

Embargoed until: 08:30 (RIYADH) 3 October 2013

SABB HSBC Saudi Arabia PMI™

Output growth accelerates to five-month high in September

Key findings:

- Business activity increases as new order growth accelerates
- New export orders increase at fastest pace in survey history
- Output prices rise for first time in three months

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

Following a trend observed throughout the 50-month survey history, operating conditions in Saudi Arabia's non-oil producing private sector improved in September. The headline PMI registered a six-month high of 58.7, up from August's 57.5.

September data signalled a further rise in output levels at Saudi Arabian non-oil producing private sector firms, with the rate of expansion accelerating to a five-month high. Order book volumes also rose at a faster pace, driven mainly by higher construction business, increased sales efforts and improved market conditions.

Client demand from foreign markets strengthened substantially in September, with the growth rate of new export business accelerating to the fastest in the series history. Anecdotal evidence suggested that the rise in new export orders was mainly linked to good market conditions.

The latest survey results signalled a further increase in input costs in Saudi Arabia's non-oil producing private sector. The rate of overall cost inflation was broadly unchanged from August, and

in line with the series average. Purchase prices rose at a faster pace, as companies faced a higher market demand for some items. Staff costs, on the other hand, increased at the weakest rate since April. Where higher wages were reported, panel members linked this to increased living costs and performance based pay rises.

In response to increased input costs, Saudi Arabia's non-oil producing private sector companies raised their selling prices in September. The rise in charges followed a two-month period of price discounting.

Employment levels in Saudi Arabia's non-oil producing private sector rose further in September, extending the current sequence of job creation to 24 months. The latest hiring of workers was driven by increased workloads, according to panellists.

Driven by higher new business, backlogs of work accumulated for the eighth consecutive month in September. The rate of backlog accumulation eased slightly since August, but was above the series average. Meanwhile, suppliers' delivery times shortened further. The latest improvement in vendor performance was the sharpest since April.

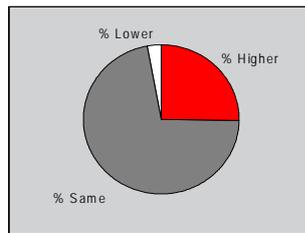
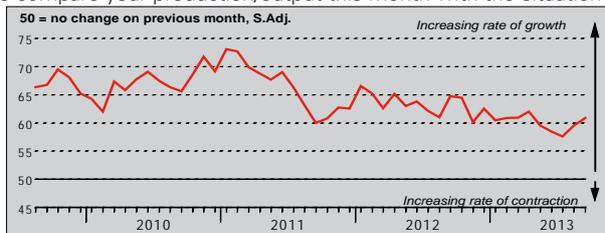
In line with the trends for output and new orders, purchasing activity increased in September. The rate of growth was sharp, although the slowest in four months. Meanwhile, stocks of purchases accumulated at the fastest pace since March.



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

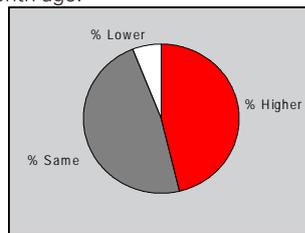
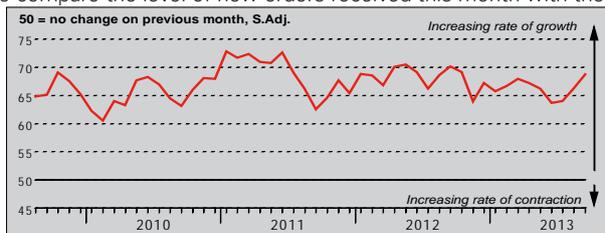
Q. Please compare your production/output this month with the situation one month ago.



Saudi Arabia's non-oil producing private sector companies reported a further solid increase of output in September. The pace of expansion accelerated to a five-month high, with one-in-four respondents indicating a rise in activity. Increased new business and improved market conditions were the main contributors to the latest output expansion, according to survey respondents.

New Orders Index

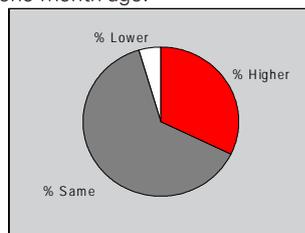
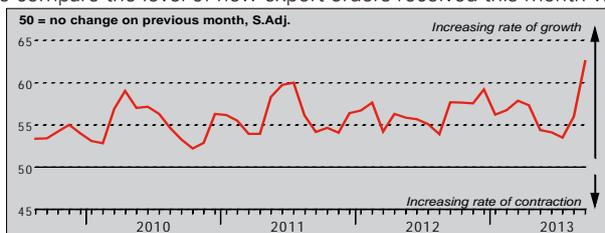
Q. Please compare the level of new orders received this month with the situation of one month ago.



September data signalled a sharp increase in order intakes at Saudi Arabia's non-oil producing private sector companies. The rate of growth accelerated for the third month running, and was the quickest in almost a year. Anecdotal evidence suggested that growth in new work was driven by a rise in construction business, increased sales efforts and improving economic conditions.

New Export Orders Index

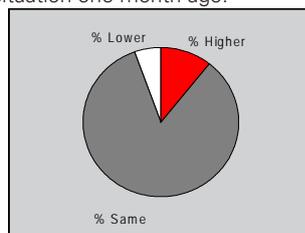
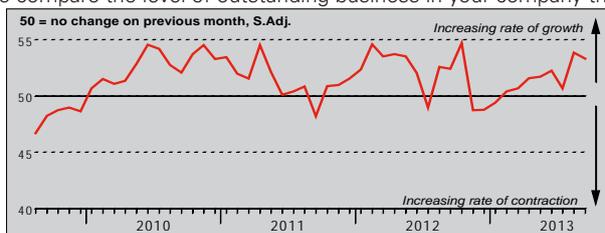
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index registered above the no-change mark of 50.0 in September, signalling stronger client demand from foreign markets. Almost one-in-three panel members reported an increase in new business from abroad and the pace of expansion accelerated to the fastest in the survey history. Good market conditions was the main reason for the rise in export business, according to panellists.

Backlogs of Work Index

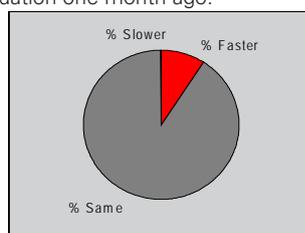
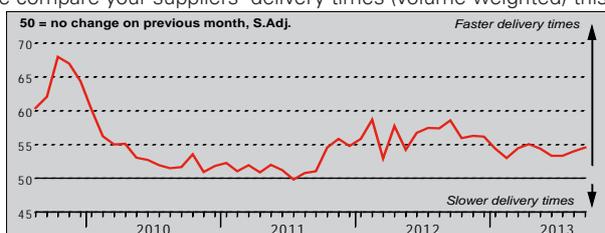
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The latest survey data signalled a further accumulation of unfinished work at Saudi Arabian non-oil producing private sector companies, extending the current sequence of backlog accumulation to eight months. Panel members commonly linked the rise in work outstanding to increased new business.

Suppliers' Delivery Times Index

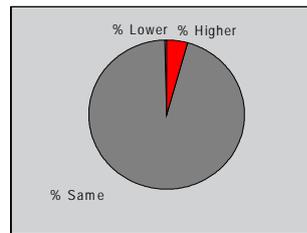
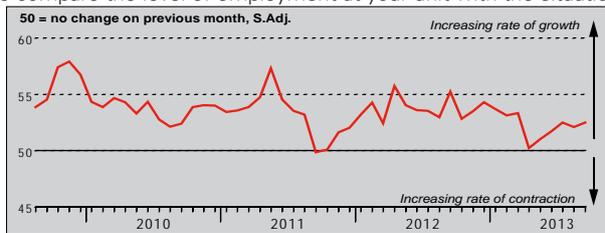
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



As has been the case throughout most of the survey history, average lead times in inputs shortened in September. This was highlighted by the seasonally adjusted Suppliers' Delivery Times Index posting above the neutral 50.0 threshold. Delivery times improved at the fastest pace since April and some survey respondents commented on faster payments and increased competition among suppliers.

Employment Index

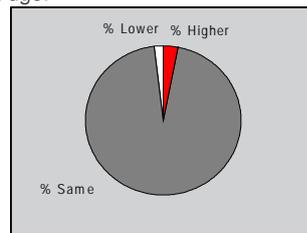
Q. Please compare the level of employment at your unit with the situation one month ago.



Saudi Arabia's non-oil producing private sector companies hired additional workers in September. Employment levels increased for the twenty-fourth month in succession and the rate of job creation was up slightly from August. Increased workloads was repeatedly mentioned by panellists that reported an expansion in workforce numbers.

Output Prices Index

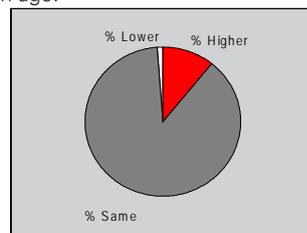
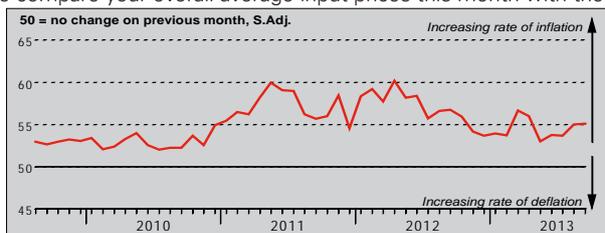
Q. Please compare the average prices you charged this month with the situation one month ago.



Output prices charged by Saudi Arabian non-oil producing private sector firms rose for the first time in three months during September. The rate of charge inflation was only modest, with the vast majority of panel members indicating unchanged selling prices. Where higher charges were reported, companies commented on increased input costs.

Overall Input Prices Index

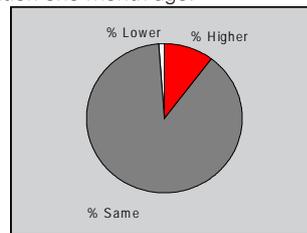
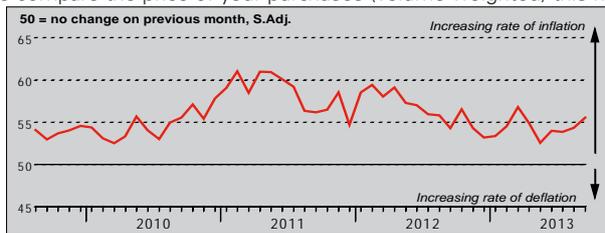
Q. Please compare your overall average input prices this month with the situation one month ago.



Input costs in Saudi Arabia's non-oil producing private sector continued to increase in September. The rate of input price inflation was largely unchanged from that seen in the previous month and in line with the series average. While purchase prices rose at an accelerated pace, staff costs increased to a lesser extent than in August.

Input Costs: Purchase Prices Index

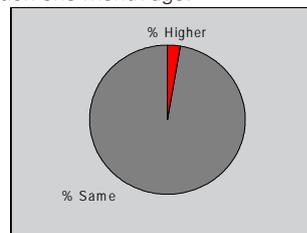
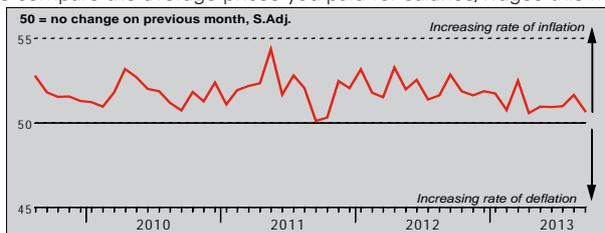
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



September data signalled a rise in purchase costs at Saudi Arabian non-oil producing private sector firms. Purchase prices have risen in every month of the 50-month survey history, and in September at the quickest pace since March. Higher market demand for some items and general inflationary pressures accounted for most of the latest cost rise, according to survey respondents.

Input Costs: Staff Costs Index

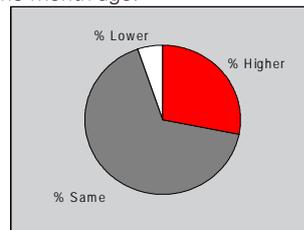
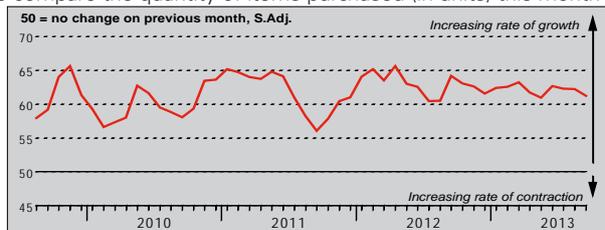
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average staff costs in Saudi Arabia's non-oil producing private sector increased further in September. Companies linked increased salaries to higher living costs and performance based pay rises. However, the rate of wage inflation eased since August and was the weakest since April, with the vast majority of respondents reporting unchanged average salaries.

Quantity of Purchases Index

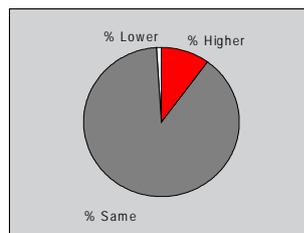
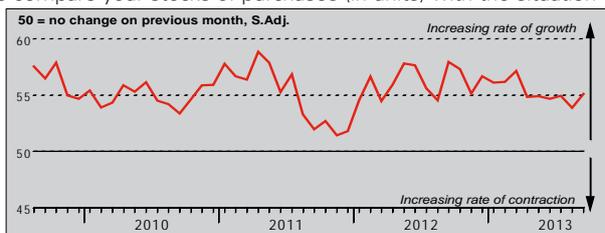
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Following a trend observed throughout the survey history, purchasing activity in Saudi Arabia's non-oil producing private sector rose in September. Around 28% of companies recorded an increase in buying, while only 5% reported a decline. The rate of expansion was the lowest in four months, although sharp overall. Increased workloads was the main driver behind the latest rise, according to panel members.

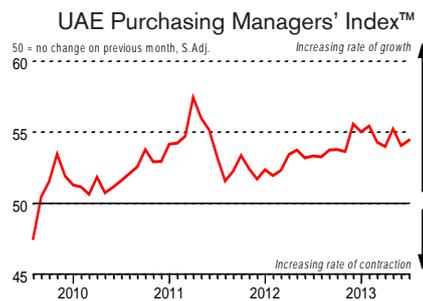
Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index registered above the no-change mark of 50.0 in September, signalling a further accumulation of pre-production inventories. The rate of stock accumulation accelerated to the quickest since March and was mainly linked to higher production requirements.

International PMI summary



Sources: HSBC, Markit.



Source: Markit.



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 54.5 in August, unchanged from July's reading. Operating conditions have improved continuously since September 2009, and the latest pace of improvement was above the overall series average.

The final Markit Eurozone PMI® Composite Output Index signalled a second successive monthly expansion in business activity in August. The index rose to 51.5, up from 50.5 in July, to signal the fastest rate of growth in just over two years. Manufacturing led the upturn in August, seeing production volumes expand to the greatest degree since May 2011.

ISM data signalled a further improvement in operating conditions in the US manufacturing sector during August, with the headline PMI posting a 26-month high of 55.7, up from July's reading of 55.4. Operating conditions also improved across non-manufacturers, with the NMI headline Index registering 58.6 in August, up from 56.0 in July.

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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