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SABB HSBC Saudi Arabia PMI™

Improvement in operating conditions remains strong, despite PMI hitting three-month low

Key findings:

- PMI falls for second-successive month, but is broadly in line with survey average
- Output and new orders continue to grow at a marked rates
- · Input price inflation eases to weakest rate in 2012 so far

The Saudi British Bank "SABB" has published the results of the headline SABB HSBC Saudi Arabia Purchasing Managers' Index[™] (PMI[™]) for March 2012 – a monthly report issued by the bank and HSBC. It reflects the economic performance of Saudi Arabian non-oil producing private sector companies through the monitoring of a number of variables, including output, orders, prices, stocks and employment.

Saudi Arabian non-oil private sector companies continued to benefit from favourable business conditions in March. Solid market demand boosted new order levels and led to another strong rise in output. Panellists indicated that budget stimulus measures had, in part, strengthened domestic demand while the rising oil prices had the knock-on impact of increased spending across the GCC economies.

Registering 58.7 in March, the headline PMI was down on February's reading of 59.6. Nevertheless, the latest figure was consistent with a strong improvement in operating conditions across the Saudi Arabian non-oil private sector.

Favourable economic conditions across the GCC region were a key reason for stronger market demand in March, according to panellists. Overall incoming new work rose at a sharp pace, albeit the slowest for three months. Foreign demand was solid, but anecdotal evidence indicated a divergence between new export business growth from clients in the Middle East and weaker spending from European customers.

Rising levels of new business put pressure on capacity during March. Despite another increase in employment, backlogs accumulated at a solid pace. Reports indicated that a number of firms had delayed production due to preparation for new work.

Strong current inflows of new work, and an anticipation of further improvements in demand, meant that KSA non-oil private sector firms raised buying activity at a marked rate in March. This in turn led to higher input stocks.

Despite stronger demand for inputs, suppliers' delivery times continued to shorten during March. The rate of improvement in vendor performance was the weakest for six months, however. Panellists cited efficient service and competition amongst suppliers as the principal reasons for faster deliveries.

Overall input price inflation faced by Saudi Arabian non-oil private sector companies eased during March, falling notably from February's nine-month high. Rising purchase prices continued to provide the main impetus to total input cost inflation. Purchasing prices were pushed up by higher prices for fuel, raw material and foodstuffs on the month. Staff costs meanwhile rose at a slower pace over the survey period.

Saudi Arabian non-oil private sector firms raised their charges in March. Output price inflation was the strongest for eight months, as reports indicated that firms sought to pass on increased cost burdens amid favourable underlying demand conditions.



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 pri-The SABB H305 Satural Authority in the Satural National Managers index (FMI) is a composite inductor designed to provide all overall view or activity in the Satural National Indicator water 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.

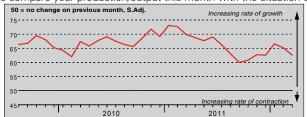


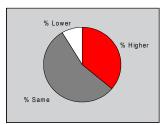




Output Index

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



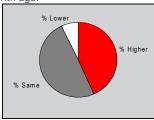


Growth of Saudi Arabian non-oil private sector output was sharp in March, despite easing further from January's seven-month high. Activity levels continued to be supported by gains in new work as business conditions remained favourable. Around 36% of panel members reported an expansion on the month, with a number commenting that this was partly due to the impact of higher public spending.

New Orders Index

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

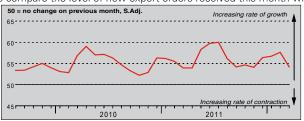


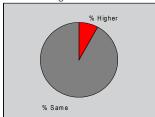


The seasonally adjusted New Orders Index fell slightly in March, but nevertheless signalled another considerable rise in new business receipts across the KSA non-oil private sector. The rate of expansion was the lowest recorded so far this year, however. Firms generally stated that demand throughout the Middle East was strong, as higher oil prices had a positive knock-on impact on spending throughout the economy.

New Export Orders Index

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

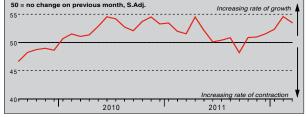


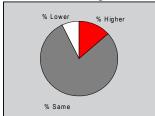


March data signalled a slowdown in new export order growth at KSA non-oil private sector firms. Moreover, the rate of increase was the weakest for four months. Companies that registered a rise in new work from abroad mainly commented that global business conditions had improved, while some also said they were seeing the benefits of targeted marketing strategies.

Backlogs of Work Index

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





Backlogs of work at Saudi Arabian non-oil private sector companies rose at a solid rate at the end of Q1, bringing the current run of accumulation to six months. The main reason for higher volumes of unfinished business was increased new orders, but some firms also mentioned that they had delayed production due to preparation for new projects.

Suppliers' Delivery Times Index

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

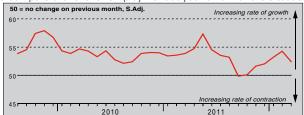


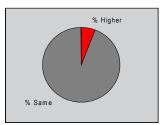


Saudi Arabian non-oil private sector companies noted faster input delivery times in March. Panellists linked the latest improvement in vendor performance to efficient service and strong competition amongst suppliers. However, the shortening of lead times was to less of a degree than in February, which saw the quickest improvement for 25 months.

Employment Index

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



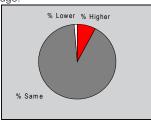


Jobs growth in the KSA non-oil private sector decelerated slightly in March. Approximately 6% of survey participants registered an increase in staffing at their company, compared with less than 1% that cut personnel numbers. According to respondents, hiring decisions were based on greater current and expected business requirements.

Output Prices Index

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



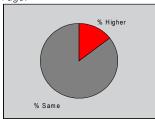


Saudi Arabian non-oil private sector firms raised their charges in March. Reports indicated that this was mainly to pass on part of their increased cost burdens to customers. Data showed that output price inflation was solid and the strongest for eight months. A number of respondents noted that strong demand had supported their operating margins in March.

Overall Input Prices Index

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



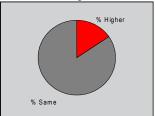


Overall input price inflation faced by Saudi Arabian non-oil private sector companies eased during March, falling notably from February's nine-month high. Rising purchase prices continued to provide the main impetus to total input cost inflation. By contrast, staff costs rose only moderately over the survey period.

Input Costs: Purchase Prices Index

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



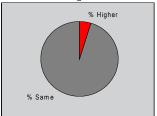


Prices paid for purchases by KSA non-oil private sector companies continued to rise robustly during the latest survey period. Although the rate of inflation moderated from February, it remained above the survey average. Firms cited greater raw material and fuel costs as the principal drivers of inflation, making particular reference to higher prices for oil, metals and foodstuffs.

Input Costs: Staff Costs Index

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



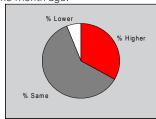


Saudi Arabian non-oil private sector firms raised employee salaries and wages during March. Staff cost inflation decelerated, however, to only a marginal pace. The latest rise was also the weakest since last October, but nevertheless continued the longer term survey trend of increasing salary payments.

Quantity of Purchases Index

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



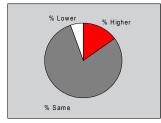


Saudi Arabian non-oil private sector firms acquired additional inputs during March, reflecting further growth of new business. With one third of panellists raising buying activity on the month, the rate of expansion was substantial and above the average for the series history. Purchasing activity has risen in every month since data collection began in August 2009.

Stocks of Purchases Index

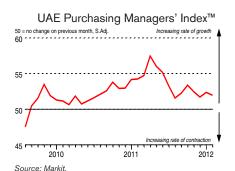
Q. Please compare your stocks of purchases (in units) with the situation one month ago





Buying activity growth was sufficient to raise input holdings at KSA non-oil private sector companies in March. Stocks accumulated at a marked rate as a result, albeit to a lesser extent than in the previous survey period. Reports showed that inventories were increased in anticipation of continued new order growth.

International PMI summary







Source: Markit.



The February PMI reading of 52.0, falling slightly from 52.4 in January, indicated a further modest improvement to operating conditions of the UAE non-oil private sector. Reflecting cautiously optimistic sentiment amongst businesses, output was raised moderately, despite robust expansions in new orders. Furthermore, the rate of hiring remained marginal and output prices were only increased fractionally.

The Markit Eurozone PMI® Composite Output Index fell from 50.4 in January to 49.3 in February. The reading confirmed that business activity contracted in February, having briefly returned to growth in January following four months of decline at the end of last year. The overall contraction in output reflected a renewed decline in service sector activity.

The ISM US Manufacturing PMI dropped slightly to 52.4 in February from 54.1 in February, signalling a moderate improvement in manufacturing operating conditions. In contrast, the Non-Manufacturing Index rose to 57.3 in February. Marked new business growth was the quickest for a year, and was accompanied by a strong increase in employment.

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

Purchasing Managers' IndexTM (PMITM) 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

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