

SABB HSBC Saudi Arabia PMI™

Strong growth of output and new orders continued at start of Q4 2012

Key findings:

- SABB HSBC PMI at 59.8 in October
- Growth of output and new orders remains substantial
- Higher demand leads to improved pricing power

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for October 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 seasonally adjusted SABB HSBC Saudi Arabia PMI™ posted 59.8 in October, down slightly from September's four-month high of 60.3. The latest reading was in line with average for the 39-month survey history.

Underpinning the latest improvement in operating performance were further increases in both output and new business. Rates of expansion slowed marginally from recent highs, but nonetheless remained substantial and above survey averages. Companies reported that the domestic market remained the prime source of new orders, reflecting improving sentiment and successful marketing initiatives.

Levels of new export business also continued to rise in October, despite signs of slower growth of the global economy in recent months. Survey respondents mainly linked improved foreign demand to gains in new business from within the GCC.

Strong growth of new business increased the pressure on capacity in the non-oil producing sector. This was highlighted by

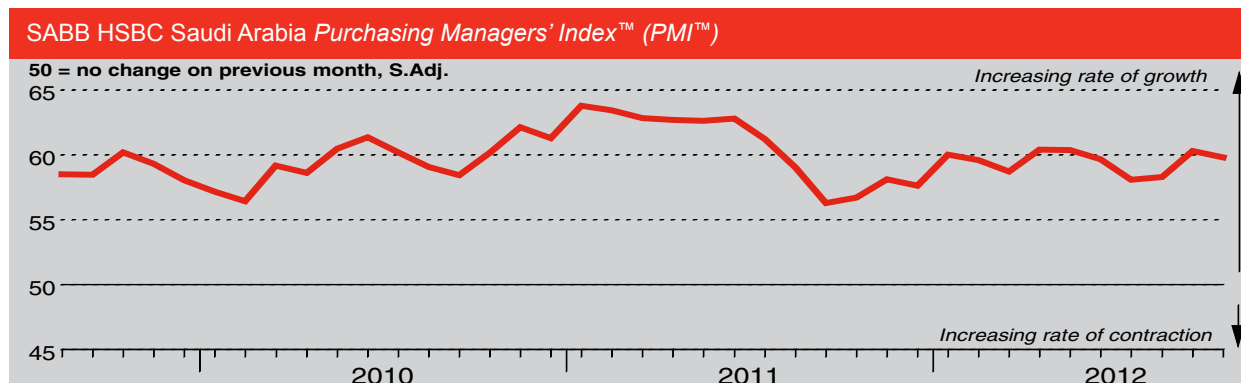
a series-record increase in levels of work-in-hand (but not yet completed) in October. Subsequently, companies increased employment for the thirteenth successive month. The rate of jobs growth was solid, but slower than in the prior month and below the survey average.

Increased demand for their products and services improved the pricing power of Saudi Arabian non-oil producing companies in October. Average selling prices rose for the second successive month and at the fastest rate since June 2011. There were also reports of charges being raised in line with higher input costs.

Overall input prices posted a further increase during the latest survey period, reflecting higher staff costs and purchase prices. The steeper inflation was signalled for purchasing costs, which rose at the quickest pace for four months. Average wages and salaries were only moderately higher than in September, with the vast majority of companies reporting no change.

Purchasing activity rose sharply in October, continuing a trend observed throughout the survey history. Companies raised input buying volumes in response to increases in business activity and incoming new work.

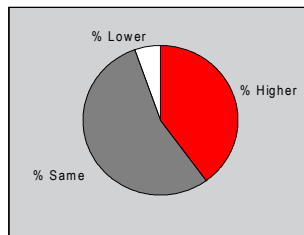
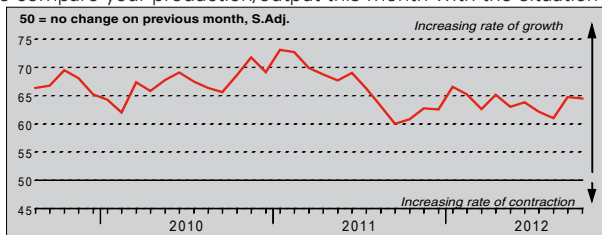
Part of the rise in purchasing reflected a preference for expanded stock holdings, in line with panellists expectations of further output and demand growth in coming months. Average supplier performance also continued to improve.



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

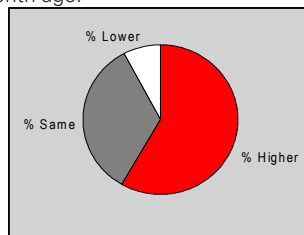
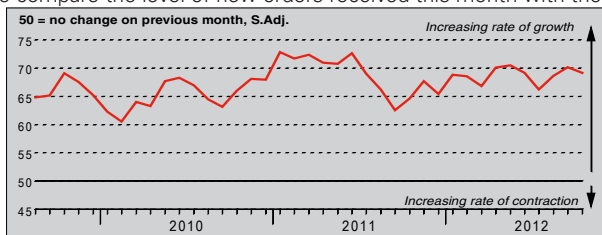
Q. Please compare your production/output this month with the situation one month ago.



The Saudi Arabian non-oil producing sector continued to register strong output growth during October. The rate of expansion was broadly in line with September's five-month high, but below the average for the survey history. Marked increases in business activity were signalled by small, medium and large sized enterprises, with the fastest growth at large firms. Companies linked higher activity to rising levels of new business.

New Orders Index

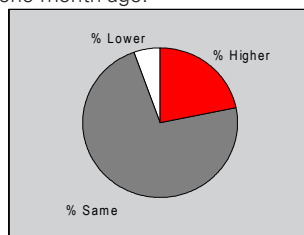
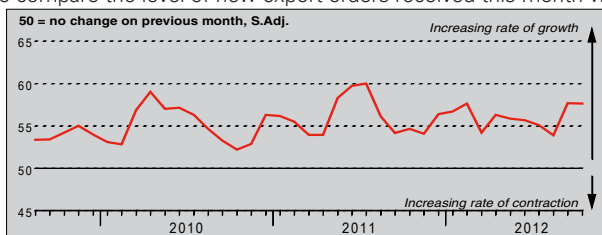
Q. Please compare the level of new orders received this month with the situation of one month ago.



The level of incoming new business posted a further marked increase in October. The rate of expansion was close to September's four-month peak, as companies benefited from a strong domestic market and rising export sales. Firms also linked higher levels of new business to improved economic sentiment, successful marketing and improved demand from the construction sector.

New Export Orders Index

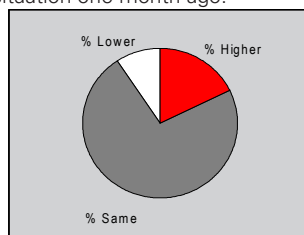
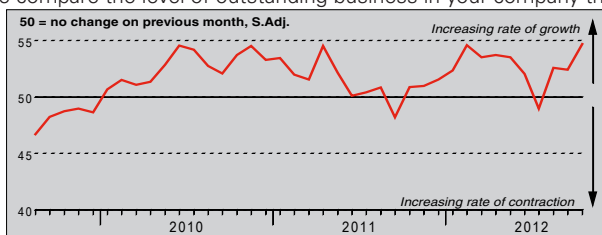
Q. Please compare the level of new export orders received this month with the situation of one month ago.



October data pointed to a further solid increase in new export orders. Companies reported improved levels of new business from clients within the GCC. The overall rate of increase was unchanged from the previous month, when new export business rose to the greatest extent since February. Just fewer than 22% of respondents saw an increase in new export orders.

Backlogs of Work Index

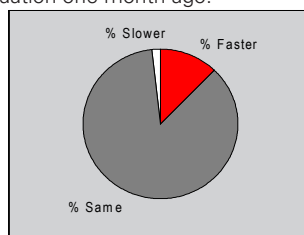
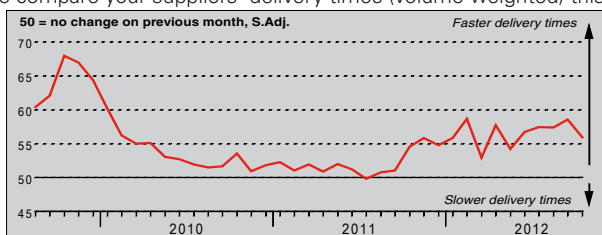
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Strong growth of incoming new business exerted further pressure on the capacity of Saudi Arabian non-oil producing companies during October. This was highlighted by an increase in backlogs of work for the third straight month. Furthermore, the rate of growth in outstanding business accelerated to its highest since the survey began in August 2009.

Suppliers' Delivery Times Index

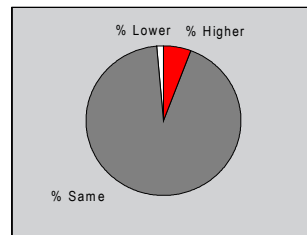
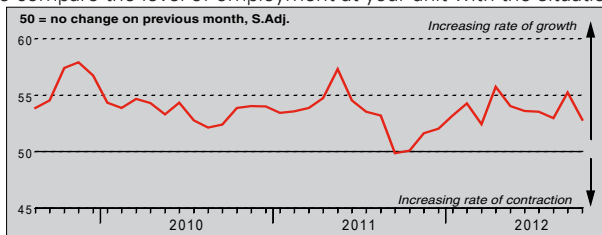
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



October data signalled an improvement in average vendor performance for the fifteenth successive month. Although lead times shortened to a lesser extent than in the previous month, the improvement was still marked and above the survey average. Companies reported that quicker delivery times had been agreed with suppliers, reflecting new production requirements and improved payment systems.

Employment Index

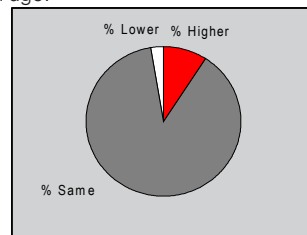
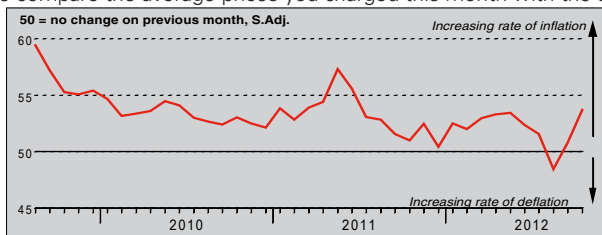
Q. Please compare the level of employment at your unit with the situation one month ago.



Rising levels of business activity and incoming new orders encouraged Saudi Arabian non-oil producing companies to increase employment during October. Staffing levels increased for the thirteenth month in a row. Although the rate of jobs growth remained solid, it was slower than the previous month and below the survey average.

Output Prices Index

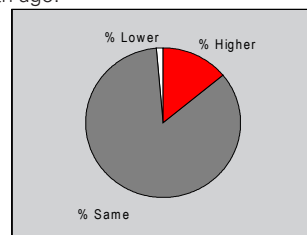
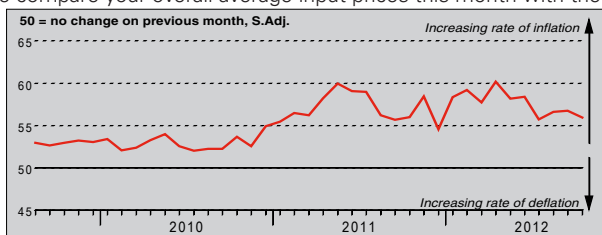
Q. Please compare the average prices you charged this month with the situation one month ago.



Higher demand for products and services improved the pricing power of Saudi Arabian companies in October. This was reflected in a marked increase in average selling prices, which rose for the second month running and at the fastest pace since June 2011. There were also a number of reports indicating that charges had been increased in line with higher input costs.

Overall Input Prices Index

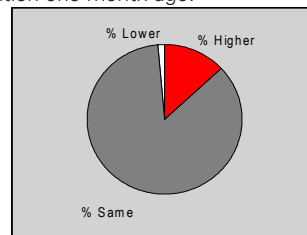
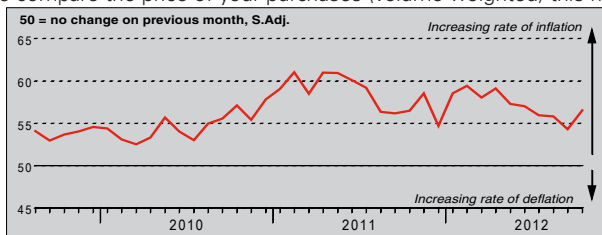
Q. Please compare your overall average input prices this month with the situation one month ago.



Higher raw material prices and rising payroll costs led to a further marked increase in overall input prices during the latest survey period. Total costs have risen throughout the 39-month survey history, with the increase during October broadly in line with the average for this period. Overall input price inflation rose at near-identical rates at small, medium and large sized companies.

Input Costs: Purchase Prices Index

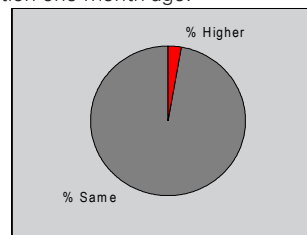
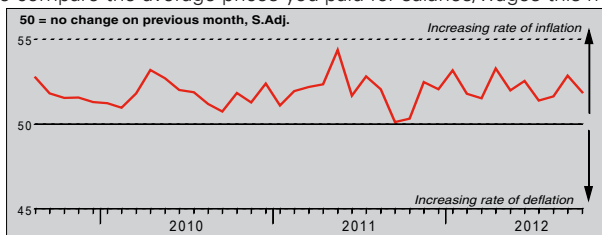
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



October data signalled an acceleration in the rate of purchase price inflation. Input costs rose at the fastest pace for four months, reflecting higher demand for a number of raw materials. Panellists reported that the prices of foodstuffs, metals and other commodities had risen over the month. Small, medium and large sized firms all reported marked increases in purchasing costs.

Input Costs: Staff Costs Index

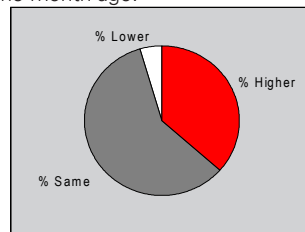
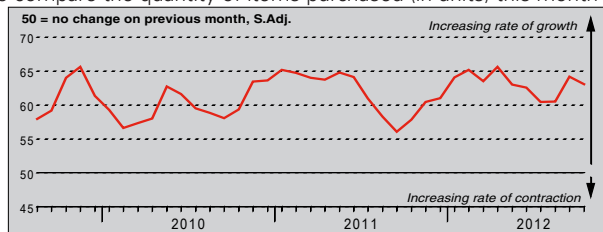
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average wages and salaries increased again in the Saudi Arabian non-oil producing economy during October. However, the rate of increase was only modest, with the vast majority of companies reporting no change in payroll costs over the month. Wages and salaries increased at SMEs, whereas large enterprises reported no change in staff costs during the latest survey period.

Quantity of Purchases Index

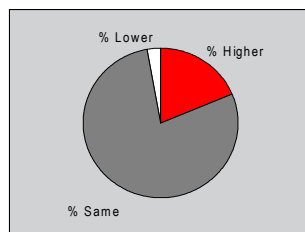
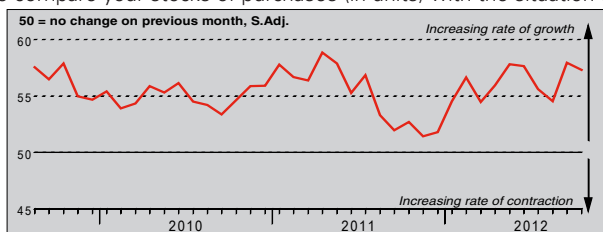
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Rising levels of business activity in the Saudi Arabia non-oil producing economy led to a further substantial increase in purchasing activity. Input buying volumes have risen throughout the survey history. Almost 37% of respondents reported an increase in purchasing during the latest survey period, meaning that the rate of growth remained substantial overall.

Stocks of Purchases Index

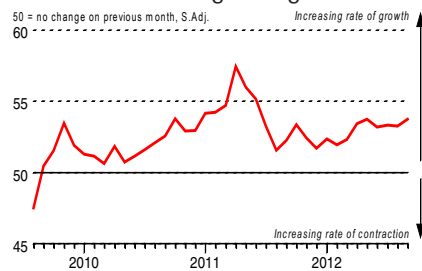
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Part of the latest increase in purchasing activity reflected efforts to build up stocks of raw materials. Subsequently, October saw another increase in inventory holdings, with the rate of expansion remaining comfortably above the long-run series average. A number of firms indicated that stock levels were raised in advance of expected growth of business activity and demand.

International PMI summary

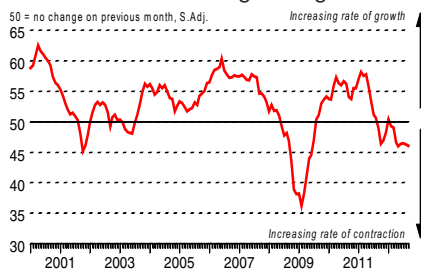
UAE Purchasing Managers' Index™



Sources: HSBC, Markit.

At 53.8 in September, up from 53.3 in August, the seasonally adjusted HSBC UAE Purchasing Managers' Index remained above the critical no-change mark of 50.0 for the thirty-seventh successive month. Companies linked the latest improvement in overall operating performance to faster growth of both business activity and new orders, which led to further job creation.

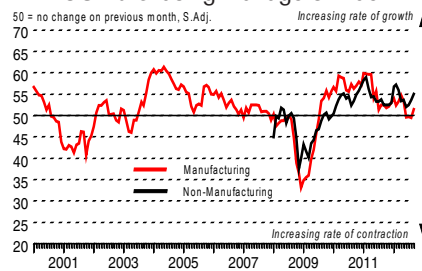
Eurozone Purchasing Managers' Index™



Source: Markit.

The Eurozone economy contracted further at the end of Q3 2012. Business activity and new orders both continued to fall, leading to mounting job losses, while the rate of cost inflation moved higher. The Markit Eurozone PMI Composite Output Index posted 46.1 in September, to remain below the neutral mark of 50.0 for the eighth successive month.

US Purchasing Managers' Index



Source: ISM.

The ISM US Manufacturing PMI registered 51.5 in September, to signal a marginal improvement in overall operating conditions. Production fell for the second successive month, as new export orders declined for the fourth month running. Meanwhile, the ISM Non-Manufacturing NMI came in at 55.1, from 53.7 in August, a six-month high.

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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