

# SABB HSBC Saudi Arabia PMI™

PMI signals further solid improvement in operating conditions

**Key findings:**

- Output continues to increase at marked rate
- New order growth at five-month high
- Overall input price inflation accelerates

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for March 2013 – 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 latest survey data pointed to a further solid improvement in overall business conditions at non-oil producing private sector companies in Saudi Arabia. The seasonally adjusted headline PMI posted 58.9 in March, up slightly from February's 58.5. Operating conditions have improved in every month since data collection began in August 2009.

Saudi Arabia's non-oil producing private sector companies reported further solid growth of output in March, and linked this to increased new business. The rise in order book volumes was mainly driven by ongoing improving economic and political conditions, according to panellists. New work grew at the sharpest rate in five months, with more than half of respondents indicating a rise in incoming business. New export business also increased at a marked rate.

Work-in-hand increased for the second month running in March, but the rate of backlog accumulation remained modest. Around 11% of companies recorded an increase in outstanding business and 10% reported a fall.

Vendor performance improved further during the latest survey period, and at a sharper rate than in February. According to anecdotal evidence, the shortening in average lead times was partly driven by improved payments and, in some cases, a change of suppliers.

March data signalled a further rise in employment levels at non-oil producing private sector companies in Saudi Arabia. Companies commonly mentioned increased new business as the main driver behind the latest hiring of staff.

Overall input prices increased at the sharpest rate in six months during March. Around 17% of companies had to face higher input costs, while only 1% reported a fall. An increase in purchase prices and staff costs contributed to the latest rise in overall input prices. In response to higher input costs, non-oil producing private sector companies in Saudi Arabia raised their output charges in March. While output prices rose for the seventh successive survey period, the rate of charge inflation was only marginal.

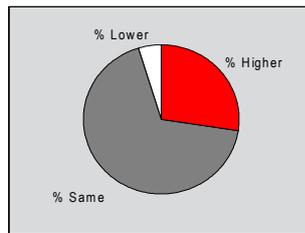
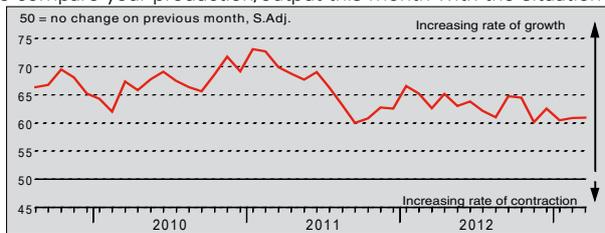
Driven by higher new business, purchasing activity increased at the sharpest rate in six months during March. Almost one-in-three respondents reported an increase in buying, while only 5% indicated a fall. Meanwhile, inventory levels also increased in Saudi Arabia's non oil-producing private sector. There was some anecdotal evidence that the rise was driven by greater in work-in-hand and increased new business.



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**

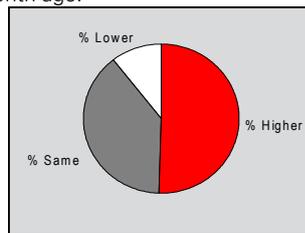
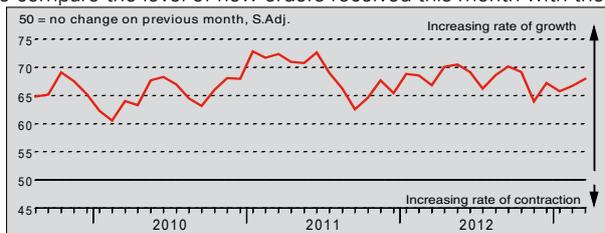
Q. Please compare your production/output this month with the situation one month ago.



March data signalled a further rise in output at non-oil producing private sector companies in Saudi Arabia. Only 5% of panellists recorded a decline in production, while 27% indicated a rise and commonly linked this to increased new business. While the rate of expansion was solid and in line with February data, it remained below the overall series average.

**New Orders Index**

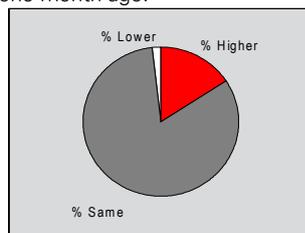
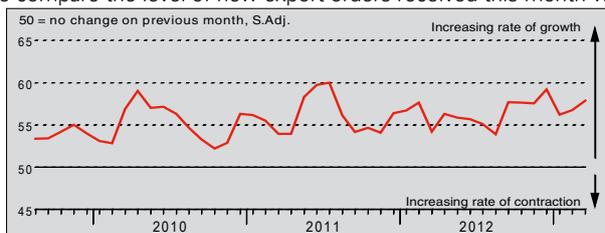
Q. Please compare the level of new orders received this month with the situation of one month ago.



Order book volumes in Saudi Arabia's non-oil producing private sector increased solidly during March, with more than half of respondents recording growth in new work. The rate of expansion picked up from the previous survey period, and was the sharpest in five months. Ongoing improvements in economic and political conditions were mentioned by panellists.

**New Export Orders Index**

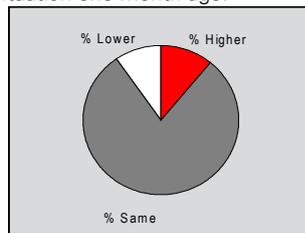
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New business from abroad placed at non-oil producing private sector companies in Saudi Arabia rose further during the latest survey period. This was highlighted by the seasonally adjusted New Export Orders Index posting a reading above the 50.0 mark that separates growth from contraction. According to anecdotal evidence, the rise in export business was driven by improved market conditions.

**Backlogs of Work Index**

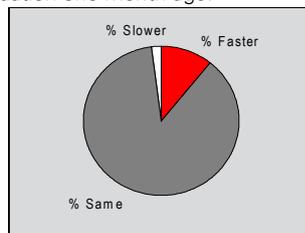
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding business at Saudi Arabia's non-oil producing private sector companies increased for the second successive month during March, but the rate at which backlogs accumulated remained modest. Where a rise in work-in-hand was reported, some companies linked this to an increase in new orders.

**Suppliers' Delivery Times Index**

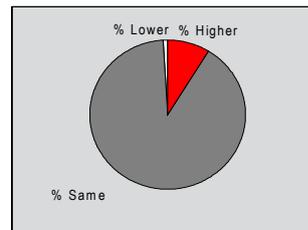
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Saudi Arabia's non-oil producing private sector firms indicated an improvement in suppliers' delivery times during March. Around 11% of panellists signalled an improvement in vendor performance, while only 2% had to face a lengthening in average lead times. Improved payments and changes in suppliers were among the factors highlighted by companies that reported better delivery times.

**Employment Index**

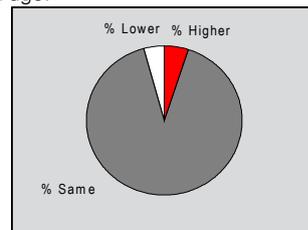
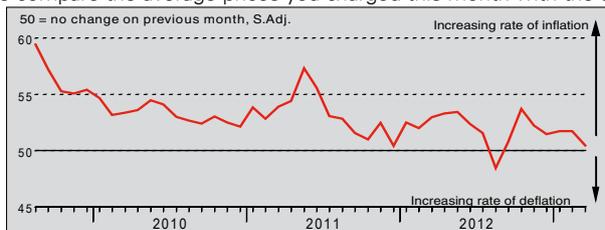
Q. Please compare the level of employment at your unit with the situation one month ago.



As has been the case for most of the survey history so far, workforce numbers at non-oil producing private sector companies in Saudi Arabia rose in March. Increased incoming new business was cited as the main driver behind the latest expansion in staffing levels. While the rate of job creation was marginally higher than in February, it was just below the series average.

**Output Prices Index**

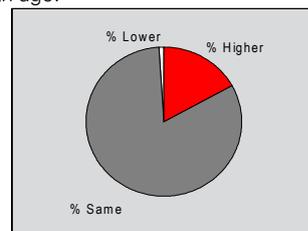
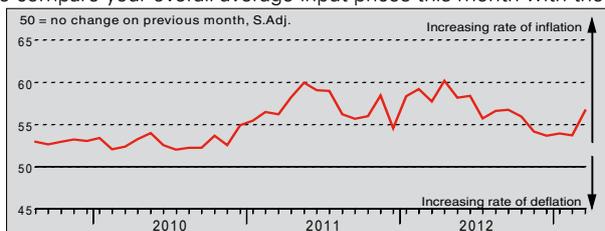
Q. Please compare the average prices you charged this month with the situation one month ago.



Non-oil producing private sector firms in Saudi Arabia raised their charges during the latest survey period. Output prices rose for the seventh month running, albeit at the slowest pace in the current sequence of inflation. Where an increase in charges was reported, some companies linked this to higher input costs.

**Overall Input Prices Index**

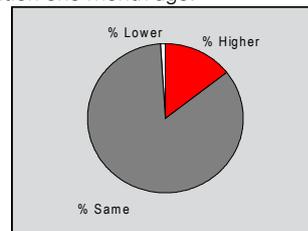
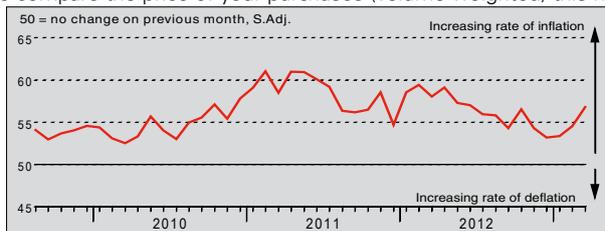
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input prices in Saudi Arabia's non-oil producing private sector continued to rise in March. The rate of cost inflation picked up from the previous survey period, and was the sharpest in six months. Around 17% of panellists recorded higher overall input prices, while only 1% indicated a decrease.

**Input Costs: Purchase Prices Index**

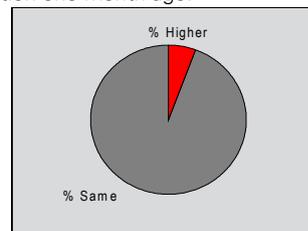
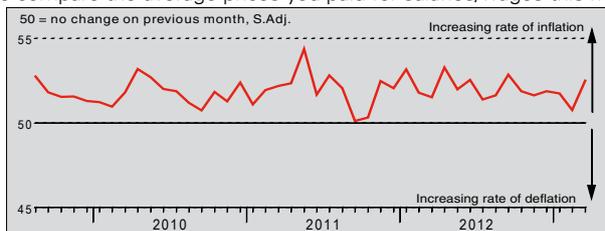
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



The seasonally adjusted Purchase Prices Index posted a reading well above the no-change threshold of 50.0 during March, and pointed to a further rise in input costs at Saudi Arabia's non-oil producing private sector companies. The rate of purchase price inflation was the sharpest since June 2012, and panellists commonly associated this with general inflationary pressures.

**Input Costs: Staff Costs Index**

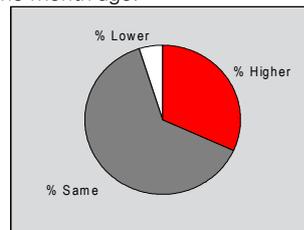
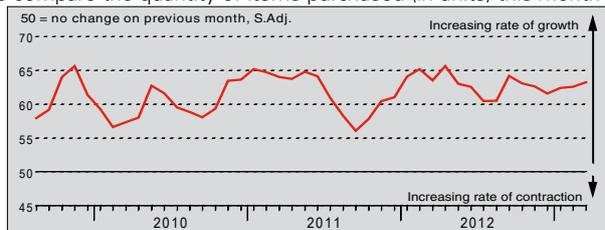
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Averages prices paid for wages increased further during the latest survey period and the rate of staff cost inflation picked up from February to the sharpest since September 2012. Around 6% of respondents indicated a rise in average wages, while none reported a fall. There was some anecdotal evidence that the latest increase was driven by new regulations regarding minimum wages.

### Quantity of Purchases Index

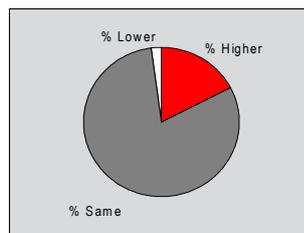
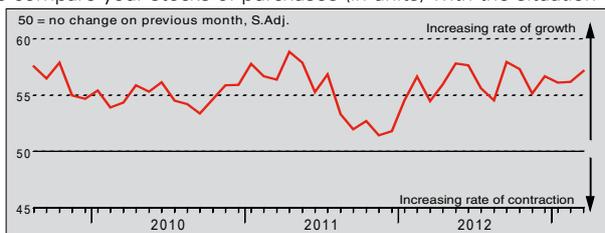
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in Saudi Arabia's non-oil producing private sector increased during March, and the rate of expansion was the sharpest in six months. Almost one-in-three respondents reported an increase in buying, while only 5% indicated a fall. Increased business was the main driver of the latest rise, according to panellists.

### Stocks of Purchases Index

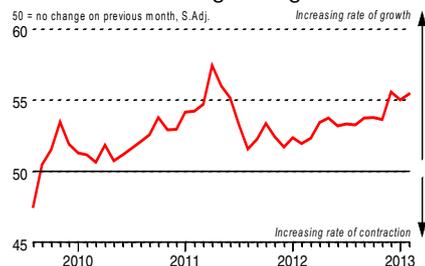
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Inventory levels at non-oil producing firms in Saudi Arabia increased solidly in March. The pace at which stocks of purchases accumulated accelerated from February, and was the fastest in five months. The combination of work-in-hand and increased new business reportedly led firms to build up their pre-production inventories.

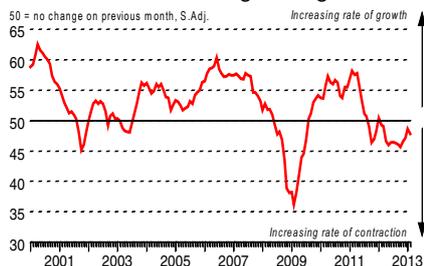
### International PMI summary

#### 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™ – a composite indicator designed to provide a single-figure snapshot of the performance of the non-oil private sector – posted 55.4 in February, up slightly from January's 55.0 pointing to a further solid improvement of operating conditions in the UAE. The latest reading was the second-highest in 21 months.

The Eurozone Composite PMI Output Index posted 47.9 in February, down from January's 48.6, signalling a steepening of the downturn in business activity, contrasting with the easing trend which had been evident in the three months to January. However, the rate of decline remained less severe than seen in any of the nine months prior to January.

Latest data from the ISM showed a further improvement in manufacturing operating conditions during February, with the PMI posting a reading of 54.2, up from January's 53.1. Similarly, further growth was reported in the non-manufacturing sector, with the headline index posting a 12-month high of 56.0, up from 55.2 in the previous survey period.

### 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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