

Embargoed until: 08:30 (RIYADH) 5 February 2011

SABB HSBC Saudi Arabia PMI™

Activity and new business growth accelerated to series record rates in January, but so did input price inflation.

Key findings:

- PMI hit survey record peak.
- Staffing rose at solid pace.
- Purchasing cost inflation accelerated to series record high.

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for January 2011 – a monthly report issued by the bank and HSBC. It reflects the economic performance of Saudi Arabian non-oil producing private sector companies and establishments through the monitoring of a number of variables, including output, new orders, exports, input prices, output prices, quantity of purchases, stocks and employment.

Saudi Arabia's non-oil private sector started the new year on a high, with several key activity-related variables rising at series record, or near series record, rates. However, overall price pressures also built up at an unprecedented pace, largely driven by stronger demand.

The headline index climbed to a series record peak of 63.8 in January, from 61.3 in December. The latest reading signalled a substantial and accelerated improvement in the health of the KSA non-oil producing private sector.

Respondents reported further growth of output during the latest survey period. Moreover, the rate of expansion rose to a series record high, with around 55% of companies raising activity on the month.

Supporting the latest increase in non-oil private sector activity was a survey record rise in new business. Incoming new work grew rapidly, which panel members linked to a combination of beneficial economic conditions, good demand, promotional work and strong company reputations. Data showed that both

domestic and export markets were significant contributors to January's expansion of total new orders, although the former remained the leading factor.

Saudi Arabian non-oil private sector firms posted a thirteenth successive build up of unfinished work at their units in January. Outstanding business accumulated at a solid and accelerated pace as new order levels rose.

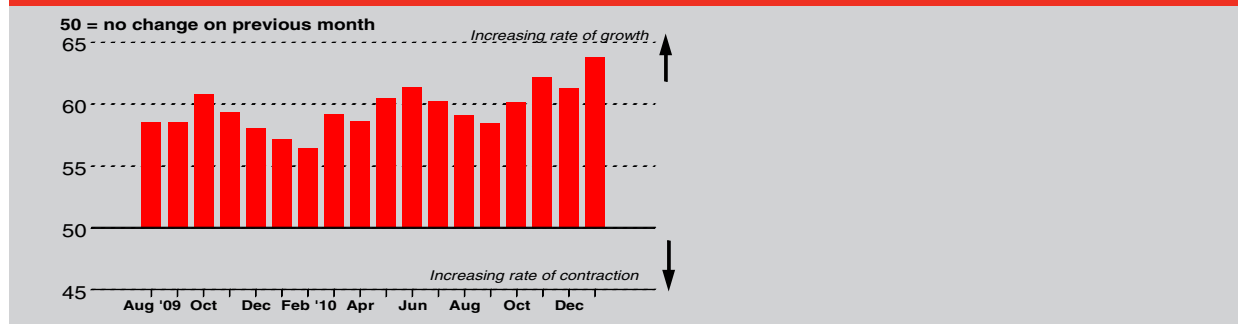
Firms expanded capacity in January, responding to greater current and expected business requirements. Employment, buying activity and stocks were all increased on the month. Staffing grew solidly, albeit at a marginally weaker rate than in December, while both purchases and input stocks rose at near series record rates.

Average vendor performance continued to improve at the start of 2011, despite stronger demand for inputs. Lead times shortened modestly and at the fastest rate for three months, which panel members attributed to supplier efficiency and intense competition amongst vendors. That said, the rate of improvement was far slower than in January 2010.

A combination of increased demand for inputs and short supplies of certain commodities put upward pressure on purchasing costs in January, pushing inflation to a series record high. Total input prices rose at the fastest pace to date as a result. In contrast, wage inflation slowed to a modest rate.

Prices charged for KSA non-oil private sector goods and services rose at the fastest pace for seven months in January as firms took advantage of favourable business conditions.

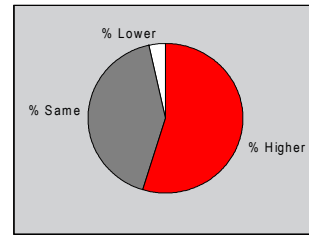
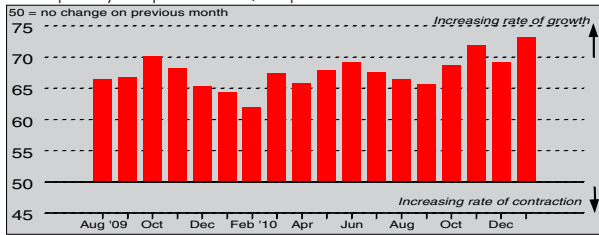
SABB HSBC Saudi Arabia PMI



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

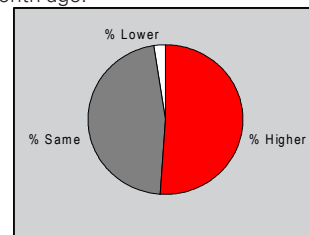
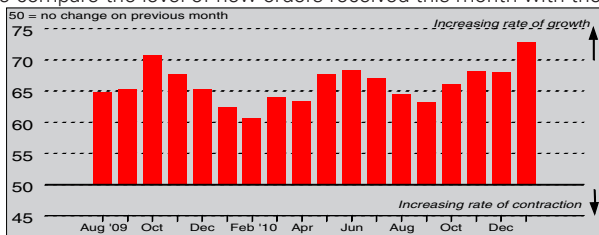
Q. Please compare your production/output this month with the situation one month ago.



KSA non-oil private sector output growth hit a new series record high at the start of 2011. Activity levels rose sharply since December, with around 55% of panel members recording an increase. Anecdotal evidence indicated that the principal reasons for higher output were improved market conditions and further new order gains.

New Orders Index

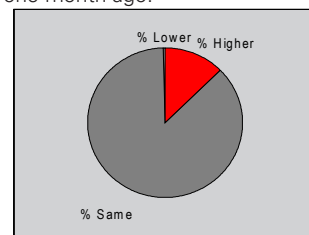
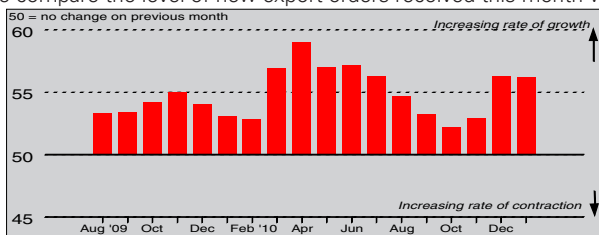
Q. Please compare the level of new orders received this month with the situation of one month ago.



A combination of favourable economic conditions, stronger demand, successful marketing and good company reputations all underpinned a survey record rise in new orders at KSA non-oil private sector firms in January. Although data showed that both domestic and foreign demand contributed to the latest expansion of new work, the former remained the main driver of growth.

New Export Orders Index

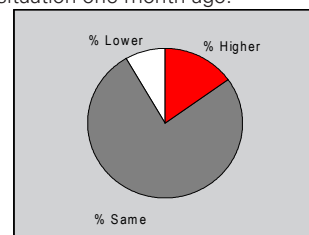
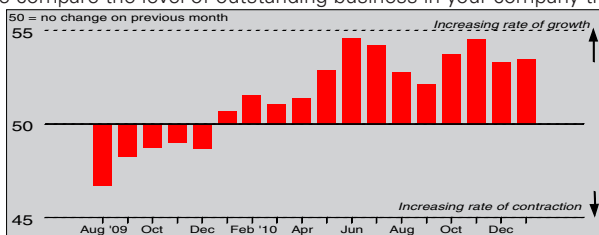
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index was virtually unmoved in January, signalling another marked month-on-month increase in new work from abroad across the KSA non-oil private sector. Strong business conditions in key export markets and company expansions were behind the latest expansion, according to respondents.

Backlogs of Work Index

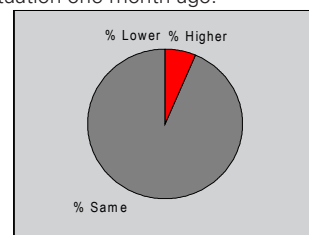
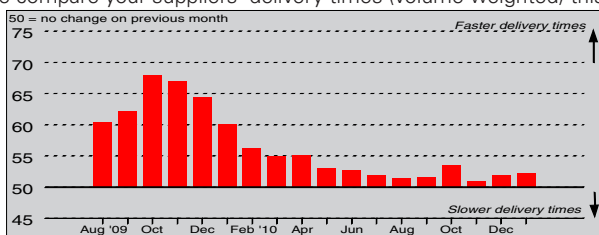
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Work-in-hand at Saudi Arabian non-oil private sector companies continued to build during the latest survey period. However, the rate of accumulation accelerated only fractionally since December and remained below peaks seen in June and November of last year. This was despite a series record rise in new orders. Reports indicated that efforts to keep on top of backlogs prevented a sharper rate of increase.

Suppliers' Delivery Times Index

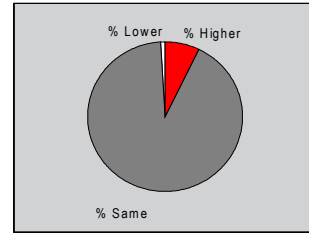
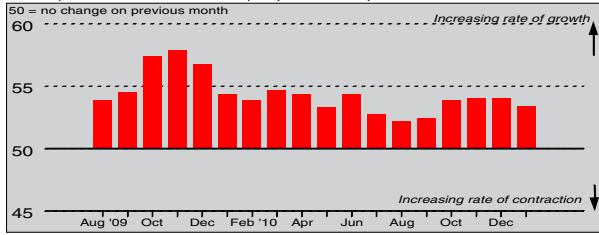
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Saudi Arabian non-oil private sector firms noted another improvement in average vendor performance in January, despite stronger demand for inputs. Moreover, lead times shortened at the fastest rate for three months. Quicker deliveries were linked by firms to supplier efficiency and intense competition amongst vendors.

Employment Index

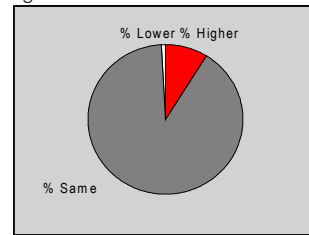
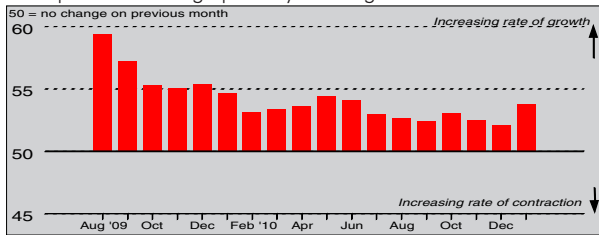
Q. Please compare the level of employment at your unit with the situation one month ago.



Job creation at KSA non-oil private sector firms slowed slightly in January, but remained solid. Survey participants cited greater business requirements, due to improved economic conditions and company expansions, as the key factor behind additional recruitment. The rate of expansion was weaker than the series average.

Output Prices Index

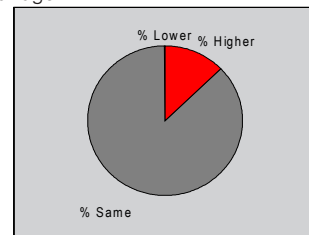
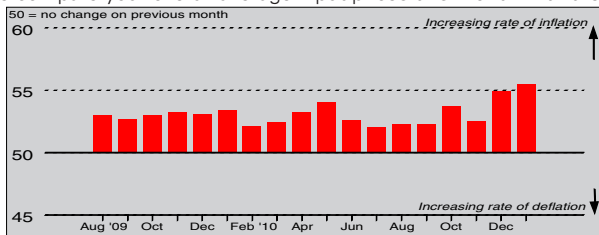
Q. Please compare the average prices you charged this month with the situation one month ago.



Saudi Arabian non-oil private sector firms passed through part of their higher cost burdens to customers in January, raising their charges at a solid pace. The latest increase was the most marked for seven months, with 9% of monitored companies registering higher tariffs. Output price inflation has been recorded throughout the series history.

Overall Input Prices Index

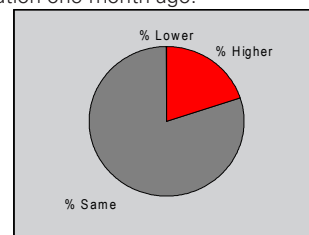
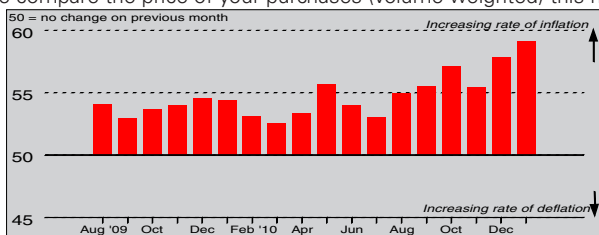
Q. Please compare your overall average input prices this month with the situation one month ago.



Reflecting sharper purchasing cost inflation, overall input prices in the KSA non-oil private sector rose at a faster rate at the start of Q1. Furthermore, January's increase in total input costs was the most pronounced since the survey began in August 2009, with 13% of panel members reporting inflation.

Input Costs: Purchase Prices Index

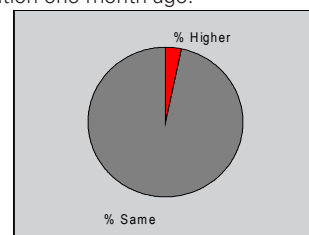
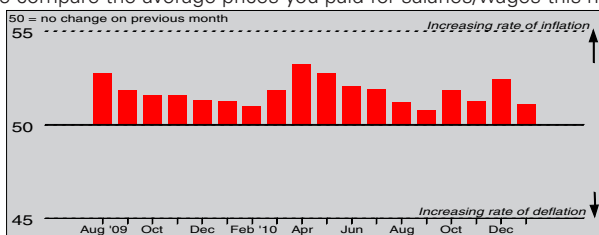
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Purchase price inflation picked up to a survey record pace in January, with one-fifth of panel members noting a rise. Data pointed to a sharp monthly rate of increase. Firms stated that stronger demand for inputs and short supplies of some commodities pushed fuel and raw material costs up.

Input Costs: Staff Costs Index

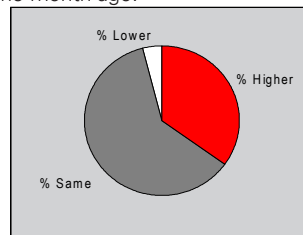
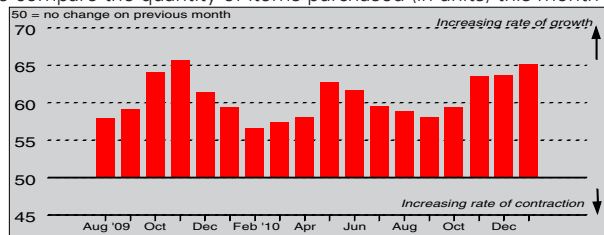
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Prices paid for salaries and wages by Saudi Arabian non-oil private sector companies continued to rise in January, which respondents linked to good business performance and higher living costs. However, the rate of staff cost inflation eased since December to a modest pace that was the weakest for four months.

Quantity of Purchases Index

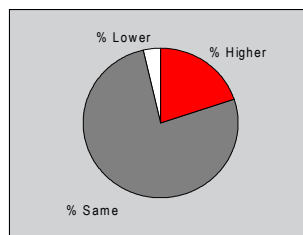
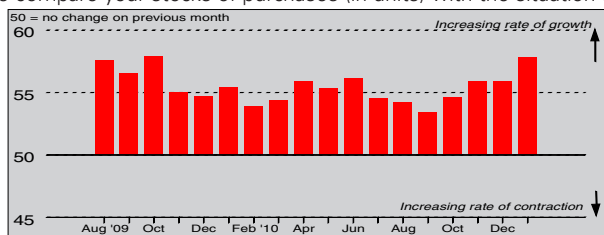
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



To ensure activity levels kept pace with current and expected new order growth, Saudi Arabian non-oil private sector firms raised input acquisitions in January. Purchases have increased during every month of the series one-and-a-half year history. The latest rise was considerable and the second-fastest to date.

Stocks of Purchases Index

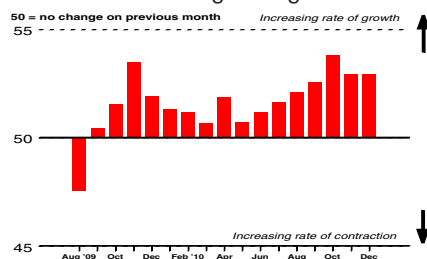
Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Holdings of raw materials and semi-finished goods in the KSA non-oil private sector rose in line with buying activity during January. Stock levels grew sharply and at the second-fastest rate in the survey history. One-fifth of the survey panel registered higher input holdings during the latest survey period – approximately five times the proportion that posted a decline.

International PMI summary

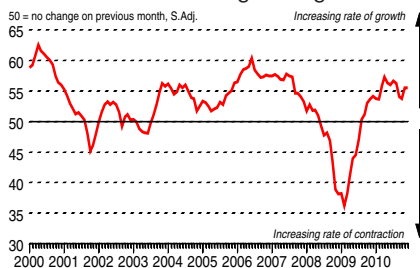
UAE Purchasing Managers' Index™



Source: Markit.

The UAE non-oil private sector continued to expand in the final month of the year, with both output and new orders growing markedly and job creation picking up to a moderate pace. At 53.0 in December, the headline seasonally adjusted HSBC UAE PMI was virtually unmoved from November's 52.9, signalling another solid improvement in the health of the sector.

Eurozone Purchasing Managers' Index™



Source: Markit.

At 55.5 in December, unchanged from November's three-month high, the Markit Eurozone Composite Output Index signalled an expansion in economic activity for the seventeenth consecutive month. Manufacturing output growth accelerated to a five-month high, but expansion slowed slightly in services (though remained solid).

US Purchasing Managers' Index™



Source: Institute for Supply Management (ISM).

The business environment in which US goods producers and service providers operate continued to improve at the end of 2010. This was shown by rises in the ISM US Manufacturing PMI and Non-Manufacturing NMI to 57.0 and 57.1 respectively. The former was a seven-month high and the latter a series record.

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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