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SABB HSBC Saudi Arabia PMI™

PMI hits 10-month low in July as both output and new order growth slow sharply

Key findings:

- Output rises at slowest pace since February 2010
- Jobs growth continues to slow, but remains solid
- Input price inflation broadly stable in July

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™) for July 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 signalled a sharp slowdown in the rate of expansion of Saudi Arabia's non-oil private sector economy at the start of Q3. Noticeably weaker rises were recorded in both output and new orders, while job creation also moderated. Reflecting this, the headline seasonally adjusted SABB HSBC Saudi Arabia PMI™ registered a 10-month low of 60.0 (down from 62.8 in June). Nevertheless, the PMI remained comfortably above the neutral mark of 50.0, suggesting that business conditions continued to improve at a marked pace.

KSA non-oil private sector companies recorded further growth of new business in July, which respondents linked to favourable market conditions, good demand and new product launches. However, the rate of expansion slowed noticeably from June's near-record high to a nine-month low. This was despite a faster increase in new export business. New work from abroad rose at an unprecedented rate in the latest survey period.

In line with a weaker trend in new order growth, output rose at a

much slower pace during July. Nevertheless, activity continued to expand at a robust pace. Medium-sized firms registered a stronger increase in output than small or large companies.

Unfinished business continued to accumulate during July. However, the rate of increase remained only marginal and much weaker than the average for the past year.

To manage current workloads and company expansions, as well as to comply with the government's new Nitaqat system, firms recruited additional workers in July. Employment rose solidly, but at a milder rate than in the previous four months.

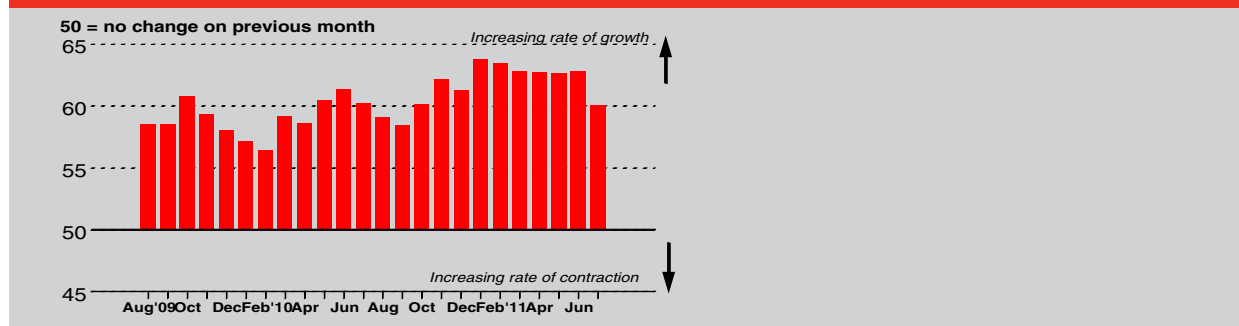
Buying activity increased at a much slower rate in July, reflecting an easing trend in new order growth. Input stocks continued to rise solidly.

Panelists reported longer lead times in July for the first time in the survey history. Firms blamed greater demand for inputs, low manpower at suppliers and payment problems for delays. That said, the rate of deterioration was only slight.

Input price inflation was broadly stable in July, as a sharper rise in staff costs was outweighed by a slowdown in purchase price inflation. In relation to the series trend, the overall rate of increase was nonetheless substantial.

Companies took advantage of favourable demand conditions to pass through some of their increased input costs to customers in July. Charges rose solidly as a result, but at the slowest pace for five months.

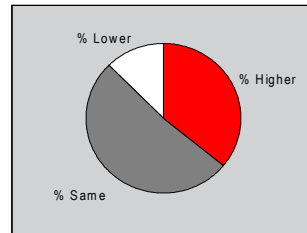
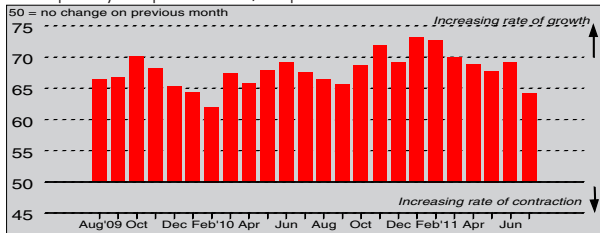
SABB HSBC Saudi Arabia Purchasing Managers' Index™ (PMI™)



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

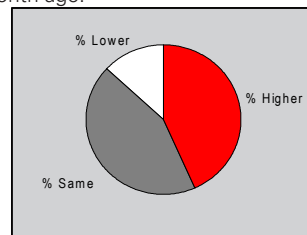
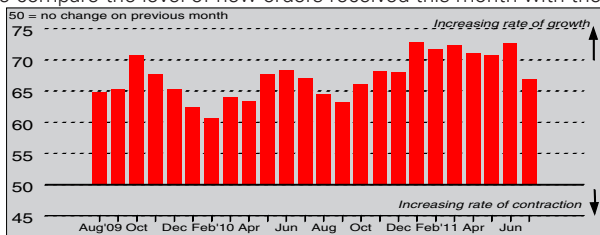
Q. Please compare your production/output this month with the situation one month ago.



Saudi Arabian non-oil private sector activity growth slowed sharply at the start of Q3, as shown by a near-five point drop in the seasonally adjusted Output Index. The latest reading was the weakest for 17 months and below the average for the two-year series history. Nevertheless, the index remained at a level indicative of a strong rate of expansion. Firms linked higher activity to gains in new work.

New Orders Index

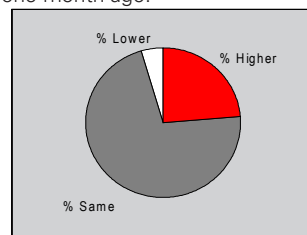
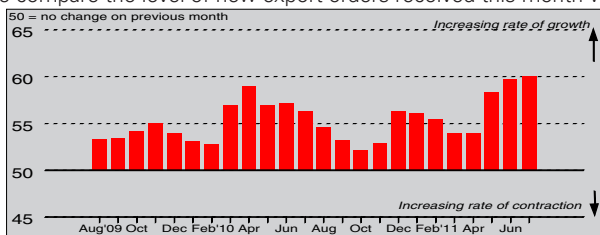
Q. Please compare the level of new orders received this month with the situation of one month ago.



New business taken by KSA non-oil private sector firms rose again during July, maintaining the series trend. However, the rate of increase moderated noticeably from June's near-record high. Around 43% of monitored companies received more new orders than in the previous month, citing favourable market conditions, good demand and new product launches. By size, medium firms posted the most pronounced rise in new work.

New Export Orders Index

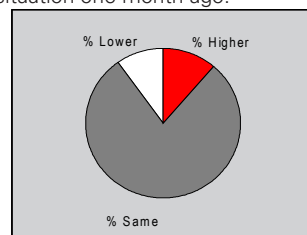
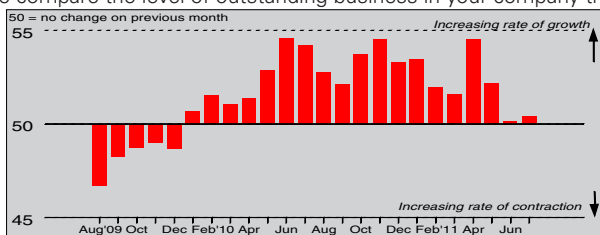
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Contrary to the trend in overall new business, incoming new work from abroad rose at a sharper rate in July. The latest expansion was a series record, with around 24% of panellists noting growth. Panel members indicated that both business conditions and demand in recipient countries had improved. Data showed that the export performance of large firms continued to outshine those of SMEs.

Backlogs of Work Index

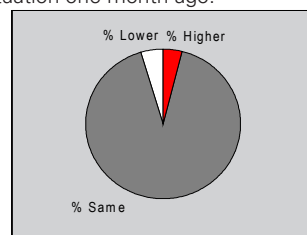
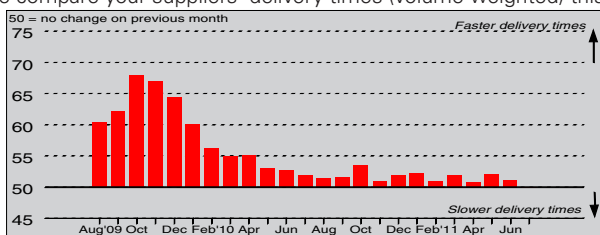
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Unfinished business continued to build at KSA non-oil private sector companies in July. However, the rate of increase remained weak and close to June's 18-month low. Where firms reported a build-up of backlogs, most commented on greater volumes of new orders and shipment delays. Meanwhile, backlog clearance was commonly attributed to better efficiency.

Suppliers' Delivery Times Index

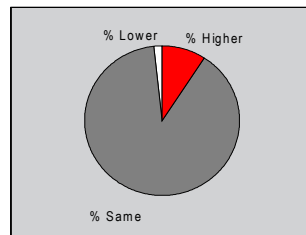
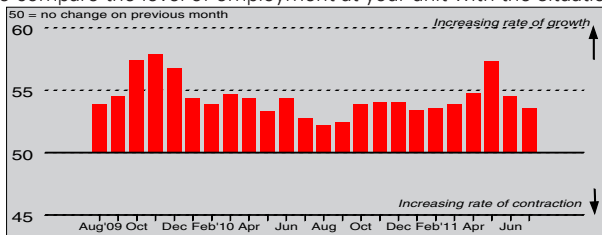
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average vendor performance deteriorated during July for the first time in the two-year series history. Panel members indicated that greater demand for inputs, low manpower at vendors and payment issues all contributed to delivery delays. That said, lead times lengthened only slightly as the vast majority of respondents (over 91%) saw no change on the month.

Employment Index

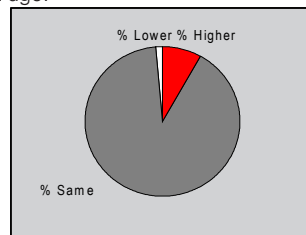
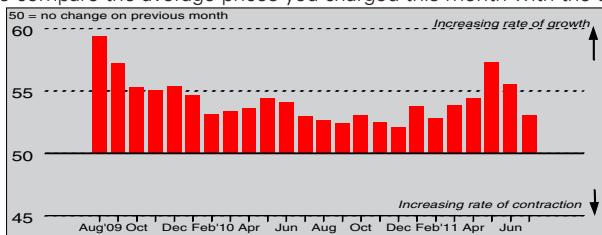
Q. Please compare the level of employment at your unit with the situation one month ago.



Saudi Arabian non-oil private sector employment continued to increase in July, although the rate of expansion slowed to a five-month low. Greater workloads, company expansions and new government regulations were all cited by panellists as reasons for job creation. Large companies took on staff at a sharper rate than SMEs.

Output Prices Index

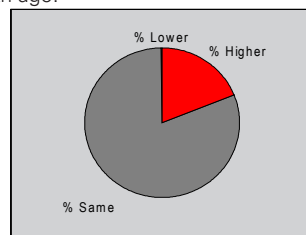
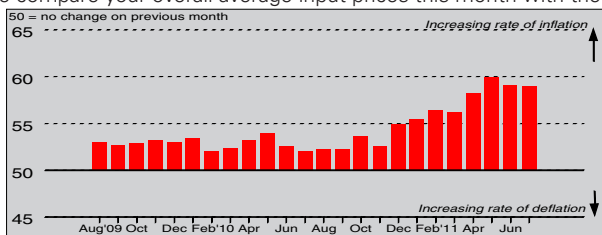
Q. Please compare the average prices you charged this month with the situation one month ago.



Prices charged for Saudi Arabian private sector goods and services rose further in July, although the rate of increase was the mildest for five months. Higher input costs and stronger market demand were key factors behind the latest month's rise in output prices, according to respondents. Company size data showed that solid inflation was recorded across each category.

Overall Input Prices Index

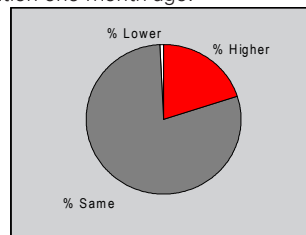
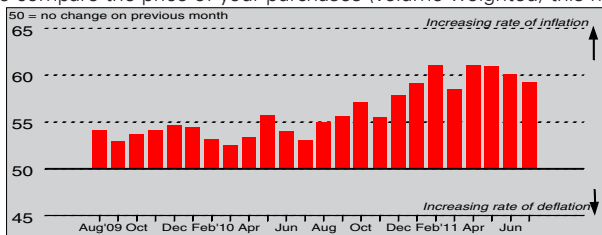
Q. Please compare your overall average input prices this month with the situation one month ago.



The seasonally adjusted Overall Input Prices Index was almost unmoved in July, indicating that inflation has been largely constant over the past two months. Sharper growth of staff costs was offset by a weaker rise in purchase prices in the latest survey period. However, data indicated that the latter remained the stronger influence on total input costs.

Input Costs: Purchase Prices Index

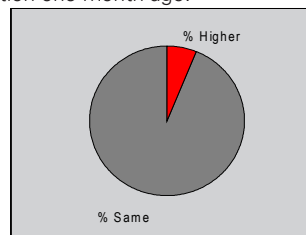
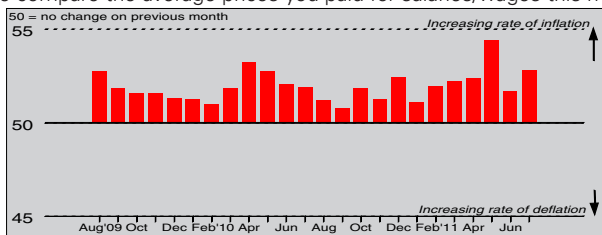
Q. Please compare the price of your purchases (volume-weighted) this month with the situation one month ago.



Prices paid for inputs by KSA non-oil private sector companies rose at a slower pace in July. Nevertheless, the rate of increase remained above the long-run series average. Reports indicated that stronger demand for raw materials drove prices up, while unfavourable exchange rates increased the cost of imports. Medium-sized firms experienced the steepest purchase price inflation in July.

Input Costs: Staff Costs Index

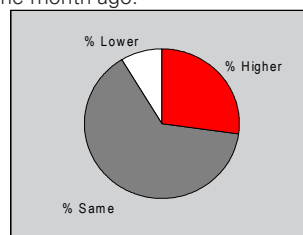
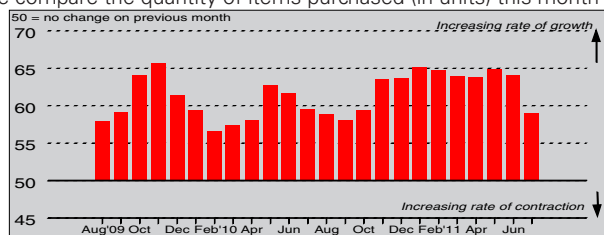
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Staff cost inflation picked up at the start of the third quarter, although the rate of increase remained weaker than May's series record. Higher living costs and performance-related gains were the principal reasons for the latest rise in the sector's salaries and wages. For the second month running, no respondents reduced employee costs.

Quantity of Purchases Index

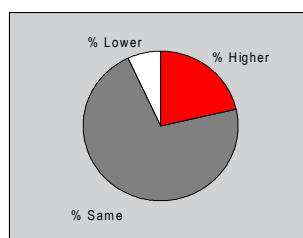
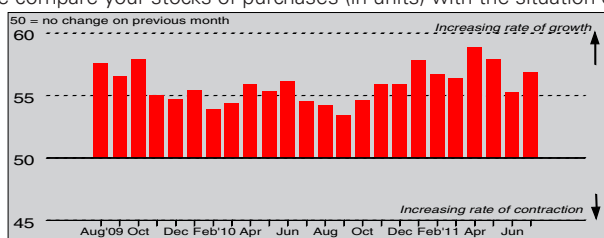
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In order to keep up with increasing business requirements, Saudi Arabian non-oil private sector companies acquired additional inputs during the latest survey period. Buying activity rose markedly, although the rate of increase slowed to a 10-month low. By company size, medium firms raised purchases to a greater extent than small or large firms.

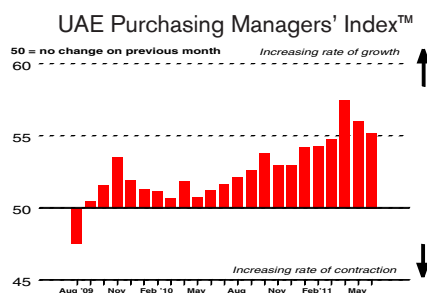
Stocks of Purchases Index

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



Input holdings at KSA non-oil private sector companies accumulated at a slightly faster rate in July, after growth eased to an eight-month low in June. Panellists linked the latest increase both to current expansion in new business and to expectations of further increases over the coming months.

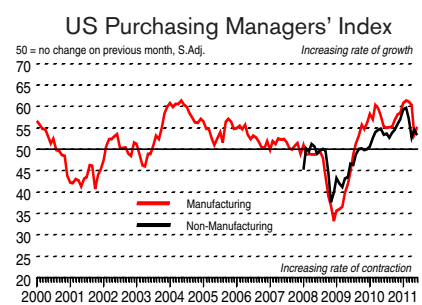
International PMI summary



Source: Markit.



Source: Markit.



Source: Institute for Supply Management (ISM).

The headline seasonally adjusted HSBC United Arab Emirates PMI signalled a further improvement in operating conditions across the UAE non-oil private sector economy in the final month of Q2. Despite falling from 56.0 in May to 55.2 (its lowest reading for three months), the PMI remained above its long-run trend.

At 53.3, down from 55.8 in May, the Eurozone PMI Composite Output Index fell to a 20-month low in June. The dip since May signalled the steepest monthly slowdown in the rate of expansion since November 2008. The index has fallen sharply since hitting a four-and-a-half year peak in February, but has nevertheless signalled growth for 23 consecutive months.

After sinking to a 20-month low of 53.5 in May, the ISM US Manufacturing PMI rose in June to 55.3, signalling a sharper improvement in business conditions. In contrast, the ISM Non-Manufacturing Index (NMI) fell on the month. The latest reading of 53.3 was down from May's two-month high of 54.6. Even so, it remained comfortably above the 50.0 no-change mark.

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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