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SABB HSBC Saudi Arabia PMI™

Business conditions remained favourable in September, rounding off a strong third quarter.

Key findings:

- PMI slipped to seven-month low, but still signalled sharp rate of expansion.
- Output and new business continued to grow at substantial rates, despite slowing.
- Charge inflation mildest since survey began in August 2009.

The seasonally adjusted headline SABB HSBC Saudi Arabia *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of the performance of the private sector – slipped further in September to 58.4, from 59.1 in August. Although the latest reading pointed to a weaker improvement in the health of the KSA private sector economy, it remained at a level consistent with a substantial rate of expansion.

September data suggested that the domestic market remained the primary driver of growth in the Saudi Arabian private sector economy, as total new work rose rapidly compared with a relatively muted increase in new export orders. Survey participants commented on good market demand and favourable business conditions. However, expansions in both total new orders and new work from abroad slowed since August to seven-month lows.

Further gains in new business encouraged companies in the KSA private sector to raise activity levels in September. Output grew sharply as a result, albeit to a lesser extent than over the previous six months. However, the increase in activity was not sufficient to clear backlogs, which continued to accumulate at a moderate pace. Shipment delays due to difficulties at the country's ports were also mentioned by some respondents.

To accommodate greater business requirements and company expansions, Saudi Arabian private sector firms raised buying

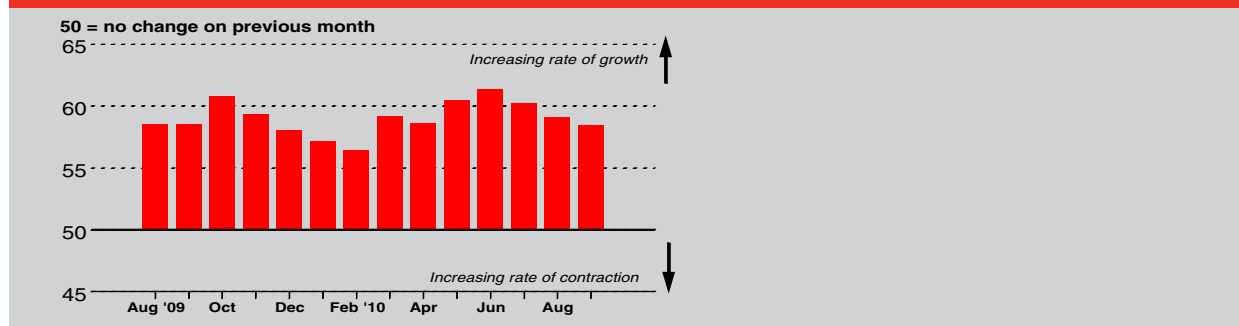
activity, increased input holdings and hired extra staff during September. Purchasing growth was considerable, leading to a solid accumulation of input stocks. Meanwhile, job creation was moderate but fractionally faster than in August.

Despite heavier demand for inputs, average vendor performance improved at a modest rate during the latest survey period. Panel members linked shorter delivery times to a high degree of competition amongst suppliers and prompt payment for goods.

Overall input price inflation across the KSA private sector economy remained moderate at the end of Q3. Data showed that a slightly accelerated increase in purchasing costs was offset by a weaker rise in staff costs. Purchasing price inflation picked up to a marked rate in September, which companies attributed to higher raw material and freight costs. In contrast, personnel costs grew only marginally. In the 2% of cases where salaries were increased, firms commented on performance-related rewards.

Strong demand conditions enabled Saudi Arabian private sector companies to raise their charges in September. Output price inflation was moderate but nevertheless the mildest recorded by the survey to date. Panellists stated that tariffs were increased either to protect profit margins from greater input costs, or simply to expand them.

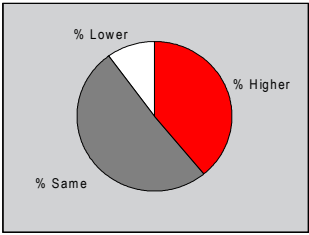
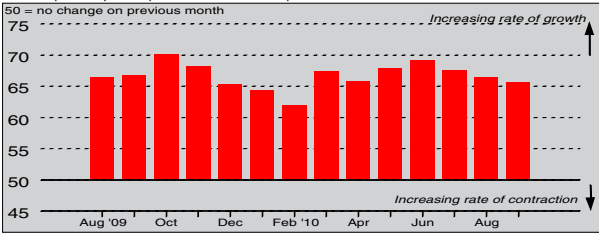
SABB HSBC Saudi Arabia PMI



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 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 manufacturing 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.

Output Index

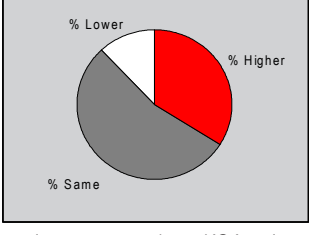
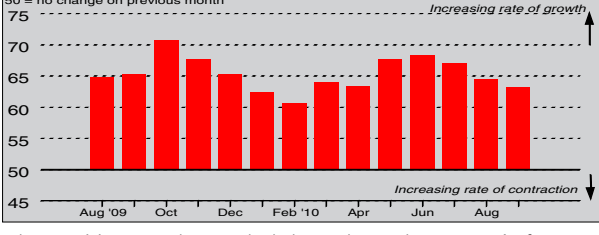
Q. Please compare your production/output this month with the situation one month ago.



Activity growth across the Saudi Arabian private sector economy slowed at the end of Q3. Although weaker than the series trend, the latest expansion remained sharp with 39% of monitored companies raising output on the month. Panellists indicated that activity levels were increased on the back of further gains in new business.

New Orders Index

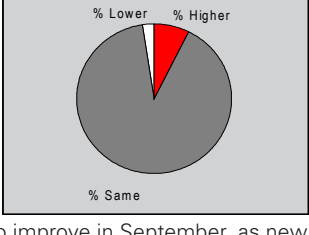
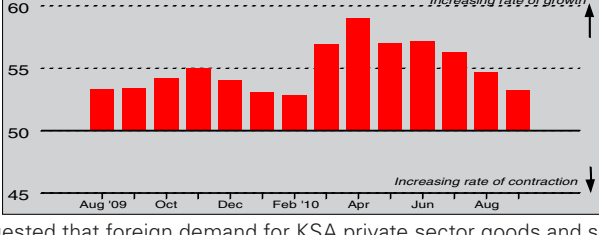
Q. Please compare the level of new orders received this month with the situation of one month ago.



Furthering the positive trend recorded throughout the survey's fourteen-month history, incoming new work to KSA private sector firms rose during September. The expansion was substantial, despite moderating to the weakest since February. Favourable business conditions and strong market demand underlay the rise in new sales, according to panellists.

New Export Orders Index

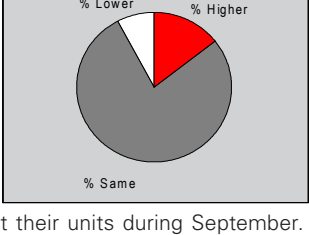
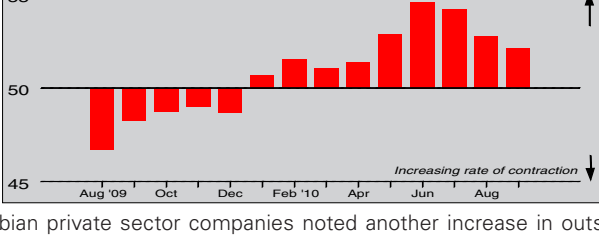
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Data suggested that foreign demand for KSA private sector goods and services continued to improve in September, as new export orders rose again. Growth of new work from abroad was solid, despite slowing to a seven-month low. Respondents indicated that business conditions in export markets were good.

Backlogs of Work Index

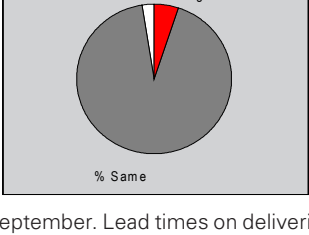
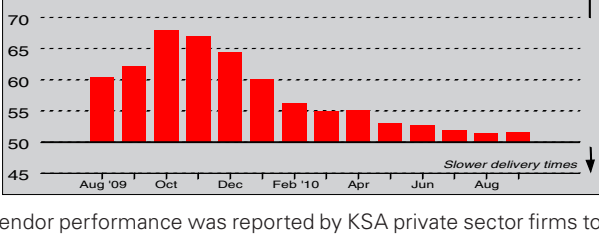
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Saudi Arabian private sector companies noted another increase in outstanding business at their units during September. Work-in-hand rose modestly since August, although the rate of growth slowed to the weakest for five months. Reports indicated that backlogs accumulated because of higher new order volumes and shipment delays caused by problems at the country's ports.

Suppliers' Delivery Times Index

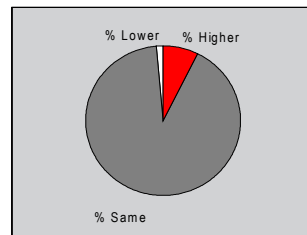
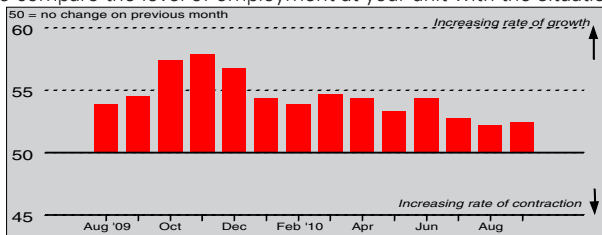
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average vendor performance was reported by KSA private sector firms to have improved in September. Lead times on deliveries of raw materials and semi-finished goods shortened at a modest rate that was slightly faster than August's series record low. Panel members linked quicker deliveries to strong competition amongst suppliers and swift payment for goods.

Employment Index

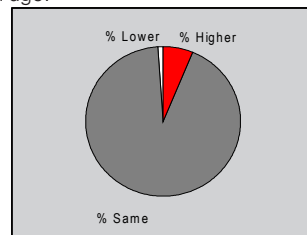
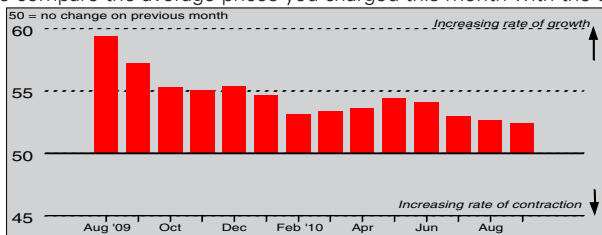
Q. Please compare the level of employment at your unit with the situation one month ago.



To address the needs of both rising new order levels and company expansions, private sector companies in Saudi Arabia added to payrolls in September. Job creation was moderate and slightly faster than in August. Employment has risen during every month since the survey began in August 2009.

Output Prices Index

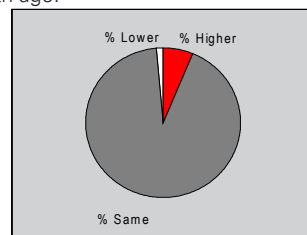
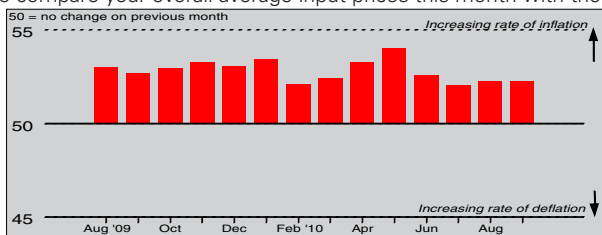
Q. Please compare the average prices you charged this month with the situation one month ago.



KSA private sector firms took advantage of favourable demand conditions to raise their charges during September, mostly to pass through input cost increases to customers. Consequently, output prices rose at a moderate pace. However, the rate of increase was the weakest in the survey history.

Overall Input Prices Index

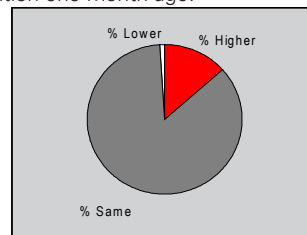
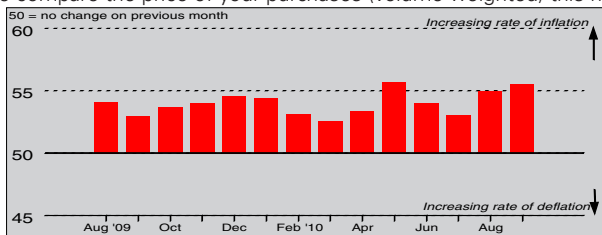
Q. Please compare your overall average input prices this month with the situation one month ago.



The seasonally adjusted Input Prices Index was unmoved in September, signalling another moderate rise in total input costs across the Saudi Arabian private sector economy. Data indicated that a slight pick-up in purchasing price inflation was offset by a slower increase in personnel costs.

Input Costs: Purchase Prices Index

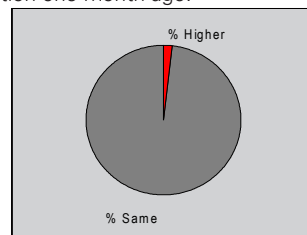
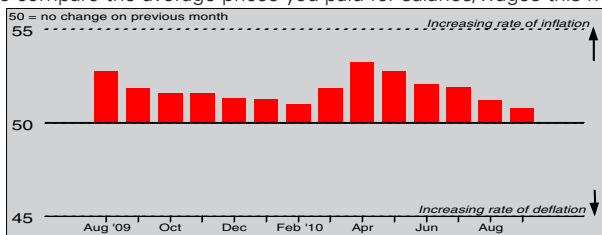
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchasing price inflation accelerated to a marked pace at the end of Q3. Moreover, the latest increase was the second-fastest in the series history. Companies indicated that stronger demand for inputs drove up raw material prices. Several panellists also commented on greater freight costs. Over 13% of the survey panel saw a rise in their average purchasing costs, compared with just 1% that reported a decline.

Input Costs: Staff Costs Index

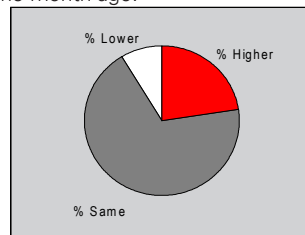
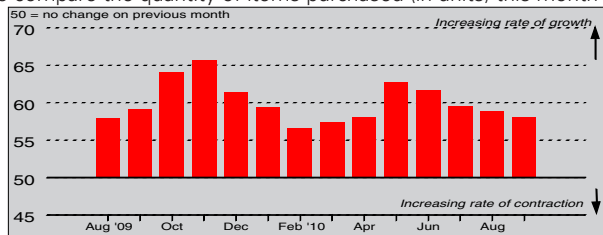
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Slowing since August, staff cost inflation at KSA private sector firms was only marginal in September. Less than 2% of companies monitored by the survey recorded a rise in average salary rates, while none noted a fall. Where wages grew, panel members stated that workers had been awarded pay increases due to improved business performance.

Quantity of Purchases Index

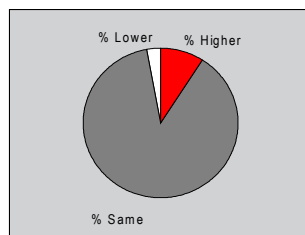
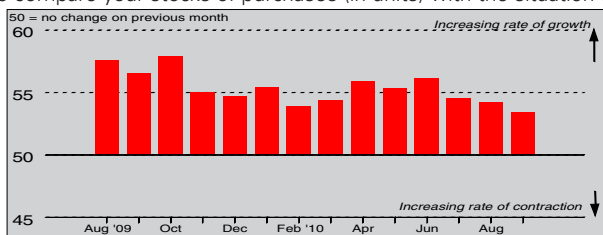
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



September data pointed to another sharp increase in input acquisitions at KSA private sector companies. Around 23% of panel members raised buying activity since August, citing stronger demand conditions and greater business requirements. However, the rate of growth slowed further to the weakest for five months.

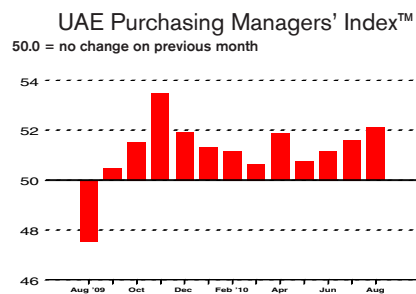
Stocks of Purchases Index

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



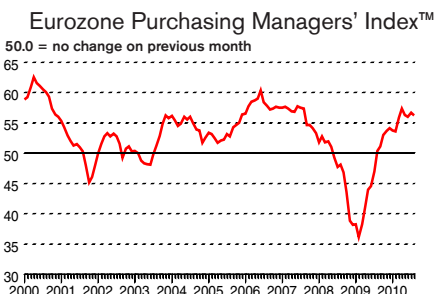
Input stocks at Saudi Arabian private sector companies increased solidly during September, reflecting further growth in purchasing activity. The need for greater stock levels to accommodate business expansions was also mentioned by respondents. However, the latest accumulation was the slowest in the fourteen-month history of the series.

International PMI summary



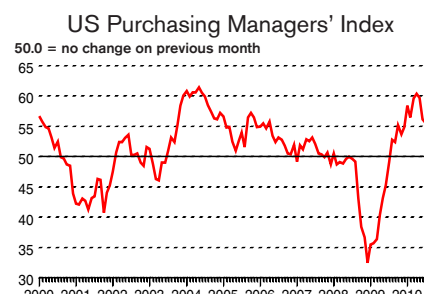
Source: Markit.

The headline seasonally adjusted HSBC UAE PMI continued to signal improving operating conditions across the United Arab Emirates economy in August. The latest figure of 52.1, up from 51.6 in July, was the highest for nine months and pointed to a modest rate of expansion.



Source: Markit.

The Markit Eurozone Composite Output Index posted 56.2 in August, down from 56.7 in July. Business activity has now risen throughout the past thirteen months, with the rate of growth so far in Q3 2010 broadly in line with the second quarter's three-year high.



Source: Institute for Supply Management (ISM).

At 56.3 in August, up from 55.5 in July, the headline ISM US Manufacturing PMI registered its highest reading for three months to signal a faster improvement in operating conditions across the sector. Underlying the rise in the headline index were sharper expansions in output, employment and input stocks.

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 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.

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