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SABB HSBC Saudi Arabia PMI™

New order growth accelerated in June, boosted by series record rise in new export business.

Key findings:

- PMI at three-month high in June.
- Output and new business expanded at sharper rates.
- Job creation slowed, but remained solid.

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

The headline seasonally adjusted SABB HSBC Saudi Arabia PMI™ rose marginally in June, after falling over the previous four months. The latest reading of 62.8 (up from 62.6 in May) was the highest since March and signalled a further strong improvement in operating conditions across the KSA non-oil private sector economy.

Latest data signalled a pick-up in overall new business growth in June. The rate of increase was the most marked for five months, partly reflecting a series record increase in new export orders. Strong market conditions (both at home and abroad), company expansions and competitive pricing were all reasons for improved new business performance, according to respondents.

Further gains in new work led firms to raise activity during June. KSA non-oil private sector output increased at the sharpest rate for three months as a result. Company size data suggested that medium firms expanded activity at a faster rate than large or small firms at the end of Q2.

Backlogs of work were almost unchanged in June, following moderate growth in May. This was despite a stronger inflow of new orders. Anecdotal evidence suggested that the slowdown reflected efforts by some firms to keep on top of workloads.

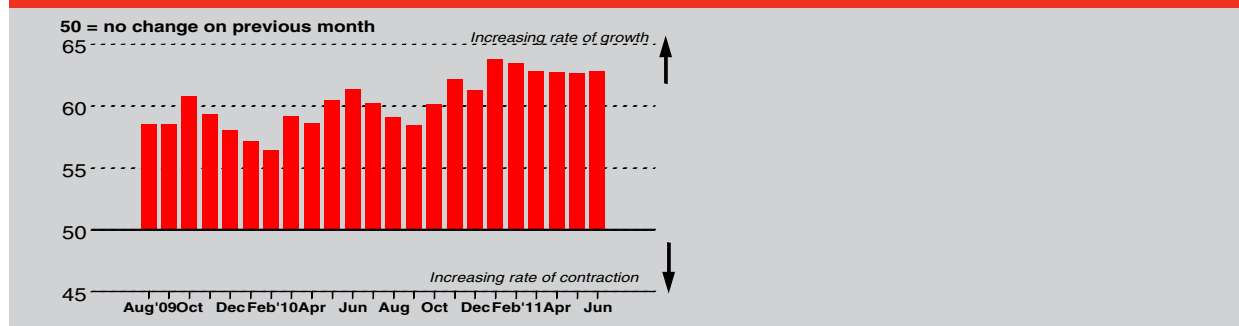
To accommodate greater business requirements, KSA non-oil private sector firms continued to recruit new employees in June, albeit at a weaker rate than in May. Several companies made particular note of the hiring of locals – possibly reflecting the incentives offered by the new 'Nitaqat' scheme recently announced by the Labour Ministry. Job creation was faster at large and medium firms than at small companies.

Buying activity remained strong in June, with around 33% of monitored companies acquiring additional inputs to meet demand. Consequently, input stocks continued to build.

Efficient service, due to good business relationships and strong competition amongst suppliers, led to improved vendor performance in June. Lead times have shortened in every month of the survey history, although the latest improvement was slower than in May.

Overall input price pressures eased during the latest survey period, although remained elevated by historical standards. This moderation in inflation reflected less marked increases in both purchasing and staff costs. Output price inflation also eased in June but, like input price inflation, remained above its long-run trend.

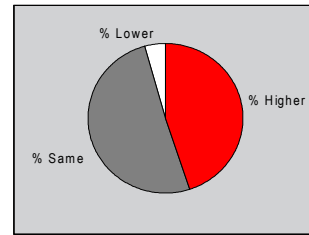
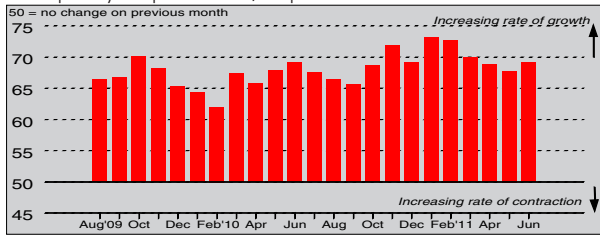
SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™)



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.

Output Index

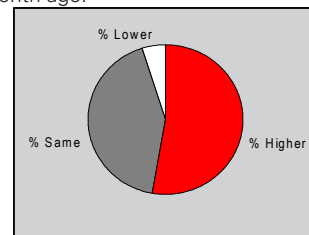
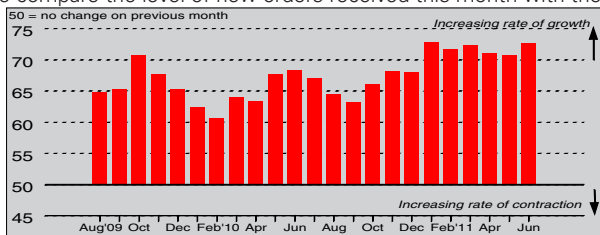
Q. Please compare your production/output this month with the situation one month ago.



Saudi Arabian non-oil private sector output growth accelerated in the final month of Q2, reaching a three-month high. Panellists indicated that activity levels were raised on the back of further new order gains. By size category, medium firms posted the most pronounced rise in output during June.

New Orders Index

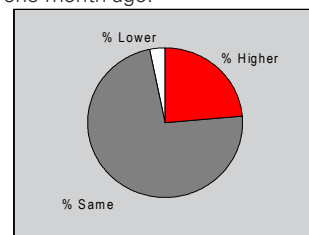
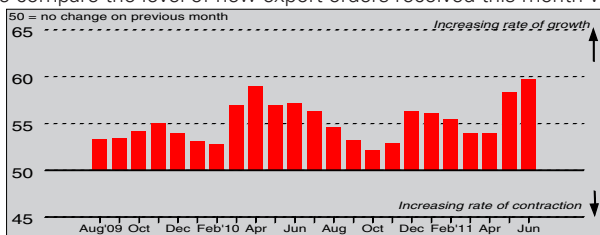
Q. Please compare the level of new orders received this month with the situation of one month ago.



Incoming new work to the KSA non-oil private sector increased at the sharpest pace for five months in June. Good market conditions, company expansions and competitive pricing were all cited by panellists as reasons for new order growth. Data suggested that domestic demand remained the principal driver of expansion, despite a series record rise in new export business.

New Export Orders Index

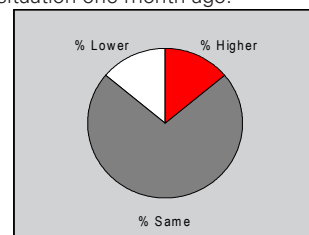
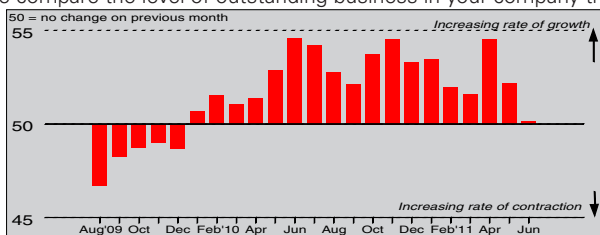
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Climbing further in June, the seasonally adjusted New Export Orders Index reached a series record high. Around 24% of the survey panel reported growth, against just 3% that noted a decline. Respondents linked stronger foreign demand to favourable business conditions in export markets. Data showed that new work from abroad rose faster at large companies than at SMEs.

Backlogs of Work Index

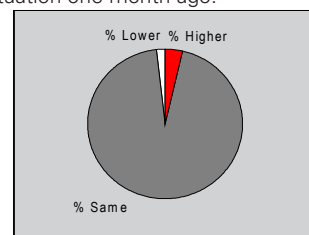
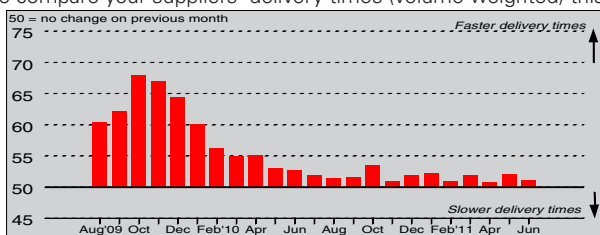
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Work-in-hand at Saudi Arabian non-oil private sector companies was broadly unchanged during June, following moderate growth in May. An accumulation of outstanding business was mostly linked by panellists to rising new order levels, while backlog clearance was frequently attributed to efforts to keep on top of workloads.

Suppliers' Delivery Times Index

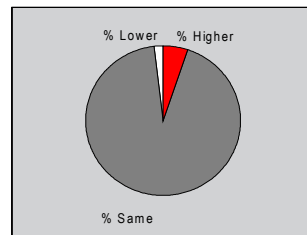
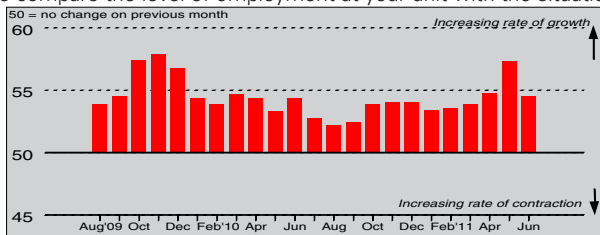
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Supplier performance continued to improve during the latest survey period, which panellists linked to efficient service (due to good business relationships and strong competition amongst vendors). Lead times have shortened throughout the twenty-three month history of the survey. However, the latest improvement was slightly less marked than in May.

Employment Index

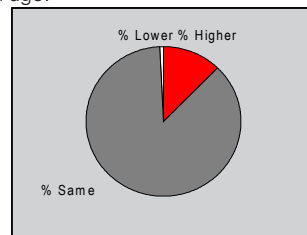
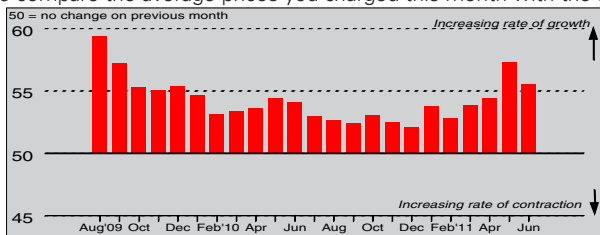
Q. Please compare the level of employment at your unit with the situation one month ago.



Job creation across the Saudi Arabian non-oil private sector persisted in June, but at a slower pace than over the previous two months. Companies stated that additional workers were taken on in order to accommodate greater business requirements. Several panellists noted that locals were specifically targeted in recruitment drives. Large and medium firms hired new staff at a faster pace than small companies.

Output Prices Index

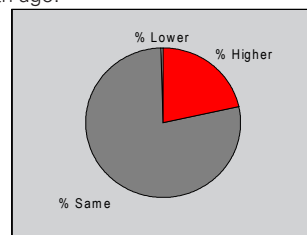
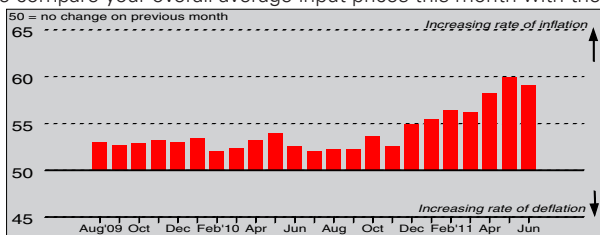
Q. Please compare the average prices you charged this month with the situation one month ago.



Prices charged for Saudi Arabian non-oil private sector goods and services rose further during June. Greater input costs was the main reason for higher output prices, according to survey participants. Tariffs have increased continuously throughout the twenty-three month history of the series, although the latest rise was less pronounced than in May.

Overall Input Prices Index

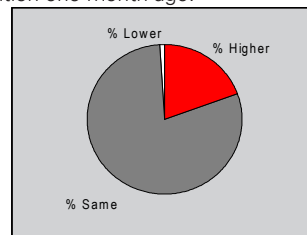
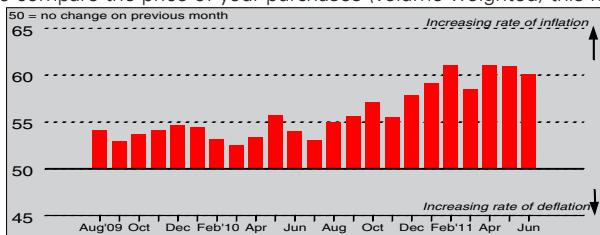
Q. Please compare your overall average input prices this month with the situation one month ago.



Reflecting weaker trends in both input and output price inflation, overall input costs in the Saudi Arabian non-oil private sector rose at a slower pace in June. Nevertheless, the rate of increase remained close to May's series record. Data indicated that higher purchase costs continued to provide the main impetus to total input price inflation. Small firms again faced the sharpest increase in costs.

Input Costs: Purchase Prices Index

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

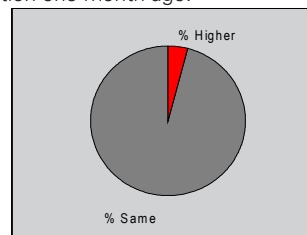
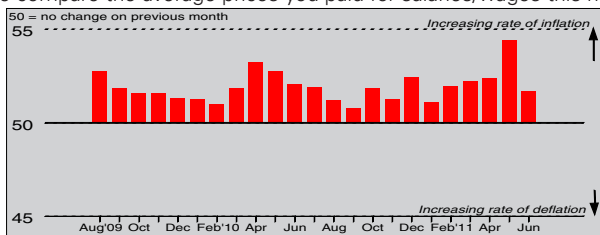


Purchase price inflation in the KSA non-oil private sector remained elevated during the latest survey period, despite moderating for the second month running. Strong demand for commodities, droughts and supply-chain difficulties due to disruptions in Japan and MENA* all exerted upward pressure on input costs according to panel members.

*Middle East and North Africa

Input Costs: Staff Costs Index

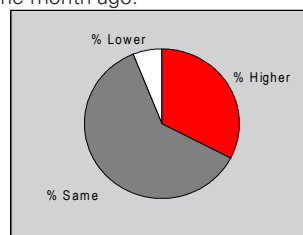
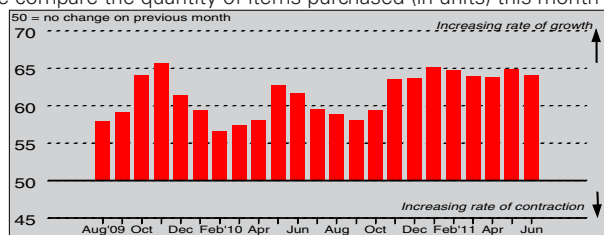
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Saudi Arabian non-oil private sector firms continued to raise the salaries and wages of their workers in June. However, the rate of increase was noticeably weaker than in May. Respondents stated that the latest rise reflected the higher productivity of employees. Rates of staff cost inflation were similar across all three company size categories.

Quantity of Purchases Index

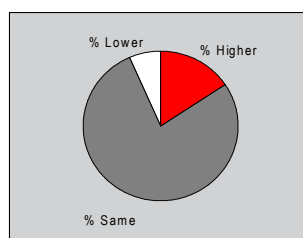
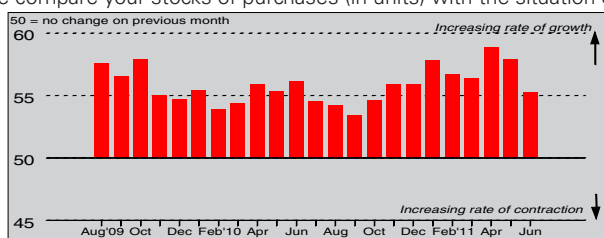
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Rising new order levels led Saudi Arabian non-oil private sector companies to increase their acquisitions of raw materials and semi-finished goods in June. Although the rate of expansion slowed slightly since May, it remained above the series trend with around 33% of monitored companies noting an increase.

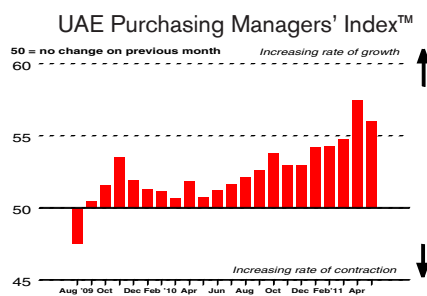
Stocks of Purchases Index

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

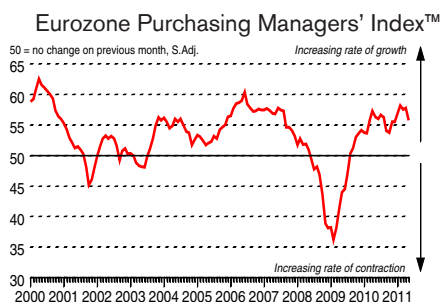


The seasonally adjusted Stocks of Purchases Index fell to an eight-month low in June, signalling weaker growth of input holdings at Saudi Arabian non-oil private sector companies. Anecdotal evidence indicated that the slowdown was principally the result of efforts to prevent overstocking. In the 16% of cases where holdings accumulated, firms commented on greater new order levels.

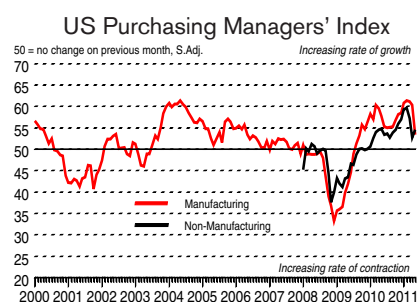
International PMI summary



Source: Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

The headline seasonally adjusted HSBC United Arab Emirates PMI registered 56.0 in May, down from April's survey record high of 57.5. Nevertheless, the latest reading points to another marked improvement in the health of the UAE non-oil private sector economy.

At 55.8 in May, down from 57.8 in April, the Eurozone PMI Composite Output Index fell to a five-month low. The index has signalled expansion in each of the past 22 months. The latest reading was slightly above the average for 2010 as whole, and growth so far in Q2 has been only moderately below the post-recession high reached in the opening quarter.

Falling sharply from 60.4 in April, the ISM US Manufacturing PMI registered a twenty-month low of 53.5 in May. The dip in the index signalled a marked slowdown in the rate of improvement in business conditions. In contrast, the ISM Non-Manufacturing Index (NMI) rose to 54.6 in May, from an eight-month low of 52.8 in April.

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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