

# SABB HSBC Saudi Arabia PMI™

Growth sustained in May, but at slower rate

**Key findings:**

- Production increases at slowest pace in series history
- Weaker rise in new orders, with exports at the slowest pace for nine months
- Input price inflation eases

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

As has been the case throughout the survey history to date, operating conditions in Saudi Arabia's non-oil producing private sector strengthened during May. The degree of improvement eased, however, and the headline index posted a six-month low of 57.3, down from April's 58.0.

Although strong, May data signalled the weakest expansion in output levels since data collection began in August 2009, and anecdotal evidence suggested that the weaker growth rate was driven by generally slow market conditions. Growth of new work also weakened during the latest survey period, but remained sharp overall, as half of respondents indicated increased order book volumes. Concurrently, new export business increased at the weakest rate in nine months.

The solid rise in incoming new business was reflected in increased backlogs of work. Work-in-hand rose for a fourth successive month, and at the fastest pace in the current sequence. Meanwhile, staffing levels continued to rise, as companies responded to higher workloads. The rate of job

creation was up slightly from April, but modest overall. Vendor performance improved during the latest survey period, as quicker delivery times had been agreed with suppliers to help meet production requirements.

Non-oil producing private sector companies in Saudi Arabia recorded increased overall input prices. The rate of cost inflation, however, eased and was the weakest in 30 months. While average staff costs rose at a slightly sharper rate than in April, the rate of purchase price inflation was the second-lowest in the series history. Weaker demand accounted for much of the slower increase, according to panellists.

The majority of Saudi Arabian non-oil producing private sector companies recorded unchanged output charges in May. The latest reading was only the second month of non-rising output prices in the series history and was partly driven by increased market competition.

Purchasing activity continued to increase during May, as 30% of panellists indicated a rise in buying. Companies attributed the increase to more incoming new business. While the pace of expansion was solid, the latest reading was the weakest in nine months.

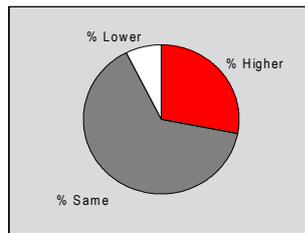
Saudi Arabia's non-oil producing private sector firms indicated rising input stock levels in May. Stocks of purchases have increased throughout the survey history, but the latest pace of expansion was below the series average.



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**

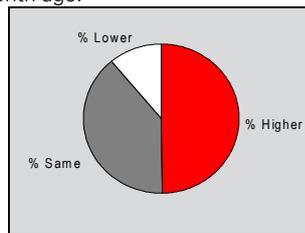
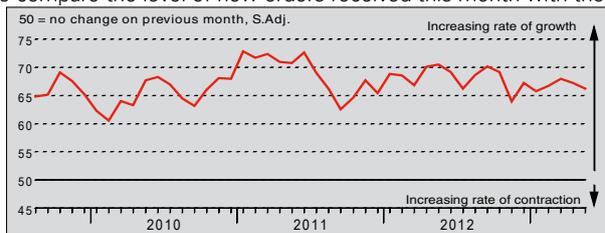
Q. Please compare your production/output this month with the situation one month ago.



Non-oil producing private sector companies in Saudi Arabia indicated a further rise in output levels in May. While the rate of expansion was sharp, production growth eased to the weakest in the series history. According to anecdotal evidence, generally slower market conditions accounted for much of the weaker growth rate. Increased new orders, on the other hand, was reported as the main driver of the overall rise in output.

**New Orders Index**

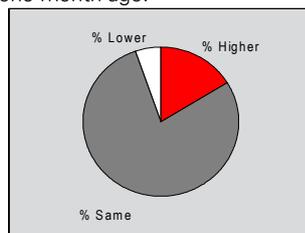
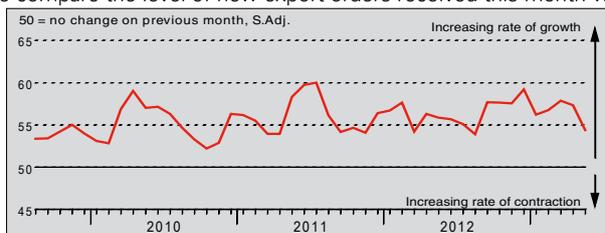
Q. Please compare the level of new orders received this month with the situation of one month ago.



Incoming new business placed at non-oil producing private sector companies in Saudi Arabia continued to increase during the latest survey period, with half of respondents reporting higher order book volumes. Improved marketing and sales team efforts were highlighted by firms to have contributed to the latest rise. The rate of growth in new work was sharp, although the weakest in four months.

**New Export Orders Index**

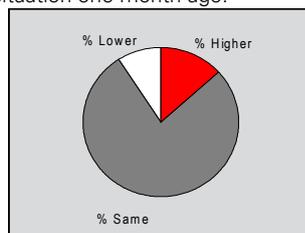
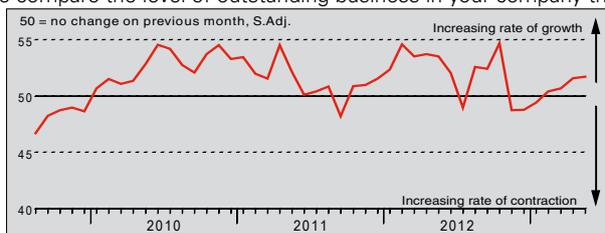
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index posted above the no-change mark of 50.0 in May, signalling a rise in business from abroad placed at Saudi Arabia's non-oil producing private sector companies. The rate of growth decelerated from April and was the lowest in nine months. There was anecdotal evidence suggesting softer market conditions accounted for the weaker increase.

**Backlogs of Work Index**

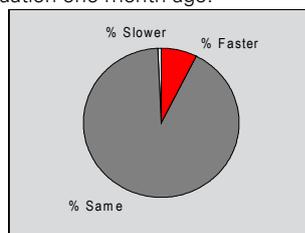
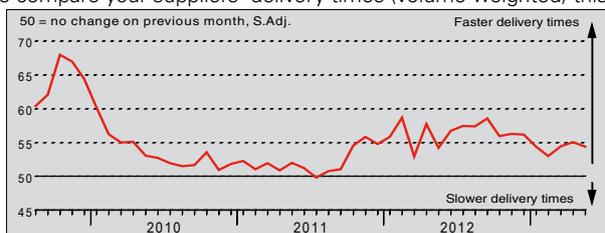
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



May data signalled a rise in outstanding business at non-oil producing private sector firms in Saudi Arabia. Work-in-hand has now increased for four successive survey periods, and at the fastest pace in this sequence. Companies commonly linked the rise in backlogs of work to increased incoming new business.

**Suppliers' Delivery Times Index**

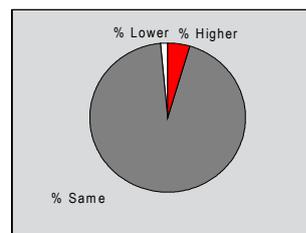
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times on inputs in Saudi Arabia's non-oil producing private sector shortened in May, with 7% of panellists reporting improved vendor performance. Panellists reported that quicker delivery times had been agreed with suppliers in line with higher production requirements. The pace of improvement was down slightly from April.

### Employment Index

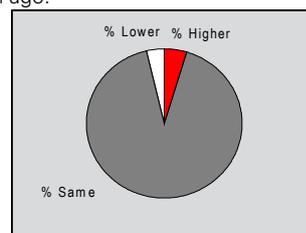
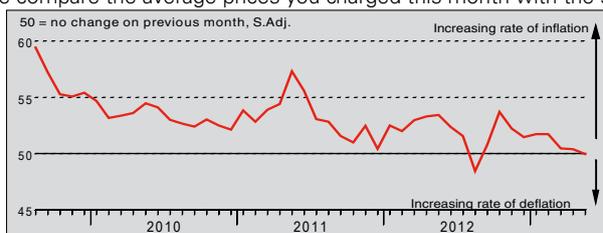
Q. Please compare the level of employment at your unit with the situation one month ago.



Workforce numbers in Saudi Arabia's non-oil producing private sector rose in May, highlighted by the seasonally adjusted Employment Index posting above the neutral 50.0 threshold. The rate of job creation was up slightly from April's 18-month low, but remained below the series average. Many companies linked the latest expansion in payroll numbers to higher workloads.

### Output Prices Index

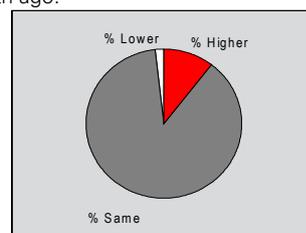
Q. Please compare the average prices you charged this month with the situation one month ago.



Average prices charged for goods and services were unmoved in May, as the majority of companies in Saudi Arabia's non-oil producing private sector recorded no change in output prices. The latest reading was the second-lowest in the series history and panellists attributed this to increased market competition.

### Overall Input Prices Index

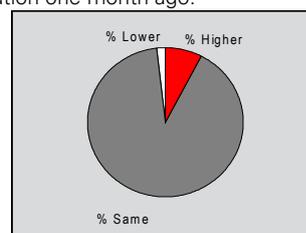
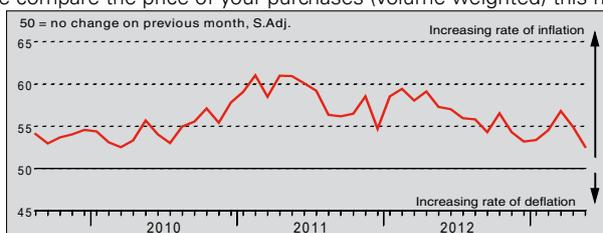
Q. Please compare your overall average input prices this month with the situation one month ago.



Overall input costs in Saudi-Arabia's non-oil producing private sector increased during the latest survey period. The rate of input price inflation eased markedly and was the weakest since November 2010. Around 88% of respondents reported unchanged input costs, while only 10% indicated a rise.

### Input Costs: Purchase Prices Index

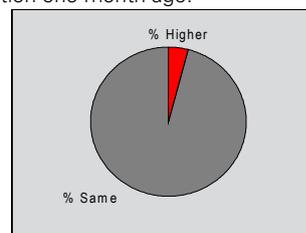
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Saudi Arabia's non-oil producing private sector companies recorded an increase in purchase prices during May. Where a rise was reported, panellists often attributed this to general inflationary pressures. Companies that indicated a price decline commented on weaker demand. The rate of cost inflation decelerated and was the second-weakest in the series history.

### Input Costs: Staff Costs Index

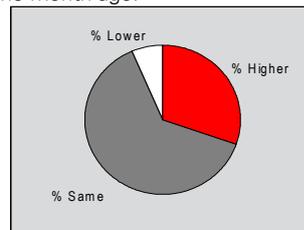
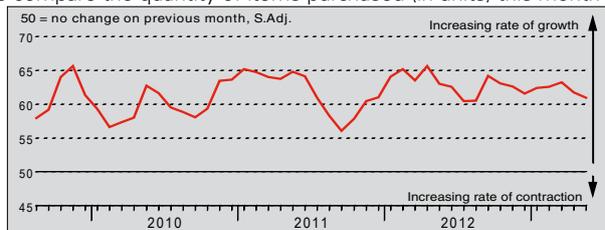
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average staff costs in Saudi Arabia's non-oil producing private sector continued to rise during the latest survey period. Higher living costs accounted for much of the latest increase, according to anecdotal evidence. The rate of wage inflation was slight, as 96% of respondents recorded unchanged average salaries.

### Quantity of Purchases Index

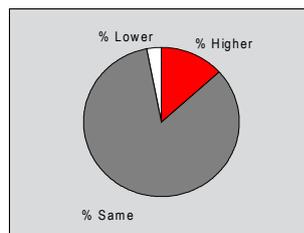
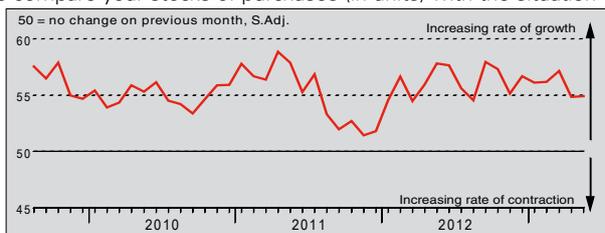
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



As has been the case throughout the survey history to date, purchasing activity in Saudi Arabia's non-oil producing private sector increased in May, with 30% of companies indicating a rise in buying. Many firms linked the increase to new order growth. The pace of expansion was marked, but the slowest for nine months.

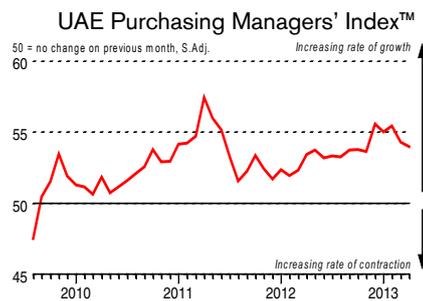
### Stocks of Purchases Index

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



Stocks of purchases in Saudi Arabia's non-oil producing private sector increased further during May, as companies expected an increase in incoming new business. Around 13% of respondents recorded a rise in input stocks, while 3% reported a fall. The rate of growth was unchanged from the previous survey period, and remained below the series average.

### International PMI summary



Sources: HSBC, Markit.



Source: Markit.



Source: ISM.

The headline seasonally adjusted HSBC United Arab Emirates PMI posted 54.0 in April, down slightly from 54.3 in March, and pointed to a further improvement of operating conditions in the UAE. While April data marked the forty-fourth successive improvement, the latest reading was the lowest in five survey periods.

The Markit Eurozone PMI Composite Output Index posted 46.9 in April, up slightly from March's 46.5. Overall output has now declined throughout the past 15 months, although the easing in the rate of decline signalled by the headline index was the first since January. Eurozone manufacturing production and service sector business activity both contracted at similarly marked rates in April.

Operating conditions in the US manufacturing sector improved during April, highlighted by the ISM headline PMI posting a reading of 50.7. This was down from March's 51.3 and the weakest reading in four months. The pace of growth also slowed in the non-manufacturing sector, with the headline index posting a nine-month low of 53.1. This was down from 54.4 in March.

### 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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