

Embargoed until: 08:30 (RIYADH) 3 November 2010

SABB HSBC Saudi Arabia PMI™

PMI signalled stronger improvement in operating conditions in October.

Key findings:

- Output, new business and employment growth all accelerated.
- Expansion in new export orders slowed to series record low.
- Purchase price inflation fastest in survey history.

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for October 2010 – a monthly report issued by the bank and HSBC. It reflects the economic performance of the Saudi Arabian non-oil producing private sector companies and establishments through the monitoring of a number of variables, most important of which are output, new orders, exports, input prices, output prices, quantity of purchases, stocks, employment, etc.

Climbing to 59.9 in October, from 58.4 in September, the headline index signalled a sharp gain in the health of the Saudi Arabian private sector economy. Moreover, the rate of improvement was faster than the series trend. Underlying the rise in the PMI was an accelerated expansion of new business (despite a slowdown in new export order growth since September), which led companies to increase both activity and employment levels. However, price pressures built up alongside demand, with both total input and output price inflation accelerating on the month.

Total new order receipts at KSA private sector companies rose substantially in October and at the fastest rate since July. This was despite growth of new export business easing to a series record low. Panellists cited favourable economic conditions, greater demand and successful promotional activities as the key factors driving overall new order levels higher.

Greater volumes of new work led KSA private sector firms to raise output, employment and purchasing more sharply in October. Activity increased at a considerable pace, while job

creation was solid. Growth in both variables was the fastest since June. Meanwhile, buying activity expanded substantially.

The latest increase in input acquisitions was sufficient to further build up stocks of purchases at the start of Q4. However, the rate of accumulation moderated to a survey record low.

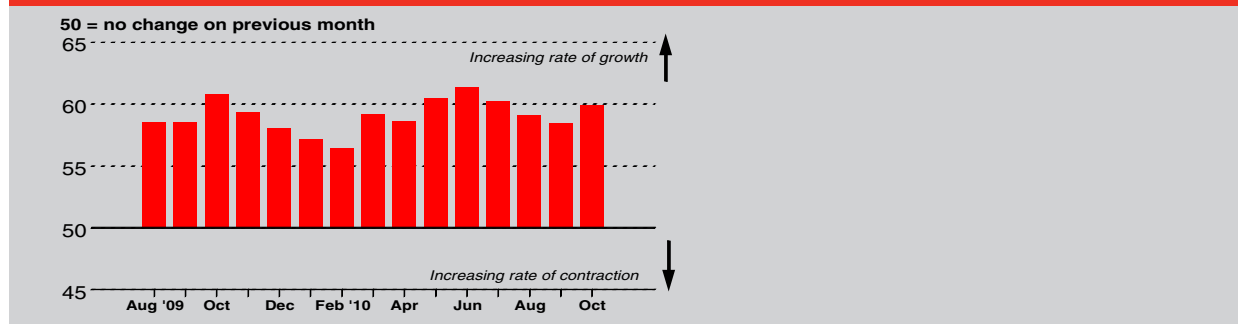
Despite stronger demand for inputs in October, average vendor performance continued to improve. Moreover, lead times shortened to a greater extent than over the previous five months. Saudi Arabian private sector companies stated that competition amongst suppliers was the main reason for the improvement.

The volume of unfinished business at KSA private sector firms grew in October, bringing the current run of accumulation to ten months. The rate of increase was solid and the most marked since July. Panellists attributed the rise to heavier workloads.

Total input price inflation accelerated to a solid rate in October. Data showed that faster rises in both purchasing and wage costs supported the latest increase. Prices paid for raw materials and semi-finished goods climbed sharply and at a series record rate. Higher commodity costs and unfavourable exchange rate fluctuations were the key contributors to purchasing price inflation, according to respondents. Meanwhile, salaries rose moderately, which panel members linked to higher production and solid business conditions.

Private sector firms in Saudi Arabia passed on part of their greater cost burdens to customers in October through higher charges. Output price inflation picked up to a solid rate as a result.

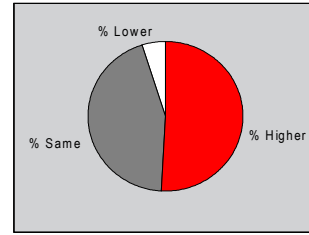
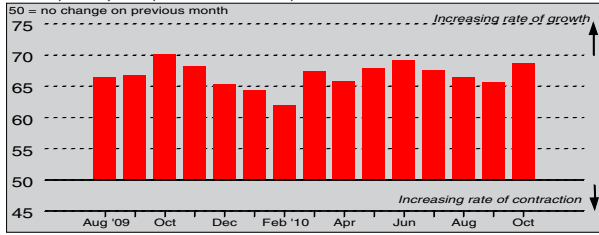
SABB HSBC Saudi Arabia PMI



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

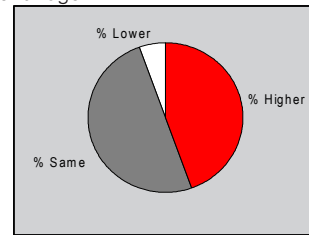
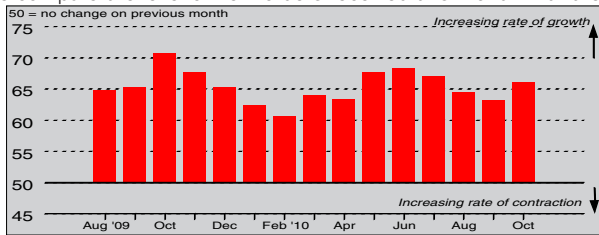
Q. Please compare your production/output this month with the situation one month ago.



Private sector output (excluding oil producers) in Saudi Arabia grew at an accelerated pace at the start of Q4. The latest expansion was substantial and the fastest since June, with over half of panel members reporting increased activity. Respondents commonly attributed the rise to further gains in new business.

New Orders Index

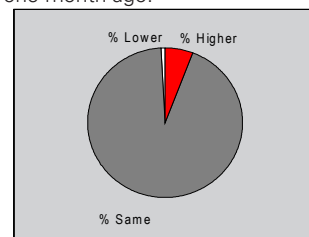
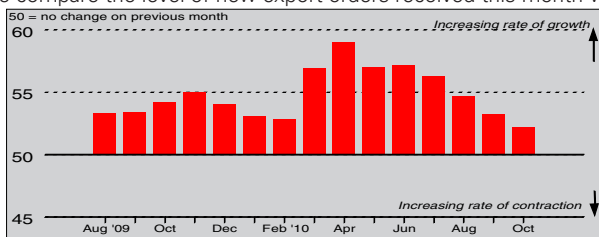
Q. Please compare the level of new orders received this month with the situation of one month ago.



Total receipts of new business at KSA private sector companies were up sharply in October. Around 45% of panellists registered an expansion since September, citing a better economic environment, stronger market demand and successful promotional activities. Data suggested that the main impetus to growth was domestic demand, as the increase in new export orders slowed.

New Export Orders Index

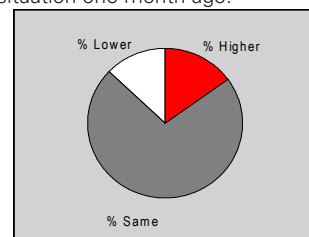
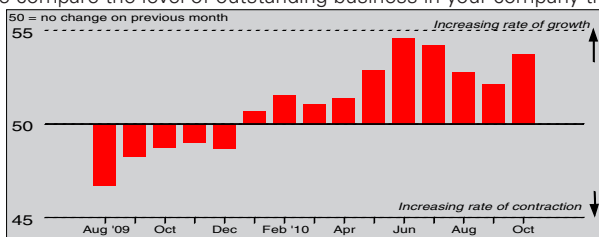
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Slipping further in October, the seasonally adjusted New Export Orders Index reached a series record low. The latest reading signalled only a moderate expansion of new work from abroad at Saudi Arabian private sector firms. In the 6% of cases where higher new export business was recorded, respondents commented on solid external demand.

Backlogs of Work Index

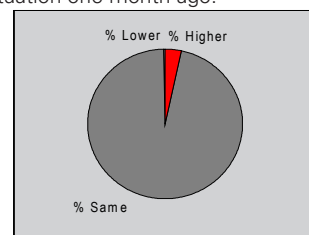
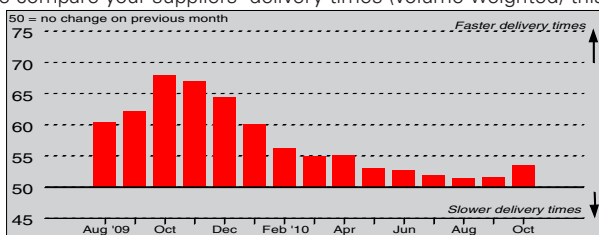
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Greater workloads was the key reason for another build up of backlogs at Saudi Arabian private sector companies during October. With 15% of panellists registering growth, unfinished business accumulated at a solid pace that was the sharpest since July. Work-in-hand has now increased for ten successive survey periods.

Suppliers' Delivery Times Index

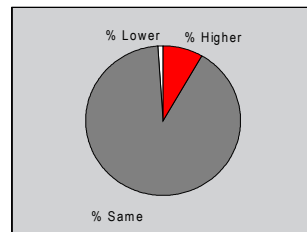
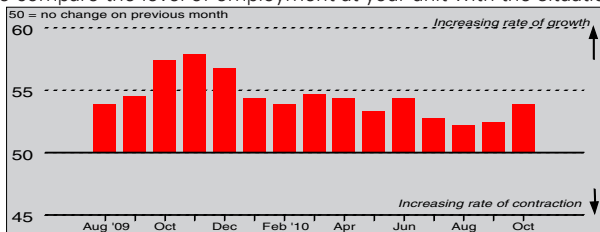
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Latest data suggested that workloads at suppliers remained manageable in October, as lead times on input deliveries to KSA private sector firms continued to shorten. Moreover, the rate of improvement in average vendor performance gained pace since September, which respondents linked to competition amongst suppliers.

Employment Index

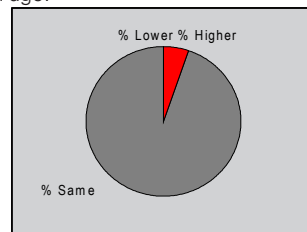
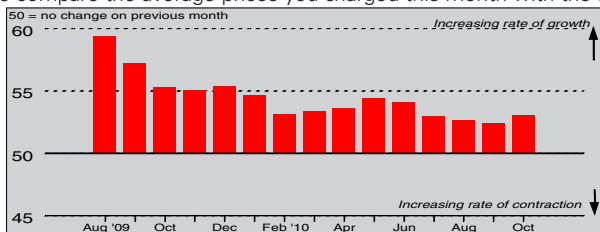
Q. Please compare the level of employment at your unit with the situation one month ago.



After accounting for seasonal variation, the Employment Index climbed to a four-month high in October. The latest reading pointed to a robust rate of job creation across the Saudi Arabian non-oil producing private sector. Reports indicated that favourable economic conditions, greater new order levels and company expansions were the key factors behind staffing growth.

Output Prices Index

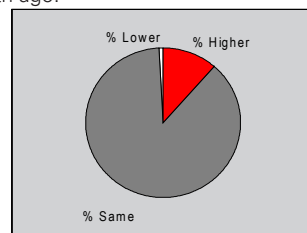
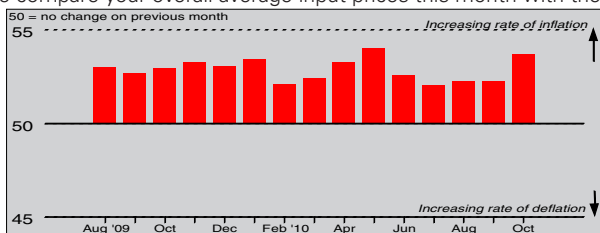
Q. Please compare the average prices you charged this month with the situation one month ago.



Prices charged for goods and services by Saudi Arabian private sector firms rose solidly in October. The latest round of inflation was the most pronounced since June. Companies monitored by the survey stated that output prices were increased in order to cover greater wage and purchasing expenses.

Overall Input Prices Index

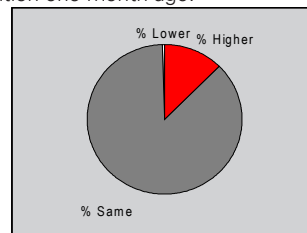
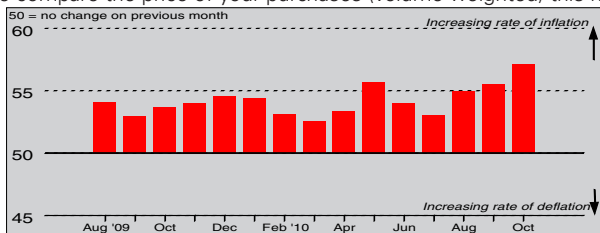
Q. Please compare your overall average input prices this month with the situation one month ago.



Total input price inflation faced by Saudi Arabian private sector companies picked up to a solid rate during October, driven by faster rises in both purchasing and staff costs. However, data showed that the former remained the main driver of overall input price inflation. The latest increase in total input costs was the sharpest since May.

Input Costs: Purchase Prices Index

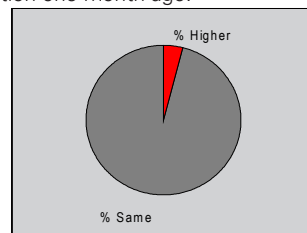
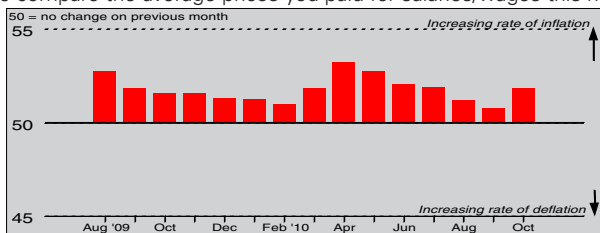
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



October data signalled an acceleration in the rate of purchase price inflation across the Saudi Arabian private sector economy. Average prices paid for raw materials and semi-finished goods rose substantially and at a series record rate. Greater transport and raw material costs, as well as unfavourable exchange rate fluctuations, were the main reasons for higher purchase prices, according to panel members.

Input Costs: Staff Costs Index

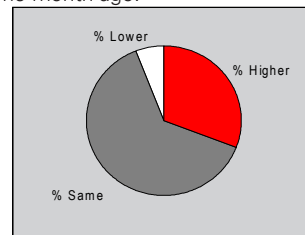
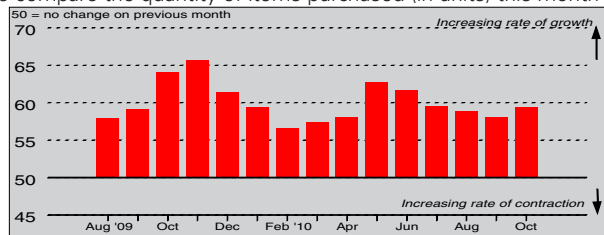
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Wage inflation at Saudi Arabian private sector companies was modest during the latest survey period, despite accelerating since September. Survey participants cited higher production and favourable business conditions as the main reasons for higher salaries. The latest increase was broadly in line with the series trend.

Quantity of Purchases Index

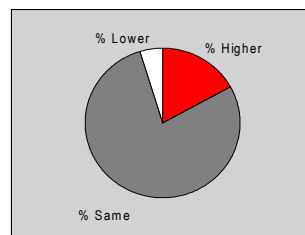
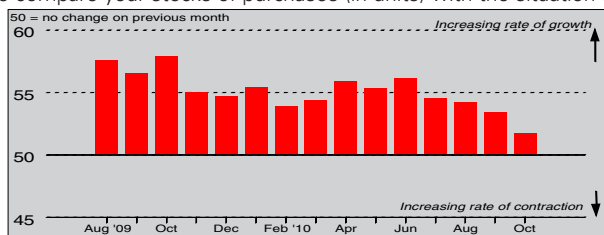
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Saudi Arabian private sector companies raised buying activity to meet business requirements during October. Purchasing grew at a considerable pace that was the most marked since July. Firms have continually increased their input acquisitions throughout the fifteen-month survey history.

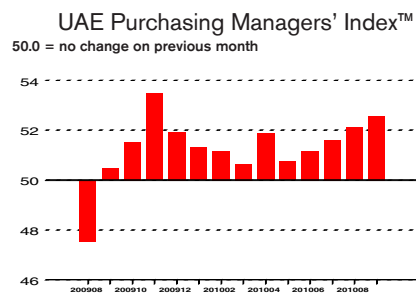
Stocks of Purchases Index

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

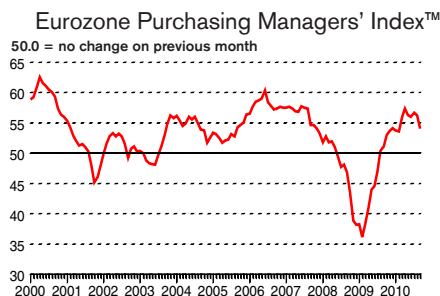


Input stocks continued to build at KSA private sector companies at the start of 2010's final quarter. Anecdotal evidence suggested that the increase primarily reflected further growth of buying activity. However, the rate of accumulation moderated since September to only a modest pace that was the weakest in the survey history.

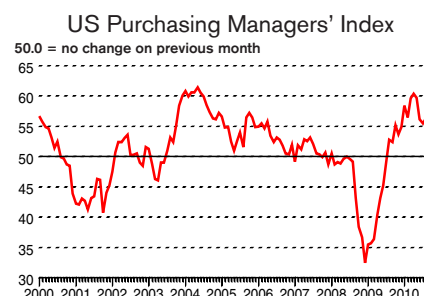
International PMI summary



Source: Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

Registering 52.6 in September, the headline seasonally adjusted HSBC UAE PMI ended the third quarter of 2010 at a ten-month high. Up from 52.1 in August, the latest reading signalled a faster (though still modest) improvement in the health of the United Arab Emirates private sector economy.

Eurozone private sector activity growth eased to a seven-month low in September. At 54.1 in September, the Markit Eurozone Composite Output Index was down sharply from 56.2 in August. However, the average headline index reading in Q3 was only slightly below the three-year high reached in Q2.

The headline ISM US Manufacturing PMI fell to ten-month low of 54.4 in September, down from 56.3 in August. Nevertheless, the latest reading remained above the series trend and signalled a robust improvement in business conditions across the sector.

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.

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