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# SABB HSBC Saudi Arabia PMI™

Growth of Saudi Arabia's private sector accelerates in August

#### Key findings:

- Output growth strengthens
- New orders rise at fastest pace in four months
- · Output charges fall despite rise in input cost inflation

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for August 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 signalled a further improvement in operating conditions at Saudi Arabia's non-oil producing private sector firms. The headline PMI rose to a four-month high of 57.5 in August, up from July's 56.6. Operating conditions have improved in every month of the survey history to date.

Output rose at an accelerated pace in August, as 22% of survey respondents reported higher activity. Increased business was repeatedly mentioned as the main driver of the latest expansion. In line with stronger output growth was a solid rise in order intakes. The latest increase was partly driven by improved market conditions, and increased marketing and sales efforts. Growth was the sharpest since April. Meanwhile, client demand from foreign markets also strengthened.

Driven by higher purchase prices and increased staff costs, input prices in Saudi Arabia's non-oil producing private sector increased at the sharpest rate in four months in August. According to anecdotal evidence, the rise in purchase prices was partly attributed to general inflationary pressures and increased market demand.

In contrast to an accelerated increase in input costs, Saudi Arabia's non-oil producing private sector companies lowered their charges in response to increased market competition. Selling prices fell for the second month in succession, and at the second-sharpest rate in the 49-month series history.

As has been the case for most of the survey history to date, employment levels rose in August. Companies that hired additional workers often commented on higher production requirements. The latest rate of job creation eased slightly from July and was below the series average, as the majority of companies reported unchanged workforce numbers.

Backlogs of work accumulated at the fastest pace in a year-anda-half in August, with almost 12% of panel members indicating higher volumes of unfinished work. Panellists linked the rise in incomplete orders to higher business.

Increased sales was the main driver for the latest rise in purchasing activity at Saudi Arabia's non-oil producing private sector companies. The latest rate of increase was in line with that seen in July. Concurrently, stocks of purchases accumulated at the weakest pace since December 2011, with the vast majority of survey respondents indicating unchanged inventory levels.

Suppliers' delivery times shortened again in August. Panellists often linked the improvement to increased market competition.



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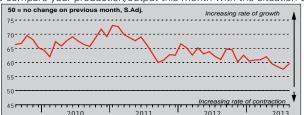


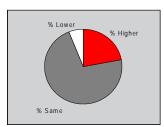




#### Output Index

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



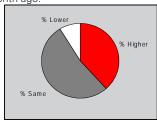


Saudi Arabia's non-oil producing private sector firms reported a further rise in output levels during August. While the pace of expansion remained below the overall series average, output increased at the sharpest rate in three months. Survey respondents repeatedly attributed higher activity to increased incoming new business.

#### New Orders Index

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



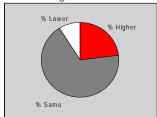


August data signalled a solid rise in new work of Saudi Arabia's non-oil producing private sector, with 38% of panellists indicating increased order book volumes. The pace of expansion accelerated for the second month in a row and was the fastest since April. Increased marketing sales efforts and improved market conditions contributed to growth in new work, according to panel members.

#### New Export Orders Index

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



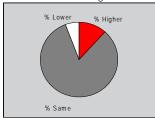


The seasonally adjusted New Export Orders Index registered above the 50.0 no-change mark in August, pointing to increased foreign demand for Saudi Arabian goods and services. New business from abroad rose at the sharpest rate in four months and was commonly linked to improved economic conditions.

## Backlogs of Work Index

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





Backlogs of work continued to accumulate in August, extending the current sequence of rising work outstanding to seven survey periods. The latest rate of backlog accumulation was the highest since February 2012, with around 12% of respondents indicating more work-in-hand. Increased business was the main driver of the rise in unfinished work, according to panellists.

#### Suppliers' Delivery Times Index

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

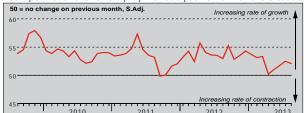


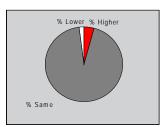


As has been the case for most of the survey history to date, average lead times on inputs shortened in August. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting above the neutral 50.0 threshold. Some panellists linked the improvement in vendor performance to increased market competition.

#### Employment Index

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



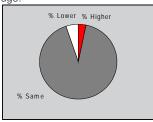


Saudi Arabia's non-oil producing private sector companies hired additional workers in August. Employment levels have now risen continuously since October 2011, and the latest rate of job creation was the second-highest in five months. According to anecdotal evidence, higher payroll numbers were driven by increased production requirements.

#### Output Prices Index

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



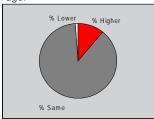


The latest survey data signalled a reduction in average prices charged at Saudi Arabia's non-oil producing private sector firms. Panellists repeatedly linked price discounting to increased market competition. While selling prices fell at the second-sharpest rate in the 49-month survey history, the overall decline was modest with the majority of panel members reporting unchanged charges.

#### Overall Input Prices Index

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



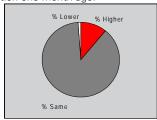


The seasonally adjusted Overall Input Prices Index registered above the no-change threshold of 50.0 in August, pointing to increased average cost burdens in Saudi Arabia's non-oil producing private sector. Input prices rose at the fastest pace since April, with 11% of companies recording higher input costs.

#### Input Costs: Purchase Prices Index

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

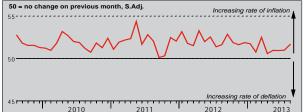


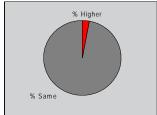


Non-oil producing private sector firms in Saudi Arabia reported increased purchase prices in August. Exactly 11% of panel members recorded higher costs, while only 1% indicated a fall in purchase prices. The latest cost inflation was the highest in four months and driven by general inflationary pressures and increased market demand.

#### Input Costs: Staff Costs Index

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

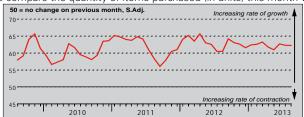


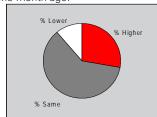


Average staff costs in Saudi Arabia's non-oil producing private sector rose in August. The rate of wage inflation accelerated from July, and was the sharpest since March. However, the overall increase in average wages was modest as the vast majority of companies reported unchanged average salaries.

#### Quantity of Purchases Index

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



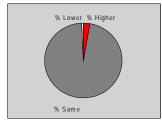


August data signalled a further rise in buying activity at Saudi Arabia's non-oil producing private sector companies, with the seasonally adjusted Quantity of Purchases Index posting well above the neutral 50.0 threshold. The latest rate of expansion was in line with data from July and was commonly attributed to increased business.

## Stocks of Purchases Index

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





Increased production requirements led to a further accumulation of stocks of purchases at non-oil producing private sector companies in Saudi Arabia in August. However, the latest rise in input stocks was the weakest since December 2011, as the majority of panel members reported unchanged inventory levels.

#### International PMI summary



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 - registered at 54.5 in July,

up slightly from June's 54.1, and extending

the current sequence of improving operating

Sources: HSBC, Markit.

conditions to 47 months.



Source: Markit.



July marked a tentative return to expansion for the eurozone economy, as manufacturing output posted a solid expansion and the trend in services activity moved close to stabilisation. At 50.5 in July, the Markit Eurozone PMI Composite Output Index rose to a near two-year high and posted above the neutral 50.0 mark for the first time since January 2012.

Operating conditions in the US manufacturing sector improved at the fastest pace in 25 months during July, with the headline PMI posting 55.4, up from June's 50.9. Non-manufacturing companies also reported improved operating conditions. The headline Index rose from 52.2 in June to 56.0 in July, the joint-highest reading in 17 survey periods.

#### 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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