

SABB HSBC Saudi Arabia PMI™

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

Key findings:

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

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 monitoring 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.

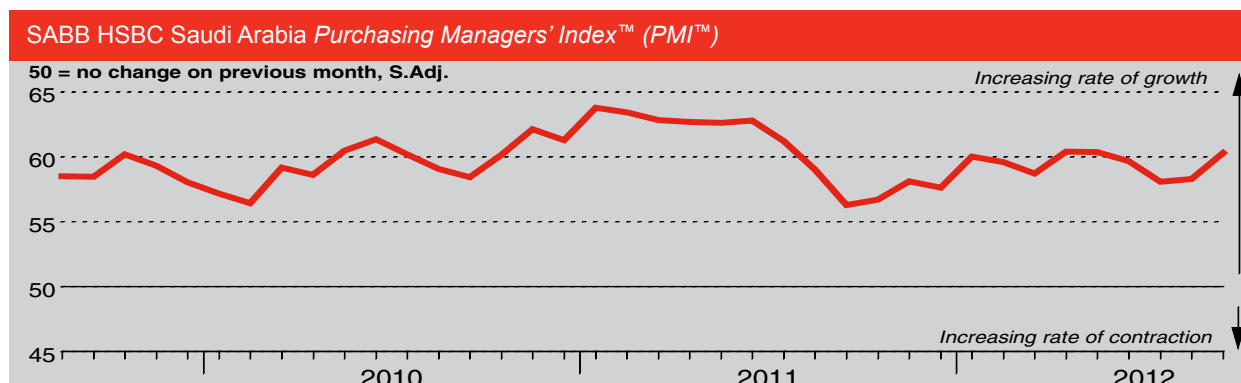
Strong growth of incoming new business exerted further pressure on capacity, with September seeing backlogs of work rise for the second straight month. The rate of increase was broadly similar to the prior month and above the average for the survey history.

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.

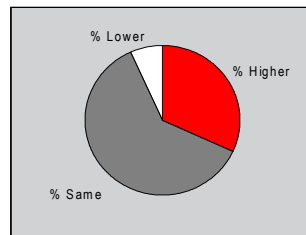
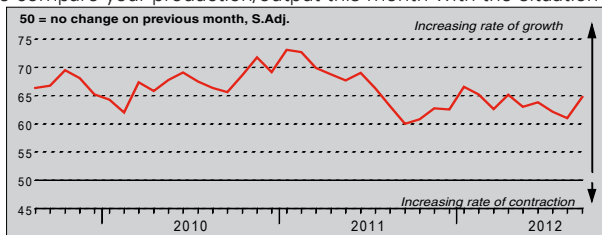
Purchasing activity rose at the fastest pace for five months in September, leading to a further robust increase in inventory holdings. Over a third of surveyed companies reported higher levels of input buying during the latest survey period. Meanwhile, average vendor performance showed a further marked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



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

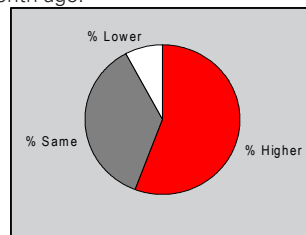
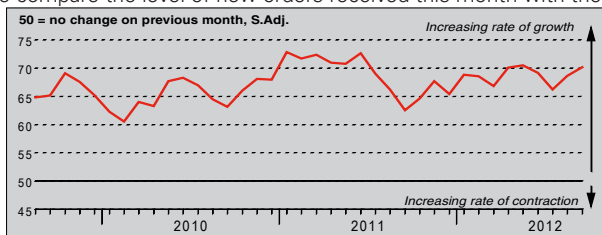
Q. Please compare your production/output this month with the situation one month ago.



September data signalled a further strong expansion of output in the Saudi Arabian non-oil economy. Moreover, the rate of growth accelerated from August's ten-month low to the fastest since April. Companies generally linked higher levels of production to improved inflows of incoming new business. There were also reports that output had been increased in response to rising backlogs of work.

New Orders Index

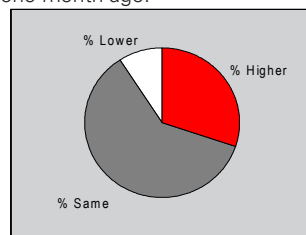
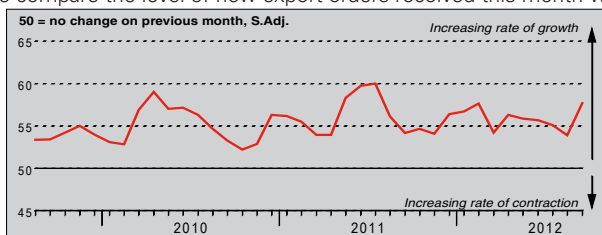
Q. Please compare the level of new orders received this month with the situation of one month ago.



The rate of increase in incoming new business picked up for the second straight month in September. New orders subsequently rose at a substantial pace that was the sharpest since May. Panellists reported strong demand from domestic clients. Also supporting the latest gain in total new business was a further solid increase in new export contracts.

New Export Orders Index

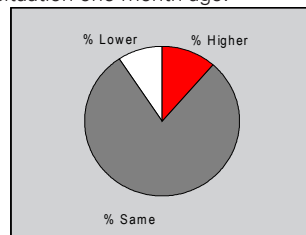
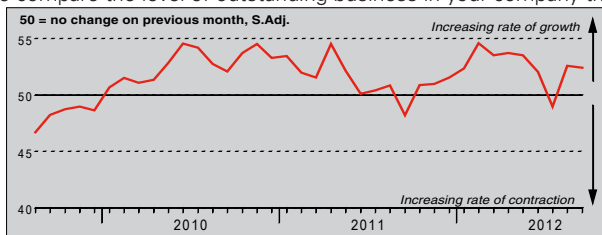
Q. Please compare the level of new export orders received this month with the situation of one month ago.



September saw a marked acceleration in the rate of growth in incoming new export business. After slipping to a 21-month low in August, the pace of expansion hit a seven-month peak and moved back above the series average. Companies attributed the latest increase in new export business to improved demand. Just over 30% of survey respondents saw growth of new export orders.

Backlogs of Work Index

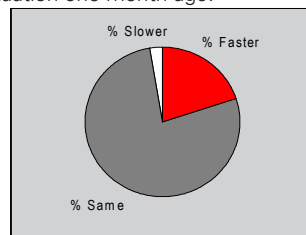
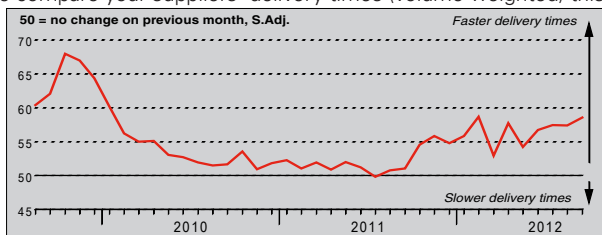
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Improved inflows of new business continued to exert pressure on the capacity of the KSA non-oil economy in September. This was highlighted by an increase in backlogs of work for the second successive month, with the rate of growth in outstanding business broadly similar to that signalled in August. Rising backlogs of incomplete work reflected strong new order growth.

Suppliers' Delivery Times Index

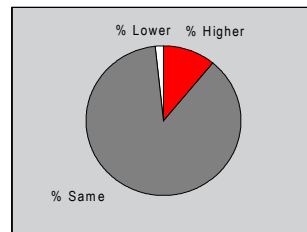
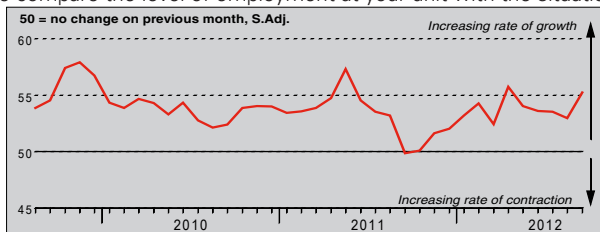
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average vendor lead times shortened for the fourteenth successive month in September. Moreover, delivery times improved to the greatest extent since February, and to a larger degree than generally seen during the 38-month survey history. A number of firms indicated that successful negotiations, regular order placement and improved payment methods had encouraged suppliers to shorten their lead times.

Employment Index

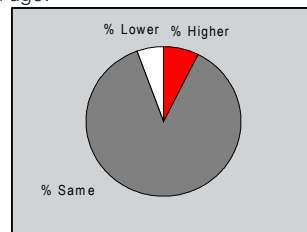
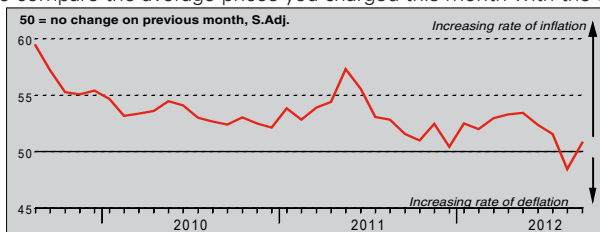
Q. Please compare the level of employment at your unit with the situation one month ago.



Strong growth of business activity and new orders encouraged Saudi Arabian non-oil private sector companies to raise employment in September. This extended the current sequence of job creation into its twelfth successive month. Moreover, payroll numbers rose at a faster pace than in August and at a stronger rate than the average for the survey history.

Output Prices Index

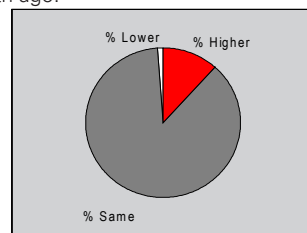
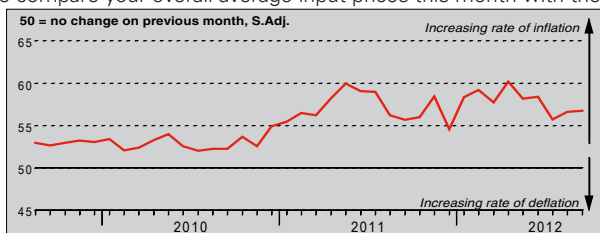
Q. Please compare the average prices you charged this month with the situation one month ago.



After falling slightly in the previous month, September saw average output prices post a marginal increase. Almost 8% of the survey panel raised their selling prices, reflecting a combination of higher demand and efforts to pass on increased input costs to clients. However, the rate of inflation was held down by competitive pressures.

Overall Input Prices Index

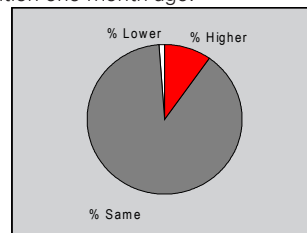
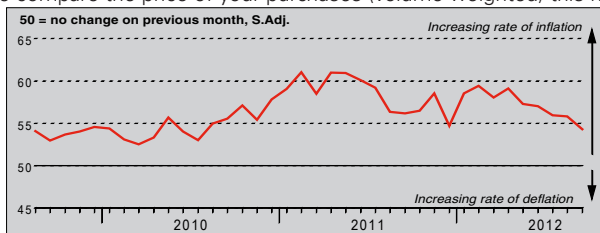
Q. Please compare your overall average input prices this month with the situation one month ago.



Companies in KSA reported a further solid increase in their average input prices during September. Moreover, the rate of inflation accelerated to a three-month high that was above the average for three-year series history. Average purchase prices were higher than one month ago, as were average wage/salary costs. Only 1% of surveyed companies reported a reduction in overall input prices.

Input Costs: Purchase Prices Index

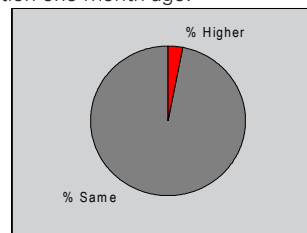
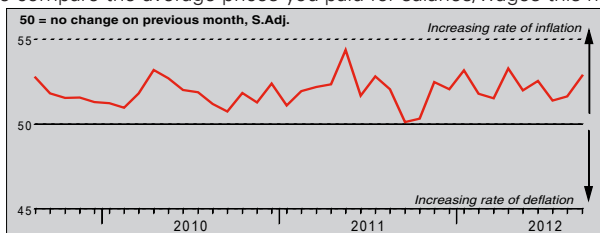
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Average purchase prices rose again during September, continuing a trend observed through the survey history to date. However, the rate of inflation eased further and was the slowest for over two years. Where an increase in purchasing costs was reported, this was linked to general price inflation and the higher costs of certain food products.

Input Costs: Staff Costs Index

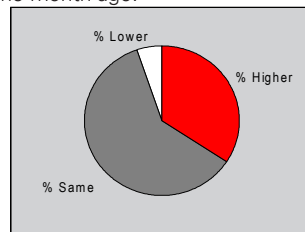
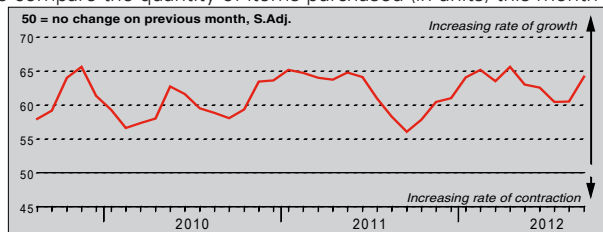
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average wage and salary costs continued to rise in the Saudi Arabia non-oil economy during September. Furthermore, the rate of inflation accelerated to a five-month peak. Companies reported that wages and salaries had increased due to the rising cost of living and recent contract negotiations. The rate of increase was slightly above the average for the 38-month survey history.

Quantity of Purchases Index

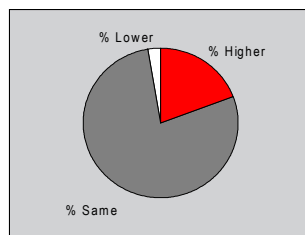
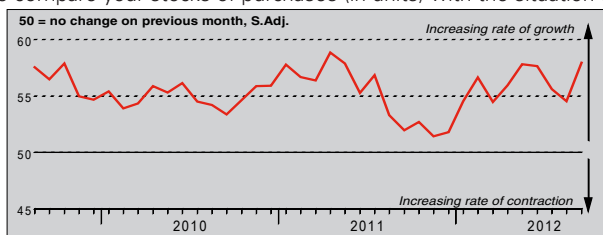
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Stronger growth of business activity and incoming new work led to a further marked increase in purchasing activity during September. Growth of input buying volumes surged to its sharpest rate for five months, with over a third of panellists reporting an increase. There were a number of reports of input purchasing being raised due to the introduction of new product lines.

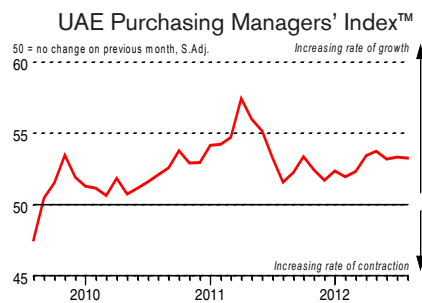
Stocks of Purchases Index

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



KSA private sector non-oil companies reported a further substantial increase in stocks of purchases during September. The rate of growth in inventory holdings surged to a 17-month peak, with almost one-fifth of companies reporting an increase. This mainly reflected higher levels of raw material purchasing and, to a lesser extent, preparations for introducing new product lines.

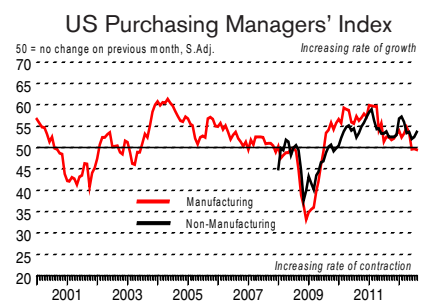
International PMI summary



Sources: HSBC, Markit.



Source: Markit.



Source: ISM.

The seasonally adjusted HSBC United Arab Emirates PMI™ remained above the neutral 50.0 mark for the thirty-sixth successive month in August. At 53.3, down slightly from July's 53.4, the rate of growth signalled by the headline PMI was slightly above the average for the survey history. Output, new orders and employment were all higher than in the previous month.

Eurozone economic output contracted for the seventh successive month in August. At 46.3, down slightly from 46.5 in July, the Markit Eurozone PMI™ Composite Output Index came in below its earlier flash estimate of 46.6. The average index reading so far in Q3 2012 (46.4), is in line with that registered for the second quarter as a whole.

The downturn in the US manufacturing sector extended into a third month in August. This was signalled by the seasonally adjusted ISM Manufacturing PMI posting 49.6, a level consistent with a marginal rate of contraction. The non-manufacturing sector fared better, with the ISM Non-Manufacturing NMI signalling growth for the thirty-second month in a row.

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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