

SABB HSBC Purchasing Managers' Index™ Press Release

compiled by markit

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SABB HSBC Saudi Arabia PMI™

PMI signals another strong improvement in business conditions in May

Summary

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.

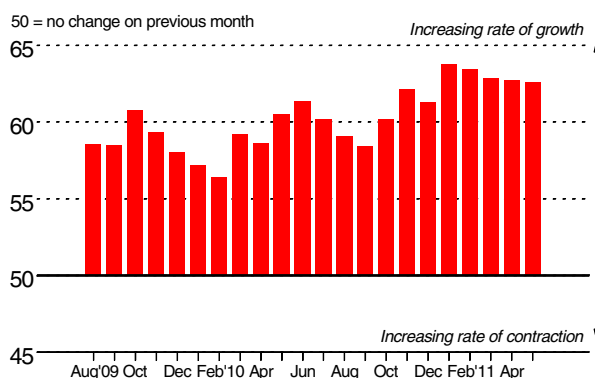
Charges rose again in May, and at a near-survey record pace. Anecdotal evidence suggests that tariffs were increased

Key points

- Both output and total new order growth continued to slow, but remained strong.
- Job creation fastest since November 2009.
- Total input prices rose at unprecedented rate...
- ...as staff cost inflation reached series record high.

Historical Overview

SABB HSBC Saudi Arabia PMI



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.

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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:

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$180bn at 31 December 2010. We are headquartered in London. As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength. HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

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:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are 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. To learn more go to www.markit.com/economics.

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