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## SABB HSBC Saudi Arabia PMI™

Output growth remained strong in April, while input price inflation hit series record high.

### Key findings:

- PMI at four-month low.
- Expansions in both activity and new work eased, while job creation picked up.
- Input price inflation reached joint-series record high.

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

There was little evidence that political problems in other parts of the Middle East were significantly affecting the performance of Saudi Arabia's non-oil private sector economy at the start of Q2. Although rates of expansion in output and new business slowed since March, they remained above their respective series trends. Firms demonstrated their confidence in current and future business conditions by taking on new staff and stock building. However, input price inflation accelerated to a series record high and global instabilities contributed to rising purchasing costs.

Almost unmoved from March's reading of 62.8, the headline PMI posted 62.7 in April. Although it was the lowest for four months, the latest reading was still above the series trend and signalled another marked improvement in operating conditions across the KSA non-oil private sector.

New business rose strongly during the latest survey period, albeit at a slightly weaker rate. Respondents commented on improved economic conditions and more business from the Government. Data suggested that the domestic market remained the main driver of new order growth.

To accommodate gains in new business, KSA non-oil private sector firms raised output during April. However, the rate of

growth was the mildest for six months. By company size, large firms posted a sharper increase in activity than SMEs.

A combination of greater market demand, pipeline delays due to the crisis in Japan and backlogs at the country's ports led to a faster build up of outstanding business at KSA non-oil private sector firms in April. The rate of accumulation was a joint-series record as a result.

Companies raised both employment and purchases in April in order to keep up with rising business requirements. Job creation was the most marked since December 2009, while buying activity increased at a similar pace to that recorded in March.

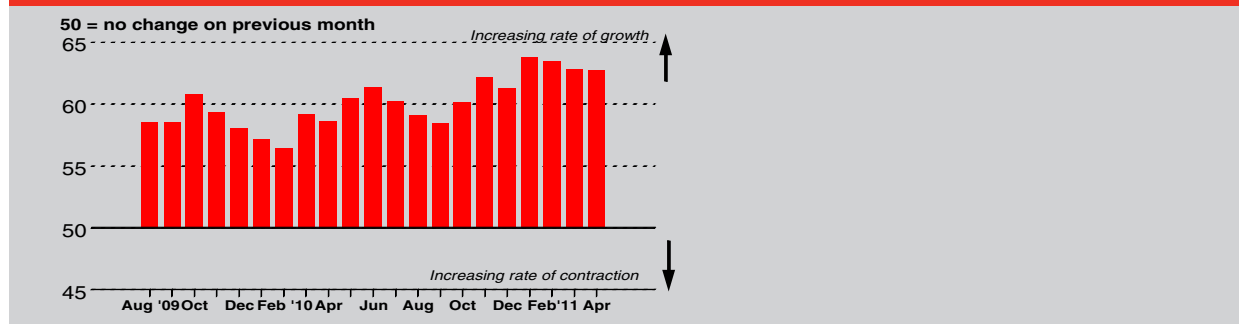
Average vendor performance continued to improve in April, albeit at the weakest rate in the survey history. Panel members indicated that the slowdown reflected supply disruptions from the Japan crisis and delays at customs.

As a result of higher input acquisitions, input stocks at Saudi Arabian non-oil private sector firms accumulated at a steeper pace. Panellists stated that holdings were increased partly in expectation of future new order growth and also to safeguard against supply disruptions.

Purchasing price inflation accelerated to a joint-series record high during April, pushed up by rising raw material and fuel costs. Firms stated that unfavourable exchange rates and political instabilities in the Middle East and North Africa contributed to higher commodity prices. Staff cost inflation also picked up on the month. Overall input costs rose fastest at large companies.

To protect profit margins from rising input costs, firms increased their tariffs in April. Charge inflation was the sharpest for almost a year.

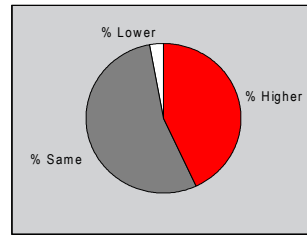
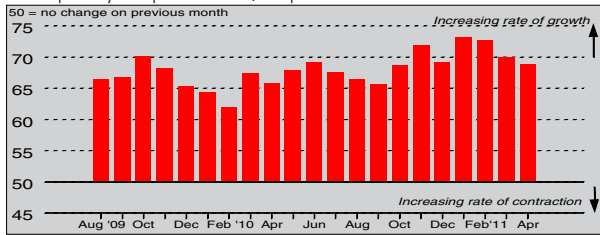
### SABB HSBC Saudi Arabia PMI



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 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**

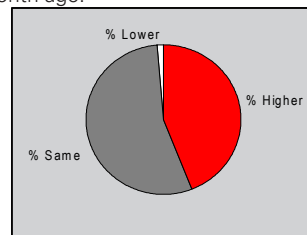
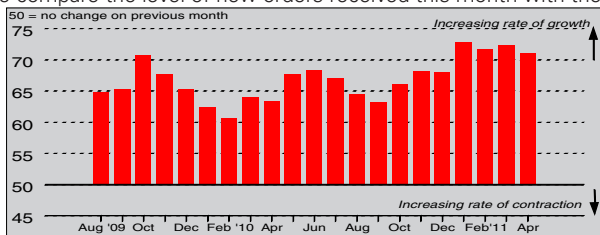
Q. Please compare your production/output this month with the situation one month ago.



Saudi Arabian non-oil private sector output continued to rise at the start of Q2, with panellists linking growth to gains in new work. Although still above the series trend, the rate of increase was the weakest for six months. Broken down by company size, data showed that activity levels rose fastest at large firms.

**New Orders Index**

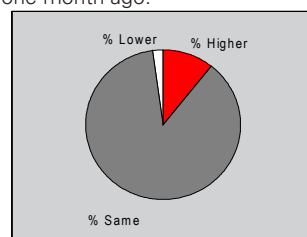
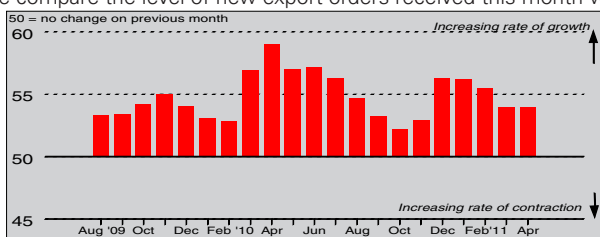
Q. Please compare the level of new orders received this month with the situation of one month ago.



New business received by KSA non-oil private sector firms rose at a slower pace in April. Nevertheless, the rate of growth remained comfortably above the series trend, with 44% of respondents noting an increase. Panellists mostly linked inflows of new work to improved economic conditions, with numerous companies mentioning more orders from the Government.

**New Export Orders Index**

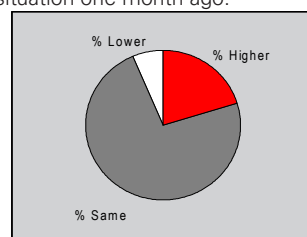
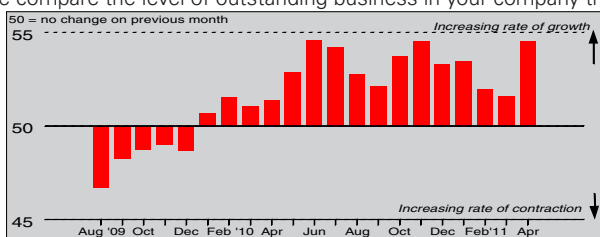
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Latest data suggest that foreign demand for Saudi Arabian non-oil private sector goods and services remained solid in April. The seasonally adjusted New Export Orders Index was unmoved since March, signalling another robust increase in new business from abroad. Reports indicate that sales were supported by marketing and favourable business conditions. Some firms made particular reference to good demand from Africa, Qatar and Lebanon.

**Backlogs of Work Index**

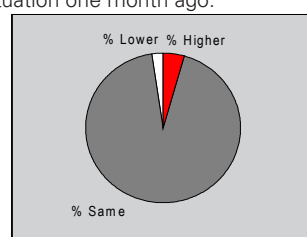
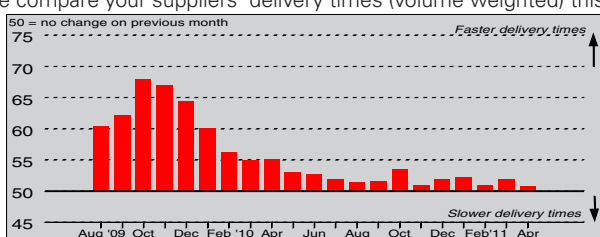
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Pipeline delays due to the crisis in Japan, backlogs at the country's porkSA non-oil privas and further growth of new work all led to another build-up of unfinished business at KSA non-oil private sector companies in April. Work-in-hand accumulated for the sixteenth month running, and at a joint-series record rate. Medium-sized firms reported the most pronounced rise in outstanding business.

**Suppliers' Delivery Times Index**

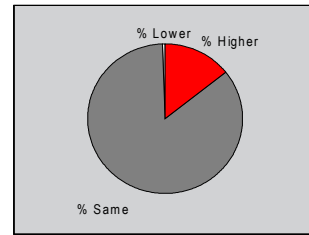
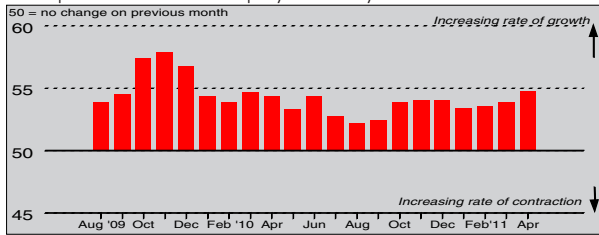
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance continued to improve during the latest survey period. However, lead times shortened at the mildest rate in the twenty-one month history of the survey. The slowdown in the rate of improvement reflected supply disruptions from Japan and delays at customs. Where delivery times shortened, firms cited strong competition amongst suppliers and efficient service.

**Employment Index**

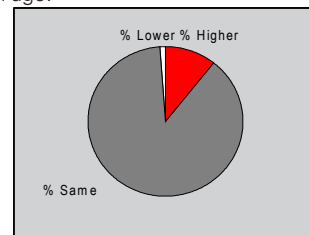
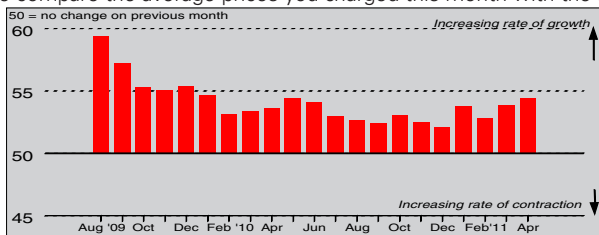
Q. Please compare the level of employment at your unit with the situation one month ago.



Job creation at Saudi Arabian non-oil private sector companies picked up during April. The latest increase was the most marked since December 2009. Survey participants indicated that better business performance was the key factor behind employment growth. All three company size classes registered increased staffing, although large firms posted the sharpest rise.

**Output Prices Index**

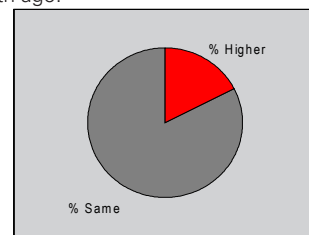
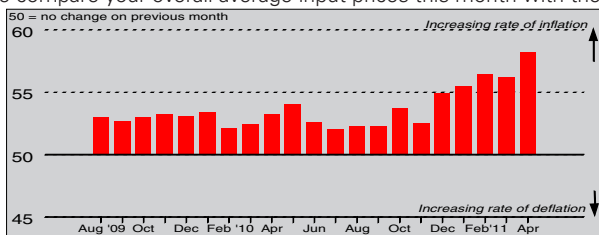
Q. Please compare the average prices you charged this month with the situation one month ago.



KSA non-oil private sector companies raised their charges in April, maintaining the series trend. Moreover, the rate of inflation gained pace to the fastest for nearly a year. The principal reason for higher output prices, according to respondents, was increased input costs. Large firms increased tariffs to a greater extent than SMEs.

**Overall Input Prices Index**

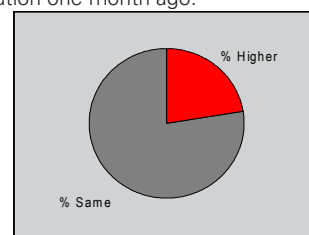
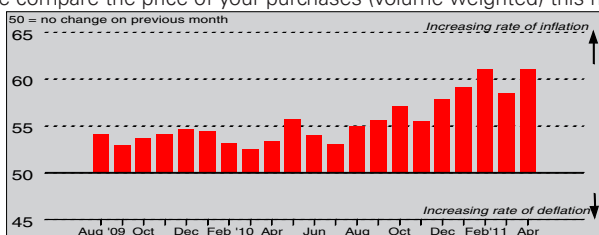
Q. Please compare your overall average input prices this month with the situation one month ago.



Reflecting sharper rises in both purchasing and staff costs, overall input price inflation in the Saudi Arabian non-oil private sector accelerated to a series record pace in April. However, the former remained the main driver of increases in total input costs. Rates of inflation were similarly sharp across all three company size categories.

**Input Costs: Purchase Prices Index**

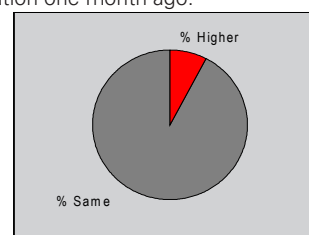
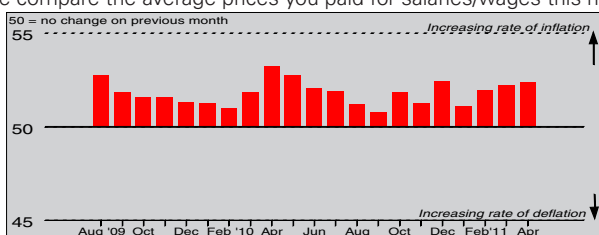
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



The seasonally adjusted Purchase Prices Index rose in April, reaching a joint-series record high. KSA non-oil private sector firms reported that greater raw material and fuel costs – partly resulting from political instabilities in the Middle East and North Africa as well as unfavourable exchange rates – pushed up average input prices during the latest survey period.

**Input Costs: Staff Costs Index**

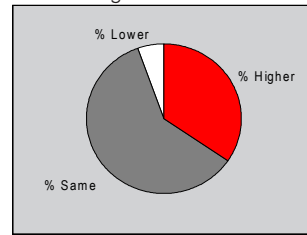
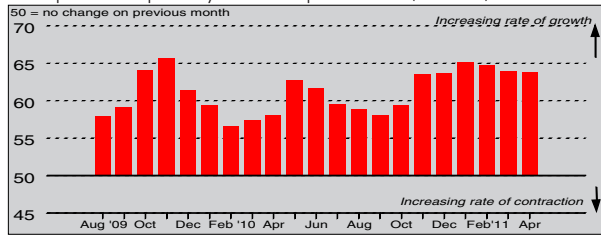
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff cost inflation across the Saudi Arabian non-oil private sector picked up marginally during April, reaching a four-month high. The rate of increase was also above the series trend. Reports show that good business performance was the main reason for increased wages and salaries.

**Quantity of Purchases Index**

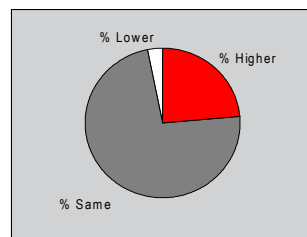
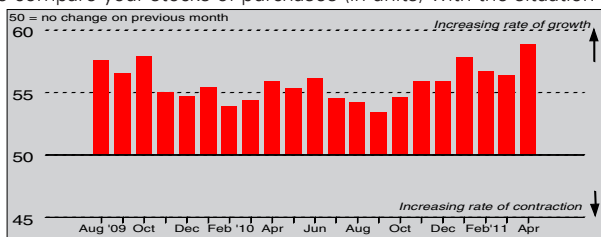
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Saudi Arabian non-oil private sector companies continued to raise their buying activity during the latest survey period. Around 35% of the survey panel recorded an increase, stating good business conditions and expectations of further new order growth in the near future. However, the rate of expansion was the weakest since last December.

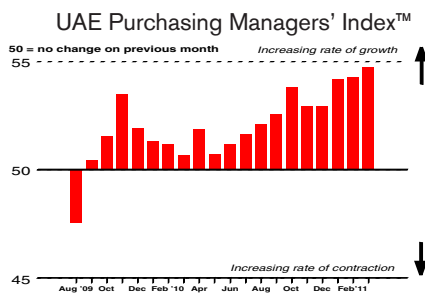
**Stocks of Purchases Index**

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



Input stocks at KSA non-oil private sector companies rose at a series record pace in April. Panellists indicated that higher inventories were necessary to accommodate current business requirements and expectations of increased new work in the near future. Several firms raised stocks to safeguard against supply disruptions caused by difficulties in the Middle East, North Africa and Japan.

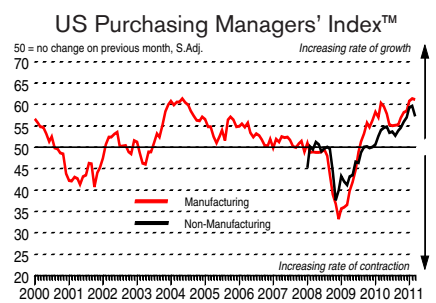
**International PMI summary**



Source: Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

The headline seasonally adjusted HSBC United Arab Emirates PMI climbed to a new high of 54.7 in March, from February's previous record of 54.3. The PMI has now registered above the no-change mark of 50.0 for nineteen months in succession, with the latest figure signalling a strong improvement in operating conditions.

The Eurozone Composite Output Index posted 57.6 in March, down from February's four-and-a-half year high of 58.2. The index has now signalled expansion for twenty consecutive months. Growth of new business was also little different from February's three-and a half year peak.

The ISM US Manufacturing PMI posted 61.2 in March – little changed from February's near-seven year high of 61.4. Meanwhile, the ISM Non-Manufacturing Index (NMI) was at a three-month low of 57.3. Nevertheless, the NMI remained comfortably above the average for 2010 (54.0).

**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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