SABB HSBC Purchasing Managers' Index™ Press Release

compiled by markit

Embargoed until: 08:30 (RIYADH), 5 March 2011

SABB HSBC Saudi Arabia PMI™

February PMI signalled further strong improvement in business conditions, but input price inflation reached fresh series record

Summary

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

Business conditions in the KSA non-oil private sector remained favourable in February, supporting further strong expansions in new business and activity, as well as continued growth of employment. However, input price inflation picked up to a series record peak.

The headline PMI registered 63.4 in February, fractionally below January's record of 63.8. The latest figure pointed to another sharp improvement in the health of Saudi Arabia's non-oil private sector.

Receipts of new work continued to grow in February, and at a considerable rate. Respondents stated that improved market conditions, advertising and competitive prices helped to support demand for the sector's goods and services. However, the rate of increase eased since January. New export orders rose at a weaker rate than total new business, suggesting that domestic demand remained the key driver of expansion.

As volumes of new business rose in February, outstanding work accumulated. Backlogs built up for the fourteenth straight month, although the rate of increase eased to a modest pace.

To keep up with rising new order levels, KSA non-oil private sector companies took on additional staff, increased purchasing and built up stocks in February. The rate of job creation was solid and little-changed since January, while both buying activity and input holdings grew strongly (albeit to lesser extents than in the previous month). Reports indicated that some input purchases were made to hedge against future commodity price inflation.

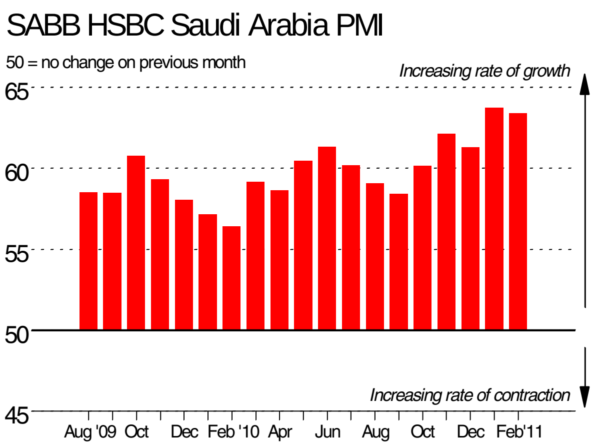
Lead times on deliveries of raw materials and semi-finished goods shortened again in February. Vendor performance has improved in each month of the survey's history. Panellists linked faster deliveries to competition amongst suppliers and efficient service.

Maintaining the series trend, prices paid for inputs by Saudi Arabian non-oil private sector firms rose in February.

Key points

- Both output and new order growth remained strong, despite slowing.
- Job creation was solid.
- Purchasing cost inflation picked up to new series record high…
- …but charge inflation slowed.

Historical Overview



Moreover, the rate of inflation picked up to a series record pace. Anecdotal evidence highlighted greater fuel and raw material costs, as well as unfavourable exchange rates, as the principal drivers of inflation.

To motivate staff in the face of rising workloads and increased living costs, companies raised wages and salaries during the latest survey period. Staff cost inflation rose to a modest pace as a result.

In order to compensate for input price inflation, and also to take advantage of strong market demand, firms raised their tariffs in February. Charges increased at a moderate pace, but to a lesser extent than in January.

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Notes to Editors:

About SABB HSBC Saudi Arabia Purchasing Managers' Index™

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

SABB:

SABB is a Saudi joint stock company, quoted on the Saudi stock exchange (Tadawul). The HSBC Group has a 40% stake in SABB.

SABB is one of the largest banks in Saudi Arabia, which operates through a large network of branches throughout the country and offers a comprehensive portfolio of personal, corporate and private banking services, both conventional and Islamic.

SABB provides specialist corporate finance services including investment banking advisory, debt and project finance through its associate, HSBC Saudi Arabia Limited. In addition, SABB offers insurance products through SABB Takaful and equity brokerage services through SABB Securities Limited.

HSBC:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading, global financial information services company with over 2,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace. For more information please see www.markit.com.

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.