SABB HSBC *Purchasing Managers' Index*™ 2011

compiled by markit

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SABB HSBC Saudi Arabia PMI™

PMI signals another strong improvement in business conditions in May.

Key findings:

- Both output and total new order growth continued to slow, but remained strong.
- Job creation fastest since November 2009.
- Total input price inflation picked up to sharpest rate in survey history.

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

PMI data for May signal a further improvement in business conditions across the Saudi Arabian non-oil private sector. Output and new business continued to grow sharply, while job creation accelerated to the fastest rate for a year-and-a-half. However, overall input cost inflation picked up to an unprecedented rate.

The headline seasonally adjusted SABB HSBC Saudi Arabia PMI™ registered 62.6 in May, almost unmoved from April's reading of 62.7, signalling a strong improvement in non-oil private sector operating conditions.

Total new orders taken by KSA non-oil private sector firms continued to increase during the latest survey period, which panellists linked to better economic conditions, advertising campaigns, company expansions and good reputations. Despite slowing on the month, growth remained above the series trend. Meanwhile, new export work rose at an accelerated rate due to an improvement in foreign demand, particularly from GCC countries. By company size, large firms recorded the most pronounced rises in both total new orders and new export orders.

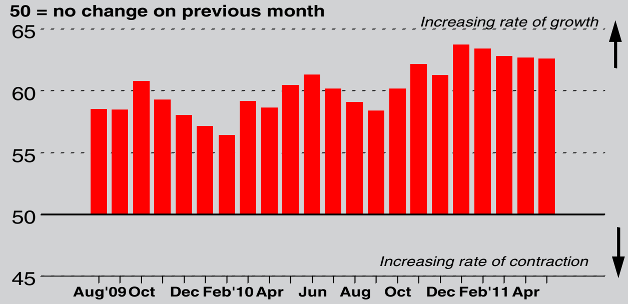
To accommodate higher inflows of new business, companies raised output, buying activity, input stocks and employment again in May. These measures were not, however, sufficient to allow firms to catch up on unfinished work. Consequently, backlogs continued to accumulate on the month.

Despite stronger demand for inputs, average vendor performance improved further in May. Saudi Arabian non-oil private sector companies noted faster deliveries, as they have done in each month since the survey began in August 2009. Panel members linked shorter lead times to good relationships with suppliers, efficient service, prompt payments for inputs and strong competition amongst vendors.

Charges rose again in May, and at a near-survey record pace. Anecdotal evidence suggests that tariffs were increased principally to pass through input cost inflation to customers.

Total input costs rose at an unprecedented rate in May, with the acceleration reflecting a sharper rise in staff cost inflation. Salaries and wages increased as firms both rewarded employees for good company performance and compensated them for rising living costs. Nonetheless, purchasing costs remained the greatest upward influence on overall input prices. Prices paid for input purchases rose at a near-series record pace on the month, driven by greater fuel and raw material costs, as well as unfavourable exchange rates. Small firms posted the sharpest increase in overall input prices.

SABB HSBC Saudi Arabia *Purchasing Managers' Index™ (PMI™)*



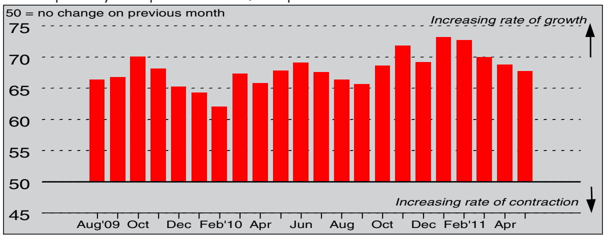
The SABB HSBC Saudi Arabia Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the Saudi Arabia non-oil private sector economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, 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. *Purchasing Managers' Index*™ and *PMI*™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

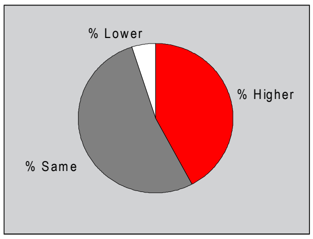
SABB Local vision, international expertise

HSBC The world's local bank

Output Index

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

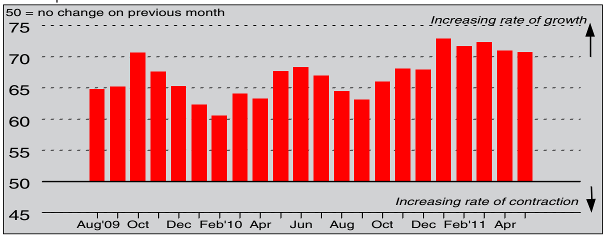


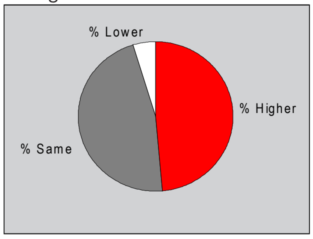


Saudi Arabian non-oil private sector output growth moderated again during May to the slowest since September last year. Nevertheless, over 42% of the survey panel registered an increase in activity since April, citing better economic conditions and further gains in new business. Medium and large firms posted the sharpest rates of increase.

New Orders Index

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

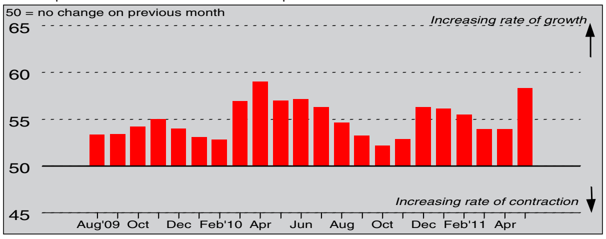


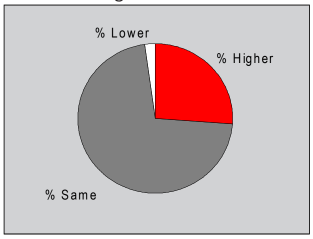


Total incoming new work to the Saudi Arabian non-oil private sector continued to grow during May, albeit at a weaker rate than in the previous four months. Improved business conditions and demand, successful promotional activities, company expansions and strong reputations were all reasons for higher new orders, according to respondents.

New Export Orders Index

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

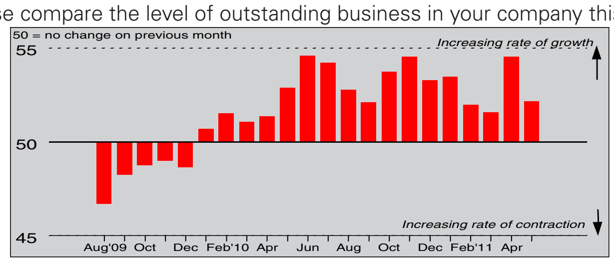


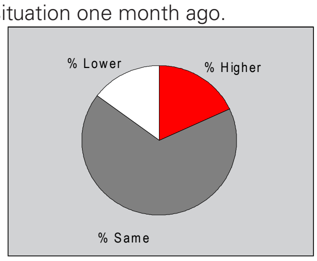


Jumping over 4 points in May, the seasonally adjusted New Export Orders Index registered its highest reading for over a year. Moreover, the latest figure was a near-series record. KSA non-oil private sector firms linked greater new work from abroad to favourable business conditions and improved foreign demand. Several panellists mentioned particularly strong demand from other GCC nations.

Backlogs of Work Index

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

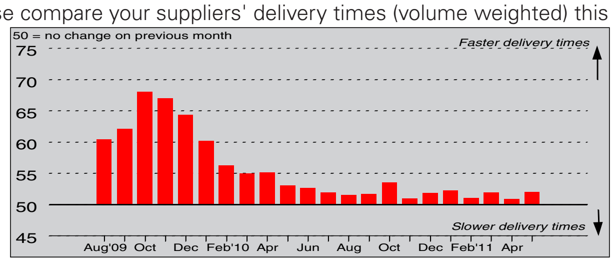


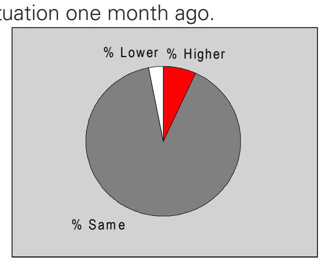


Higher numbers of new orders, combined with delays at the country's ports, resulted in another build up of backlogs across the Saudi Arabian non-oil private sector in May. Unfinished business has now accumulated for seventeen straight months, although the latest increase was slower than in April. Work-in-hand rose to the greatest extent at large and medium-sized firms.

Suppliers' Delivery Times Index

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

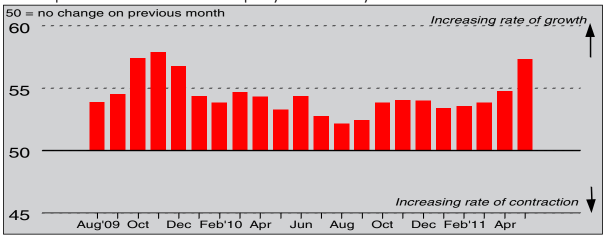


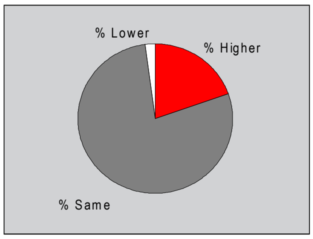


KSA non-oil private sector firms reported another improvement in vendor performance in May. Lead times have shortened throughout the series twenty-two month history. Good relationships with suppliers, efficient service, prompt payments for inputs and strong competition amongst vendors were all given by panellists as reasons for faster deliveries.

Employment Index

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

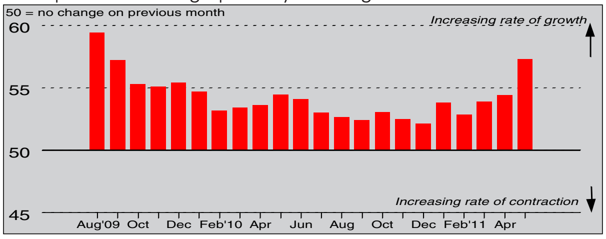


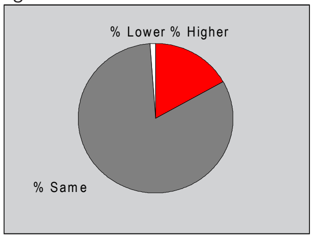


The seasonally adjusted Employment Index jumped 2.5 points in May, reaching a one-and-a-half year high. Approximately one-fifth of monitored KSA non-oil private sector companies hired extra staff on the month, citing good current business conditions and expectations of higher demand in the near future. Large firms recorded the most marked rate of job creation.

Output Prices Index

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

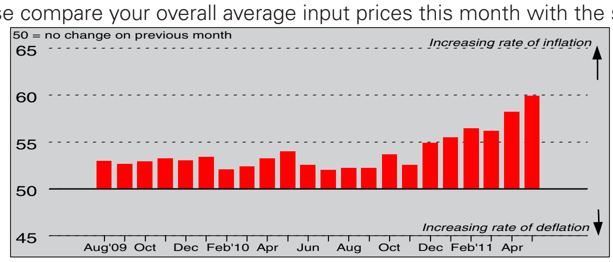


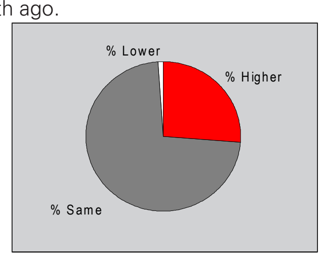


Prices charged by Saudi Arabian non-oil private sector firms for their goods and services continued to rise during the latest survey period. Moreover, the rate of increase accelerated since April to the second-fastest in the series history. Reports show that higher tariffs principally reflected greater input costs.

Overall Input Prices Index

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

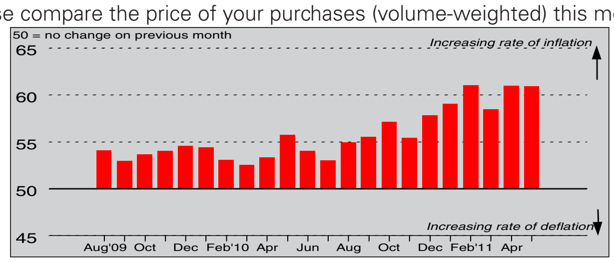


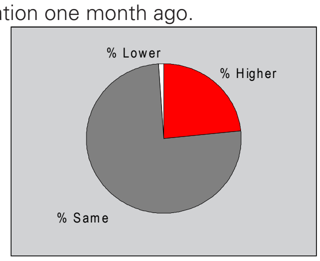


Reflecting a pick-up in staff cost inflation, overall input prices in the Saudi Arabian non-oil private sector rose at an accelerated pace in May. The latest increase was a survey record, with over 26% of panel members noting inflation. By size, small companies registered the fastest growth of total input costs.

Input Costs: Purchase Prices Index

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

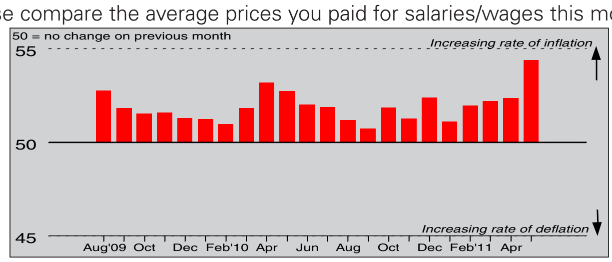


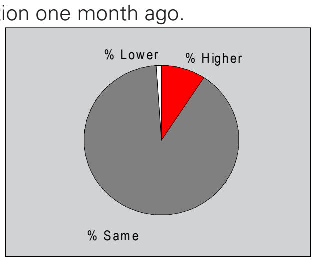


Purchase price inflation faced by KSA non-oil private sector firms moderated slightly during May, but nevertheless remained strong by the historical standards of the survey. Greater fuel and raw material prices, alongside unfavourable exchange rate fluctuations, were the key factors driving the rise in purchasing costs according to respondents.

Input Costs: Staff Costs Index

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

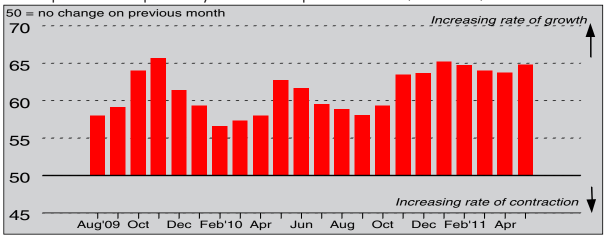


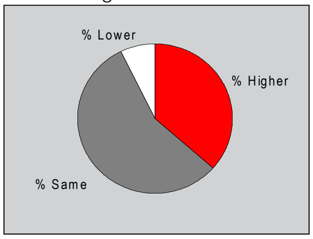


Prices paid for wages and salaries by KSA non-oil private sector firms were increased to the greatest extent in the series history in May. Over 9% of firms reported staff cost inflation, against just 1% that noted a reduction. Panellists stated that wages and salaries were raised to reward workers for good company performance, and to compensate for higher living costs.

Quantity of Purchases Index

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

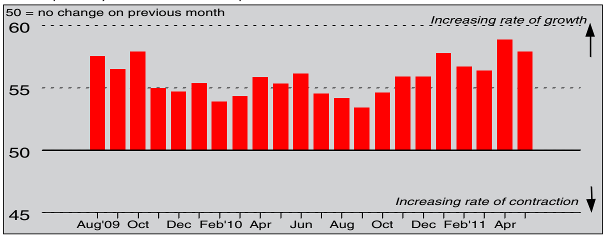


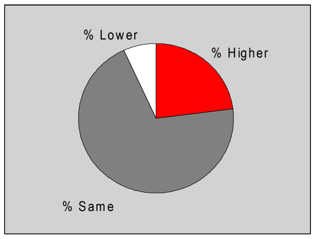


Further growth of new business led Saudi Arabian non-oil private sector companies to acquire additional inputs during the latest survey period. Moreover, the increase in buying activity was the sharpest for four months. By size, large and medium firms posted the greatest gains in purchases.

Stocks of Purchases Index

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

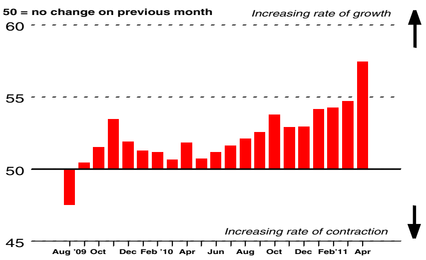




The latest increase in buying activity at KSA non-oil private sector companies was sufficient to build input stocks in May. The rate of accumulation was weaker than in April, but still above the series average. Firms also indicated that inventories were increased due to expectations of further growth of new work in the near future.

International PMI summary

UAE Purchasing Managers' Index™

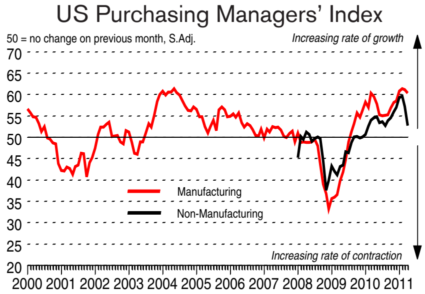


Source: Markit.

Eurozone Purchasing Managers' Index™

Source: Markit.

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

Climbing to 57.5 in April, from 54.7 in March, the headline seasonally adjusted HSBC United Arab Emirates PMI reached a new series record peak. The latest reading signalled a stronger improvement in the health of the country's non-oil private sector.

The Eurozone Composite Output Index registered 57.8 in April, up slightly from 57.6 in March. Although the index remains below February's four-and-a-half year high of 58.2, the April reading has been exceeded only once since July 2006.

The ISM US Manufacturing PMI continued to slip from February's eighty-one month high in April, posting 60.4 – its lowest reading since December last year. The equivalent services series, the ISM Non-Manufacturing Index (NMI) fell sharply to 52.8. However, this was from an historically high level of 57.3 in March.

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.

Warning