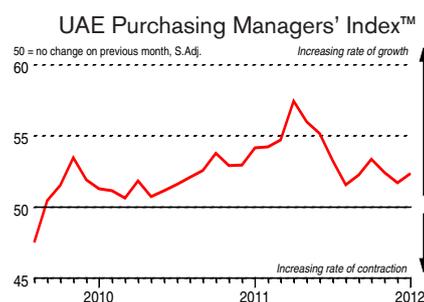
Stocks of Purchases Index

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

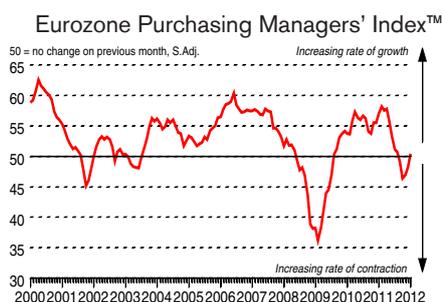


With input buying accelerating over the month, the Stocks of Purchases Index hit a seven-month high in February. Input inventories were accumulated at a robust rate, with over 18% of surveyed companies stating that their stocks of purchases had risen. Just 4% of panellists reported a decline in stock holdings.

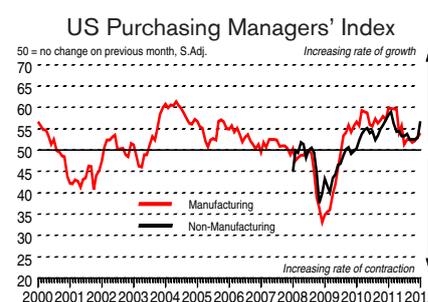
International PMI summary



Source: Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

The HSBC United Arab Emirates Purchasing Managers' Index™ increased from 51.7 in December to 52.4 in January. The reading indicated a moderate strengthening in the health of the sector, as the expansion in output quickened and new business rose at a marked pace. Hiring remained sluggish, however, as firms remained cautious of adding to cost pressures.

Business activity in the Eurozone private economy was broadly unchanged in January, though a marginal increase in activity represents an improvement on the contractions seen at the end of last year. The Markit Eurozone Composite PMI® posted 50.4 in January, up from 48.3 in December and above the no-change mark of 50.0 for the first time in five months.

The ISM US Manufacturing PMI climbed to a seven-month high of 54.1 at the start of 2012, signalling solid growth. Output and new orders increased robustly, while employment rose solidly. The Non-Manufacturing Index jumped to 56.8 in January, led by the sharpest expansion in business activity for 11 months. As a result, firms hired at the quickest rate since February 2006.

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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