

SABB HSBC Saudi Arabia PMI™

Operating conditions in non-oil producing private sector improve again

Key findings:

- Further increases in output and new orders
- Solid rise in employment levels
- Overall input price inflation down slightly

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

Operating conditions in the Saudi Arabian non-oil producing private sector improved again in December, as the headline PMI posted a reading of 58.9, up from 57.0 in November. Output and new orders increased solidly and employment levels rose at the sharpest rate in three months. Meanwhile the overall rate of input price inflation weakened slightly.

December data signalled a further rise in production at non-oil producing private sector firms in Saudi Arabia, with almost 30% of respondents indicating higher output levels. New orders continued to increase, and at a higher rate than in the previous survey period. Panellists linked growth of new work to improved market conditions.

New export orders received at Saudi Arabian non-oil producing private sector firms rose further in December, and at the sharpest rate in 17 months. Improved economic conditions was given as one of the drivers behind the latest increase. Meanwhile, the level of outstanding work decreased slightly, and for the second

month running.

Employment levels continued to rise during December, and at its sharpest rate in three months. More than 9% of companies indicated the hiring of additional staff and linked this to increased business. Concurrently, average prices charged by non-oil producing private sector firms in Saudi Arabia rose, which was partly driven by increased input costs.

Overall input prices increased during December, although the rate of input cost inflation weakened slightly. The rise in purchase prices was attributed to general inflationary pressures. Only a modest rise in average prices paid for salaries was reported at the end of 2012.

The latest survey data indicated an increase in the quantity of items purchased at non-oil producing private sector firms in Saudi Arabia. Higher business requirements was one of the drivers behind the expansion. Pre-production inventories accumulated further in December, with more than 18% of respondents indicating a rise in input stocks.

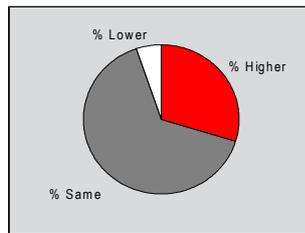
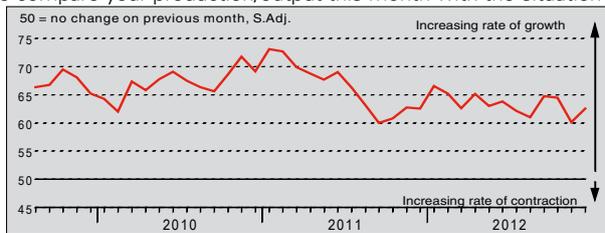
Average lead times shortened at Saudi Arabian non-oil producing private sector firms during December, pointing to a further improvement in vendor performance. More than 15% of respondents reported better delivery times and partly linked this to improved payments.



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

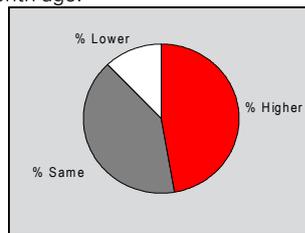
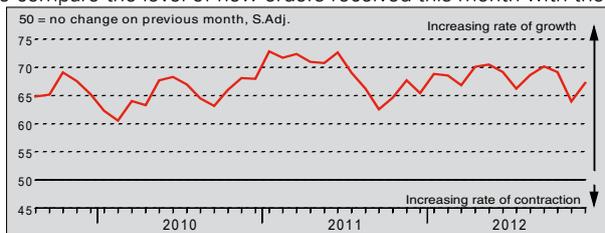
Q. Please compare your production/output this month with the situation one month ago.



Production rose at non-oil producing private sector firms in Saudi Arabia during December. This was highlighted by the seasonally adjusted Output Index posting a reading above the neutral 50.0 threshold that separates growth from contraction. The rate of output growth was higher than in November, but remained below the series average. Panellists linked the rise in production to an increase in order numbers.

New Orders Index

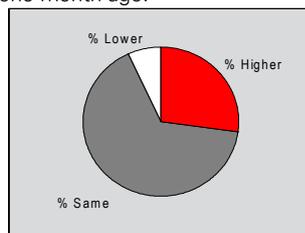
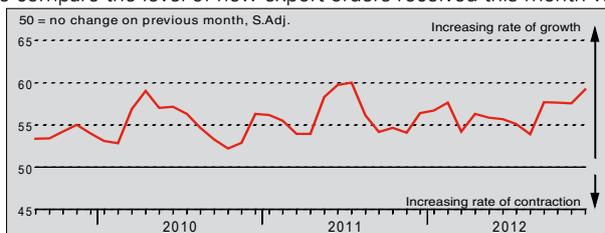
Q. Please compare the level of new orders received this month with the situation of one month ago.



As has been the case throughout the survey history to date, the level of new orders received at Saudi Arabian non-oil producing private sector companies rose further in December. More than 47% of respondents reported higher volumes of incoming business. Improved market conditions was cited as a reason behind the latest growth of new work.

New Export Orders Index

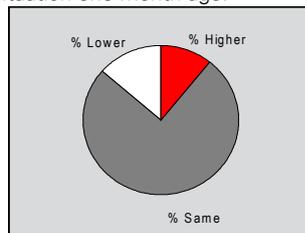
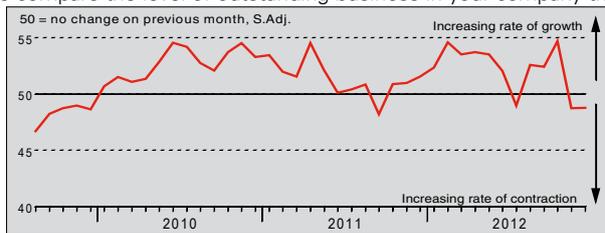
Q. Please compare the level of new export orders received this month with the situation of one month ago.



December data signalled a further rise in new export orders in Saudi Arabia's non-oil producing private sector. The rate of expansion picked up, and was the sharpest in 17 months. According to anecdotal evidence, improved economic conditions were one of the drivers behind the increase in new business from abroad.

Backlogs of Work Index

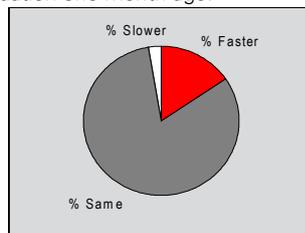
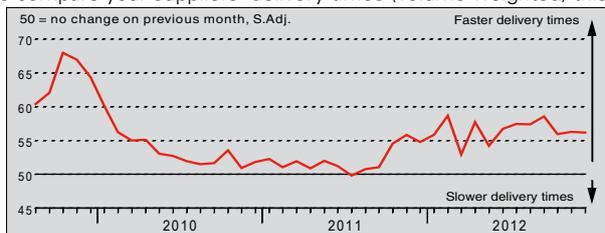
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding business decreased during December. The seasonally adjusted Backlogs of Work Index posted below the no-change mark of 50.0 for the second month running. The rate at which work-in-hand decreased was exactly the same as in November. Companies that indicated less work outstanding commented on the ability to clear of existing orders as one of the reasons behind the latest development.

Suppliers' Delivery Times Index

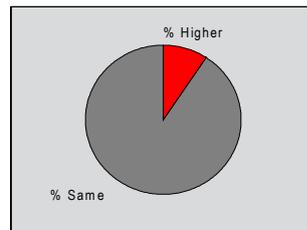
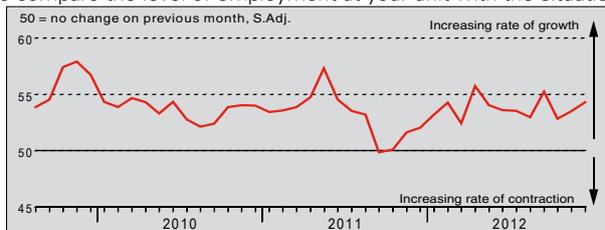
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance improved further at Saudi Arabian non-oil producing private sector firms in December. The rate at which average lead times shortened stayed broadly in line with that observed in the previous two survey periods. There was some evidence that better delivery times were driven by improved payments.

Employment Index

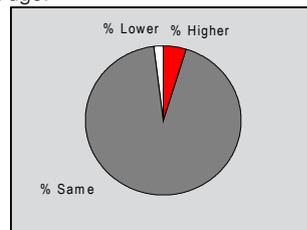
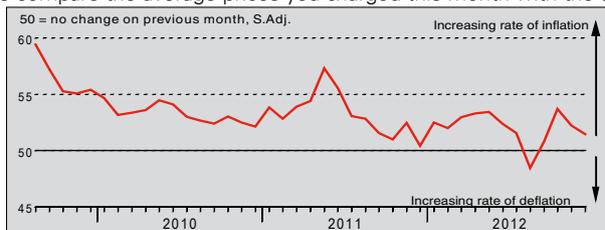
Q. Please compare the level of employment at your unit with the situation one month ago.



The latest survey data signalled an expansion of workforce numbers in the Saudi Arabian non-oil producing private sector. The rate of job creation was slightly higher than in November and stayed above the overall series average. More than 9% of respondents reported higher employment levels than in the previous month and commonly associated this with increased work.

Output Prices Index

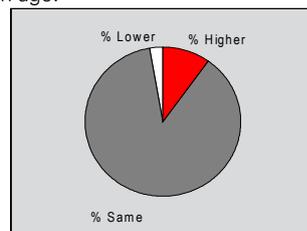
Q. Please compare the average prices you charged this month with the situation one month ago.



Average tariffs set by Saudi Arabian non-oil producing private sector firms increased during December. Output prices rose for the fourth successive month, albeit at a weaker rate than in the previous survey period. Increased input prices was one of the reasons highlighted by companies that raised their charges.

Overall Input Prices Index

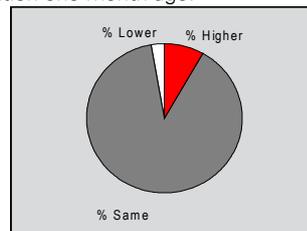
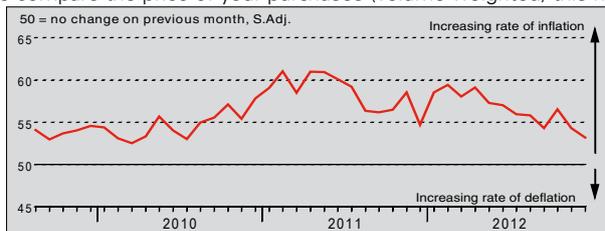
Q. Please compare your overall average input prices this month with the situation one month ago.



Input prices rose further in the non-oil producing private sector during December and have now increased for every month since the beginning of data collection in August 2009. The rate of input cost inflation was slightly lower than in November, and remained below the series average to date. Almost 10% of respondents reported higher input prices and less than 3% recorded lower costs.

Input Costs: Purchase Prices Index

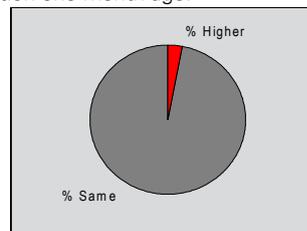
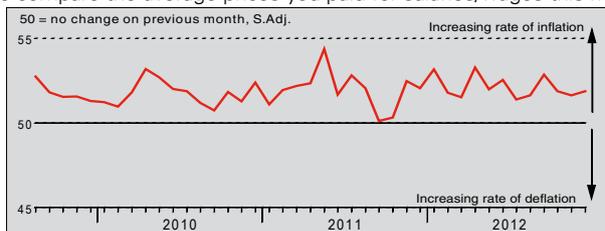
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Average purchase prices continued a trend observed throughout the survey history to date, increasing during December, as the seasonally adjusted Purchase Prices Index posted above the neutral 50.0 threshold. Panellists linked the rise in input costs to general inflationary pressures in the market place.

Input Costs: Staff Costs Index

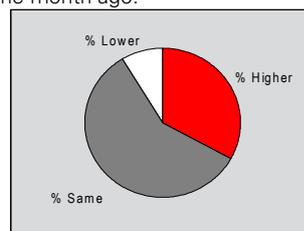
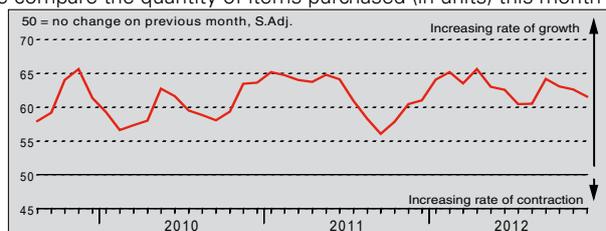
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average staff costs rose further in December. The rate of wage inflation picked up slightly, but stayed in line with the average observed throughout the survey history to date. The vast majority of respondents indicated unchanged average prices paid for salaries, as only 3% of companies recorded higher wages.

Quantity of Purchases Index

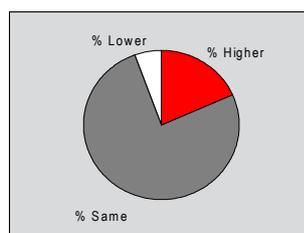
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



December data signalled a further improvement in purchasing activity. One-in-three respondents indicated an increase in the quantity of items purchased with less than 9% reporting a decrease. While the rate of expansion was slightly lower than in November, it stayed in-line with the series average. According to panellists, the latest increase was partly driven by higher business requirements.

Stocks of Purchases Index

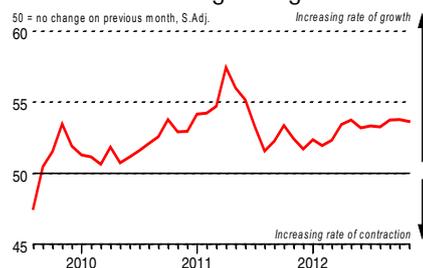
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



The seasonally adjusted Stocks of Purchases Index posted a reading above the 50.0 no-change mark in December, pointing to a solid increase in pre-production inventories. More than 18% of companies reported a rise in input stocks, while less than 6% indicated a fall. The expectations of more business in the future was one of the main drivers for the latest accumulation of stocks of purchases.

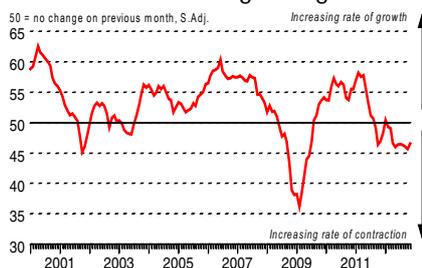
International PMI summary

UAE Purchasing Managers' Index™



Sources: HSBC, Markit.

Eurozone Purchasing Managers' Index™



Source: Markit.

US Purchasing Managers' Index



Source: ISM.

The headline seasonally adjusted HSBC United Arab Emirates PMI™ registered above the 50.0 no-change mark in November, signalling an improvement in overall operating conditions. At 53.7, almost unchanged from 53.8 in October, the PMI was above the series average of 52.7, and indicated a solid improvement overall.

The Markit Eurozone PMI® Composite Output Index rose to 46.5 in November, up from October's 40-month low of 45.7. The headline index has now remained below the neutral 50.0 mark for ten consecutive months and, although the latest reading was the highest since July, it was nonetheless indicative of a solid contraction in overall private sector output.

The ISM data signalled a worsening of manufacturing conditions for US companies in November, as the PMI Index posted at 49.5, down from 51.7 in October. Non-manufacturing firms in the US, on the other hand, reported a further improvement in business conditions, as the NMI index scored 54.7 in November, slightly up from 54.2 in the previous month.

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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