

SABB HSBC Saudi Arabia PMI™

Activity growth slows further in July

Key findings:

- Weakest expansion in output since data collection began in August 2009
- New order intakes increase at marginally faster pace
- Companies lower their charges for first time since August 2012

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

At 56.6 in July, unchanged from June, the headline PMI signalled a further improvement in overall operating conditions in Saudi Arabia's non-oil producing private sector economy. However, the rate of improvement was the joint-weakest since data collection began in August 2009.

Output increased further in July, but the rate of expansion decelerated for the third month running and was the weakest in the 48-month survey history. Nevertheless, the overall expansion remained sharp, with 24% of companies reporting activity growth.

New order intakes also rose solidly, with panellists linking the increase to improving sales team efforts and good economic conditions. The rate of expansion was up slightly from June's 21-month low, but remained below the long-run series average. Meanwhile, demand from export markets rose at the slowest pace since November 2010.

Driven by increased new business, workforce numbers and levels of unfinished work rose in July. While the rate of job

creation accelerated to the sharpest since March, backlogs of work accumulated at the slowest pace in four months. Concurrently, vendor performance improved, as faster delivery times had been agreed with suppliers to meet business requirements. Around 7% of respondents reported better delivery times, while only 1% indicated a worsening.

Overall input prices in Saudi Arabia's non-oil producing private sector increased further in July, with the rate of cost inflation broadly unchanged from the previous month. Survey respondents linked higher purchase prices to general inflationary pressures and increased raw material prices.

While input costs continued to rise, non-oil producing private sector companies in Saudi Arabia lowered their charges for the first time since last August, albeit only marginally. Increased market competition was the primary factor for the fall in selling prices, according to panellists.

Buying activity in Saudi Arabia's non-oil producing private sector increased markedly in July, with 32% of companies acquiring additional raw materials and semi-finished goods. Respondents often attributed an increase in purchasing activity to higher business.

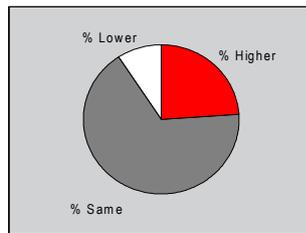
Stocks of purchases accumulated at the fastest pace in four months in July, with 12% of companies reporting increased holdings of inputs.



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

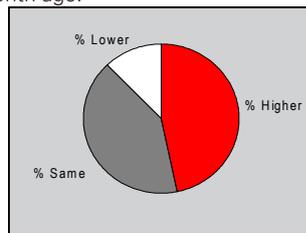
Q. Please compare your production/output this month with the situation one month ago.



July data signalled a further expansion in output at Saudi Arabian non-oil producing private sector firms, with 24% of respondents reporting increased activity. Companies linked the overall rise in output to increased order intakes and improving market conditions. However, the rate of growth decelerated to the weakest in the 48-month survey history.

New Orders Index

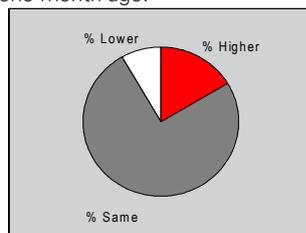
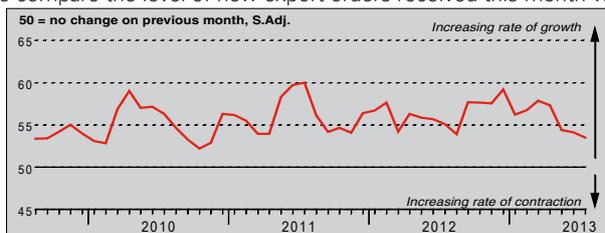
Q. Please compare the level of new orders received this month with the situation of one month ago.



The seasonally adjusted New Orders Index registered well above the no-change mark of 50.0 in July. Around 47% of panellists indicated increased order book volumes, attributing the rise to good economic conditions, more construction business and improved sales team efforts. The pace of expansion was up slightly from June, but remained below the long-run series average.

New Export Orders Index

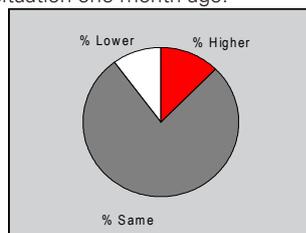
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New business from abroad placed at non-oil producing private sector companies in Saudi Arabia increased in July. While foreign demand has risen in every month of the survey history to date, the rate of expansion decelerated for the fourth month in a row to the weakest since November 2010. Around 16% of companies reported increased business from foreign markets, while 8% indicated a decline.

Backlogs of Work Index

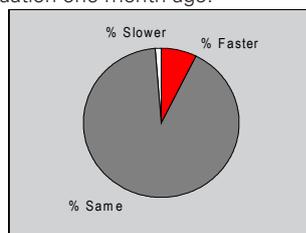
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of unfinished orders at Saudi Arabian non-oil producing private sector companies rose in July, extending the current sequence of rising work-in-hand to six months. The latest rate of backlog accumulation eased, however, and was marginal overall. Where an increased volume of unfinished orders was reported, panellists often linked this to higher order intakes.

Suppliers' Delivery Times Index

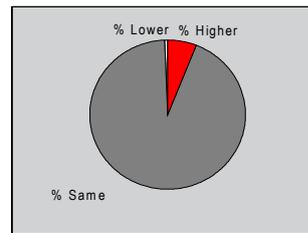
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times on inputs shortened further in July, highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting above the neutral 50.0 threshold. Panellists reported that faster delivery times had been agreed with suppliers in order to meet business requirements. Vendor performance has now improved for 24 months in succession, although the pace of improvement slowed in July to the weakest since February.

Employment Index

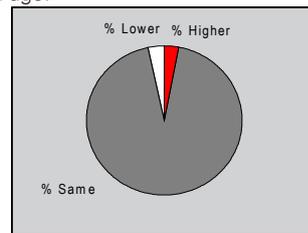
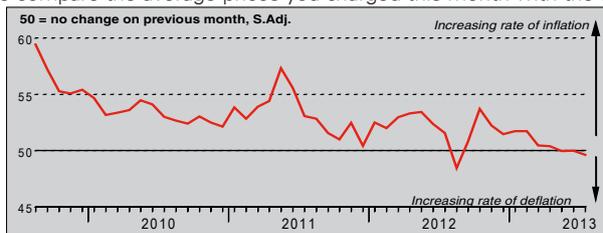
Q. Please compare the level of employment at your unit with the situation one month ago.



The latest survey data signalled a further expansion of workforce numbers in Saudi Arabia's non-oil producing private sector. Employment levels have now risen for 22 consecutive months, and the rate of job creation was the sharpest since March. Increased business was the key driver of the latest job hiring, according to panelists.

Output Prices Index

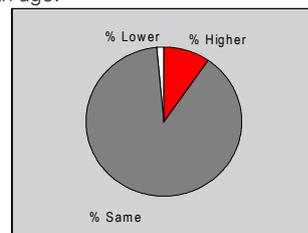
Q. Please compare the average prices you charged this month with the situation one month ago.



Driven by increased market competition, Saudi Arabian non-oil producing private sector firms lowered their charges in July. Selling prices fell for the first time since last August, albeit only fractionally, as the majority of respondents reported unchanged output prices from the previous survey period.

Overall Input Prices Index

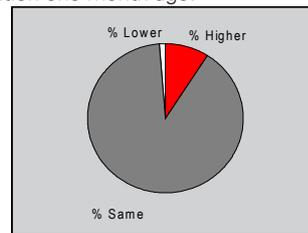
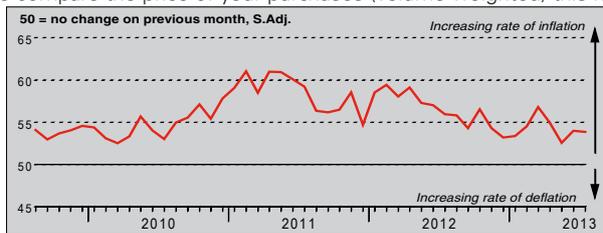
Q. Please compare your overall average input prices this month with the situation one month ago.



The seasonally adjusted Overall Input Prices Index registered above the no-change threshold of 50.0 in July, pointing to further cost pressures in Saudi Arabia's non-oil producing private sector. The rate of cost inflation was broadly unchanged from June and remained below the average recorded over the series history.

Input Costs: Purchase Prices Index

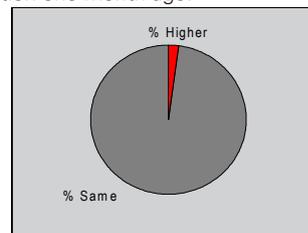
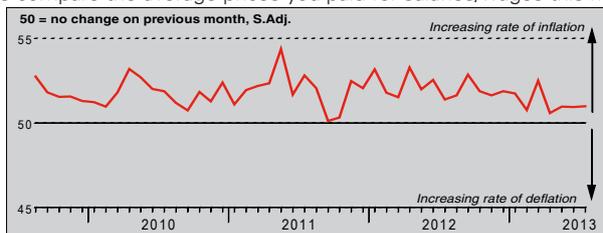
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Average purchase prices in Saudi Arabia's non-oil producing private sector rose in July, with 9% of companies reporting higher cost burdens. General inflationary pressures and increased raw material prices both contributed to the latest cost increase, according to survey respondents. The latest rate of inflation was weaker than the trend observed throughout the survey history.

Input Costs: Staff Costs Index

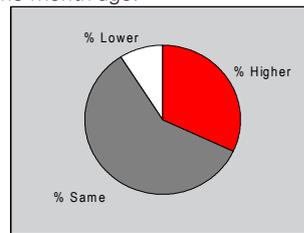
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Non-oil producing private sector firms in Saudi Arabia signalled a further rise in average salaries in July. The rate of staff cost inflation was unchanged from the previous two survey periods and modest overall. Only 2% of panel members indicated increased staff costs, while the majority recorded unchanged wages.

Quantity of Purchases Index

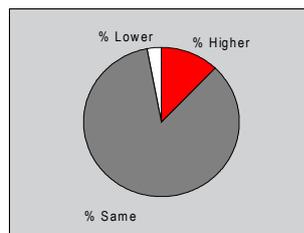
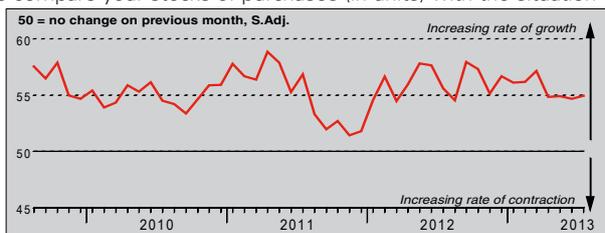
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in Saudi Arabia's non-oil producing private sector rose solidly in July, with 32% of survey respondents indicating an increase in buying. According to anecdotal evidence, the latest rise was mainly driven by increased new business. The pace of expansion was down marginally from that seen in June, but sharp overall.

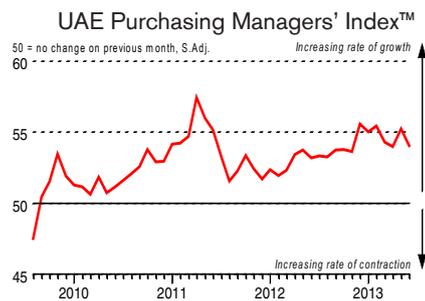
Stocks of Purchases Index

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



Saudi Arabia's non-oil producing private sector firms recorded a rise in input inventory levels in July, highlighted by the seasonally adjusted Stocks of Purchases Index registering above the 50.0 no-change threshold. The latest rate of stock accumulation was the sharpest in four months, and was linked to predicted new order growth.

International PMI summary



Sources: HSBC, Markit.



Source: Markit.



Source: ISM.

The headline seasonally adjusted HSBC United Arab Emirates PMI™ posted 54.1 in June, down from May's 55.3, and pointed to a further improvement in operating conditions in the sector. Activity, new orders, employment and stocks of purchases all improved, but only workforce numbers rose at an accelerated rate from the previous survey period.

At 48.7 in June, up from 47.7 in May, the Markit Eurozone PMI Composite Output Index indicated a further easing in the rate of contraction in economic output to a 15-month low. However, the latest reading signalled that overall activity has now fallen in each of the past 17 months.

ISM data signalled an improvement in overall operating conditions for US manufacturers with the headline PMI index posting 50.9 in June, up from May's 49.0. The June reading was the strongest in the second quarter. Operating conditions in the non-manufacturing sector also improved, albeit at a reduced rate. The headline index posted a 40-month low of 52.2 in June, down from 53.7 in May.

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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